



# **NXT ENERGY SOLUTIONS INC.**

**Unaudited Condensed Consolidated Interim Financial Statements**

**For the three months ended  
March 31, 2024**

# NXT ENERGY SOLUTIONS INC.

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

	March 31, 2024	December 31, 2023
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 532,622	\$ 401,713
Accounts receivable (Note 3)	892,936	1,828,523
Prepaid expenses and deposits	56,459	53,673
	<u>1,482,017</u>	<u>2,283,909</u>
Long-term assets		
Deposits	253,072	249,917
Property and equipment	523,975	515,809
Right of Use Assets (Note 4)	2,127,448	665,130
Intellectual property (Note 5)	11,045,367	11,469,995
	<u>\$ 15,431,879</u>	<u>\$ 15,184,760</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities (Notes 6, 14)	\$ 1,311,057	\$ 1,836,741
Current portion of convertible debentures (Note 7)	1,895,040	1,842,566
Current portion of long-term debt	111,111	111,111
Current portion of lease obligations (Note 8)	800,255	343,513
	<u>4,117,463</u>	<u>4,133,931</u>
Long-term liabilities		
Convertible debentures (Note 7)	2,510,923	1,513,423
Long-term debt	685,185	712,963
Long-term lease obligations (Note 8)	1,284,526	252,004
Asset retirement obligations	27,645	27,030
	<u>4,508,279</u>	<u>2,505,420</u>
	<u>8,625,742</u>	<u>6,639,351</u>
Shareholders' equity		
Common shares (Note 10): - authorized unlimited		
Issued: 78,121,746 (2023 - 78,025,237) common shares	98,194,233	98,179,271
Contributed capital	9,585,205	9,552,839
Deficit	(100,973,301)	(99,186,701)
	<u>6,806,137</u>	<u>8,545,409</u>
	<u>\$ 15,431,879</u>	<u>\$ 15,184,760</u>

Going Concern (Note 1)  
Commitments (Note 9)  
Subsequent event (Notes 4, 7)

Signed "Charles Selby"  
Director

Signed "Bruce G. Wilcox"  
Director

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

# NXT ENERGY SOLUTIONS INC.

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (Unaudited-expressed in Canadian dollars)

	For the three months ended March 31,	
	2024	2023
<b>Revenue</b>		
SFD® related revenue (Note 15)	\$ 602,072	\$ -
<b>Expenses</b>		
SFD® related costs, net	730,520	301,634
General and administrative expenses (Notes 12, 16)	1,021,306	861,354
Amortization	440,564	439,868
	2,192,390	1,602,856
<b>Other expenses (income)</b>		
Interest expense, net	113,579	9,754
Foreign exchange loss (gain)	45,006	(5,241)
Intellectual property and other	37,697	7,278
	196,282	11,791
<b>Loss before income taxes</b>	(1,786,600)	(1,614,647)
<b>Income tax expense</b>	-	-
<b>Net loss and comprehensive loss</b>	\$ (1,786,600)	\$ (1,614,647)
Net loss per share (Note 11)		
Basic	\$ (0.02)	\$ (0.02)
Diluted	\$ (0.02)	\$ (0.02)

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

# NXT ENERGY SOLUTIONS INC.

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

	For the three months ended March 31,	
	2024	2023
<b>Cash from (used in):</b>	(Lease payments in prior year have been reclassified to improve presentation.)	
<b>Operating activities</b>		
Net loss	\$ (1,786,600)	\$ (1,614,647)
Items not affecting cash:		
Stock based compensation expense (Note 12)	46,196	72,242
Amortization	440,564	439,868
Accretion expense	615	516
Non-cash lease amortization and accretion	172,219	170,848
Unrealized foreign exchange loss	13,463	1,288
Loss on disposal of assets and lease modification	31,686	-
Change in deposits	1,441	-
Change in non-cash working capital balances (Note 14)	664,032	(262,903)
Lease Payments	(177,382)	(207,231)
	<u>1,192,834</u>	<u>214,628</u>
Net cash used in operating activities	<u>(593,766)</u>	<u>(1,400,019)</u>
<b>Financing activities</b>		
Proceeds from the employee share purchase plan (Note 12)	7,481	9,854
Repayment of long-term debt	(27,778)	(27,778)
Net proceeds from private placement (Note 10)	-	1,622,057
Net proceeds from convertible debenture (Note 7)	762,080	-
Net cash from financing activities	<u>741,783</u>	<u>1,604,133</u>
<b>Investing activity</b>		
Purchase of property, plant and equipment, net	(24,102)	-
Net cash used in investing activity	<u>(24,102)</u>	<u>-</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>6,994</u>	<u>(12)</u>
Net increase in cash and cash equivalents	130,909	204,102
Cash and cash equivalents, beginning of the period	401,713	263,437
Cash and cash equivalents, end of the period	<u>\$ 532,622</u>	<u>\$ 467,539</u>
<b>Supplemental information</b>		
Cash interest paid	<u>\$ 86,633</u>	<u>\$ 9,738</u>
Cash taxes paid	<u>-</u>	<u>-</u>

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

# NXT ENERGY SOLUTIONS INC.

## Condensed Consolidated Interim Statements of Shareholders' Equity (Unaudited-expressed in Canadian dollars)

	For the three months ended March 31,	
	2024	2023
<b>Common Shares</b>		
Balance at beginning of the period	\$ 98,179,271	\$ 96,423,648
Issuance of common stock, net of share issuance costs for:		
Private placement (Note 10)	-	1,622,057
Employee Share Purchase Plan (Note 12)	14,962	17,458
Restricted Stock Unit Plan (Note 12)	-	14,473
Balance at end of the period	<u>98,194,233</u>	<u>98,077,636</u>
<b>Contributed Capital</b>		
Balance at beginning of the period	9,552,839	9,404,518
Recognition of stock based compensation expense (Note 12)	32,366	46,250
Balance at end of the period	<u>9,585,205</u>	<u>9,450,768</u>
<b>Deficit</b>		
Balance at beginning of the period	(99,186,701)	(93,735,589)
Net loss	(1,786,600)	(1,614,647)
Balance at end of the period	<u>(100,973,301)</u>	<u>(95,350,236)</u>
<b>Total Shareholders' Equity at end of the period</b>	<u>\$ 6,806,137</u>	<u>\$ 12,178,168</u>

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

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended March 31, 2024

(Expressed in Canadian dollars unless otherwise stated)

## 1. The Company and going concern

NXT Energy Solutions Inc. (the "Company" or "NXT") is a publicly traded company based in Calgary, Alberta Canada and listed on the Toronto Stock Exchange ("TSX").

NXT's proprietary Stress Field Detection ("SFD®") technology is an airborne survey system that utilizes the principles of quantum mechanics to infer stress anomalies of exploration interest. The method can be used both onshore and offshore to remotely identify areas conducive to fluid entrapment in order to recommend areas with commercial hydrocarbon and/or geothermal potential.

These unaudited condensed consolidated interim financial statements of NXT have been prepared by management in accordance with generally accepted accounting principles of the United States of America ("US GAAP").

These unaudited condensed consolidated interim financial statements reflect adjustments, all of which are normal recurring adjustments that are, in the opinion of management, necessary to reflect fairly the financial position and results of operations for the respective periods.

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that NXT will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The events described in the following paragraphs highlight that there is substantial doubt about NXT's ability to continue as a going concern within one year after the date that these unaudited condensed consolidated interim financial statements have been issued. The Company's current cash position is not expected to be sufficient to meet the Company's obligations and planned operations for a year beyond the date that these unaudited condensed consolidated interim financial statements have been issued.

Since 2022, the Company has deferred payment of certain operating costs, including payroll and other general and administrative costs. During 2023 and to date in 2024 the Company completed private placements which resulted in raising an additional net proceeds of \$5,079,612 (Notes 7 and 10) and completed an SFD® survey which generated operating funds. Further financing options that may or may not be available to the Company include issuance of new equity, debentures or bank credit facilities. The need for any of these options will be dependent on the timing of securing new SFD® related revenues and obtaining financing on terms that are acceptable to both the Company and the financier.

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

The unaudited condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these unaudited condensed consolidated interim financial statements, then adjustments

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended March 31, 2024

(Expressed in Canadian dollars unless otherwise stated)

would be necessary in the carrying value of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

## **Use of Estimates and Judgements**

In preparing these unaudited condensed consolidated interim financial statements, NXT was required to make estimates and assumptions that affect both the amount and timing of recording assets, liabilities, revenues and expenses since the determination of these items may be dependent on future events. The Company uses the most current information available and exercises careful judgment in making these estimates and assumptions. In the opinion of management, these unaudited condensed consolidated interim financial statements have been properly prepared within reasonable limits of materiality and within the framework of the Company's significant accounting policies. The estimates and assumptions used are based upon management's best estimate as at the date of the unaudited condensed consolidated interim financial statements. 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.

Certain estimates and judgments have a material impact where the assumptions underlying these accounting estimates relate to matters that are highly uncertain at the time the estimate or judgment is made or are subjective. In 2024 and 2023, the estimates and judgments included the assessment of impairment indicators of intellectual property and recognition of SFD<sup>®</sup> related revenue.

The Company reviews intellectual property for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The Company considers both internal and external factors when assessing for potential indicators of impairment of its intellectual property, including the consideration of historical and forecasted SFD<sup>®</sup> related revenues, market capitalization, control premiums, and the SFD<sup>®</sup> related revenue multiples compared to industry peers. 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 intellectual property.

Other accounting estimates and judgments that may have a material impact on the unaudited condensed consolidated interim financial statements include: the forward-looking assumptions related to the going concern assumption, the estimated useful lives of intellectual property and property, plant and equipment, lease interest rates and terms, and the assumptions used to measure stock-based compensation expense.

## **2. Significant Accounting Policies**

### **Basis of Presentation**

These condensed consolidated interim financial statements for the period ended March 31, 2024 have been prepared by management in accordance with US GAAP and by applying the same accounting policies and methods as used in preparing the consolidated financial statements for the fiscal year ended December 31, 2023. There are no new policies that were adopted on January 1, 2024.

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended March 31, 2024

(Expressed in Canadian dollars unless otherwise stated)

## 3. Accounts Receivable

	March 31, 2024	December 31, 2023
Trade receivables	\$ 808,607	\$ 1,738,694
Other receivables	84,329	89,829
	892,936	1,828,523
Allowance for doubtful accounts	-	-
Net accounts receivable	892,936	1,828,523

The entire trade receivable was with one client as of March 31, 2024 and was overdue more than 30 days. US\$354,354 (approximately CDN\$479,696) of the trade receivable was collected from the client, subsequent to March 31, 2024.

## 4. Right of use assets

	March 31, 2024		
	Cost Base	Accumulated Amortization	Right of Use
Aircraft	\$3,468,239	\$1,815,014	\$1,653,225
Office Building	1,725,414	1,258,405	467,009
Printer	9,716	2,502	7,214
	5,203,369	3,075,921	2,127,448

  

	December 31, 2023		
	Cost Base	Accumulated Amortization	Right of Use
Aircraft	\$1,847,617	\$1,728,958	\$ 118,659
Office Building	1,725,414	1,186,673	538,741
Printer	9,716	1,986	7,730
	3,582,747	2,917,617	665,130

On March 22, 2024 the Company extended its Aircraft lease for three years, until March 28, 2027. The Company will own the aircraft at the end of the lease term. Terms of the lease extension include an interest rate of 12%, and monthly payments of US\$40,189. The Company has an early purchase option to acquire the aircraft on any of the following date, March 28, 2025, September 28, 2025, March 28, 2026 or September 28, 2026. The purchase price would be the amortized value of the lease liability, plus a four-month interest penalty. The lease is being treated as a finance lease. As a result of the lease extension the Right of Use Assets and lease obligations have been increased as follows:



# NXT ENERGY SOLUTIONS INC.

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As at and for the period ended March 31, 2024

(Expressed in Canadian dollars unless otherwise stated)

Right of Use Assets	CDN\$1,620,622
Lease obligations	US\$1,221,579

The Company has recognized a loss of \$31,686 on the lease modification.

## Subsequent Event

As of May 1, 2024, the Company has surrendered approximately 3,207 square feet of its office building lease to the landlord and extended its lease for an additional five years until September 30, 2030. Monthly payments, including operating costs, are estimated to be approximately \$33,369.

## 5. Intellectual property

	<b>March 31, 2024</b>		
	<b>Cost Base</b>	<b>Accumulated amortization</b>	<b>Net book Value</b>
SFD® Hydrocarbon Right acquired	\$ 25,271,000	\$ 14,461,050	\$ 10,809,950
SFD® Geothermal Right acquired	275,610	40,193	235,417
	25,546,610	14,501,243	11,045,367

	<b>December 31, 2023</b>		
	<b>Cost Base</b>	<b>Accumulated amortization</b>	<b>Net book Value</b>
SFD® Hydrocarbon Right acquired	\$ 25,271,000	\$ 14,039,868	\$ 11,231,132
SFD® Geothermal Right acquired	275,610	36,747	238,863
	25,546,610	14,076,615	11,469,995

### SFD® Hydrocarbon Right

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

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

### SFD® Geothermal Right

The Company acquired the SFD® technology rights for geothermal resources (“Geothermal Right”) from the former CEO on April 18, 2021. One portion of the consideration deliverable by the Company in

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connection with the acquisition of the Geothermal Right is still outstanding. A US\$200,000 payment will become due in the event that the Company's cash balance exceeds CDN\$5,000,000 due to receipt of specifically defined funds from operations. The cost of this milestone will be recognized when it is deemed probable that the milestone will be achieved, by a special committee of the board of directors (the "Board") comprised entirely of independent directors. As of March 31, 2024 the remaining milestone is still deemed not probable of being achieved.

The current book value of the Geothermal Right is being amortized on a straight-line basis over its estimated useful life of 20 years. The annual amortization expense expected to be recognized is approximately \$13,781 per year for a 5-year aggregate total of approximately \$68,902.

## Reconciliation of Intellectual Property

	SFD® Hydrocarbon Right	SFD® Geothermal Right	Total
Net book value at December 31, 2022	12,915,866	252,643	13,168,509
Amortization	(1,684,734)	(13,780)	(1,698,514)
Net book value at December 31, 2023	11,231,132	238,863	11,469,995
Amortization	(421,182)	(3,446)	(424,628)
Net book value at March 31, 2024	10,809,950	235,417	11,045,367

## 6. Accounts payable and accrued liabilities

	March 31, 2024	December 31, 2023
Accrued liabilities related to:		
Consultants and professional fees	\$ 163,578	\$ 225,224
Payroll related	513,538	525,472
Board fees	72,468	228,199
Interest payable	61,652	38,222
	811,236	1,017,117
Trade payables and other	499,821	819,624
	1,311,057	1,836,741

## 7. Convertible Debentures

On November 8, 2023 the Company issued the first tranche of a multi-tranche unsecured convertible debenture (the "November Debentures"). The November Debentures bear interest at 10.0% per annum, paid quarterly in arrears, and are due and payable two years after issuance of the November Debentures. The November Debentures are convertible into common shares in the capital of NXT at a fixed conversion price of US\$0.1808 (CDN\$0.25). During 2023, the Company issued the first two tranches of the November Debentures for US\$1,150,000 (approximately CDN\$1,577,600).

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended March 31, 2024

(Expressed in Canadian dollars unless otherwise stated)

On January 12, 2024, the Company closed the final tranche of the November Debentures for an additional US\$722,000 (approximately CDN\$966,036). Including the final tranche, the Company issued a total of US\$1,872,000 (approximately CAD\$2,543,636) of the November Debentures, which will allow the subscribers to obtain an aggregate of up to 10,353,982 common shares. Insiders which include MCAPM, LP and Michael P. Mork ("Mork Capital") and all of the directors of NXT, were issued November Debentures valued, in the aggregate principal amount, at US\$1,522,000 (approximately CDN\$2,076,776).

Subject to shareholder approval at the next annual general meeting of shareholders, Mork Capital will have the right to own, after conversion of all of their November Debentures, 22,526,321 common shares. This represents approximately 28.8% of the issued and outstanding common shares as of the date of these financial statements (after giving effect to the conversion of the full amount of November Debentures). In addition, the Company has agreed to appoint a representative from Mork Capital to its Board in the near future.

On May 31, 2023 the Company issued a two-year term convertible debenture for US\$1,200,000 (CDN\$1,631,954) to Ataraxia Capital and an additional US\$200,000 (CDN\$265,560) on July 10, 2023. The terms of the convertible debenture include an annual interest rate of 10%, paid quarterly in arrears, a fixed conversion price of US\$0.143 per common share. The debenture may also be converted into voting preferred shares with an annual dividend rate of 10% paid per quarter. The preferred shares are not transferable, but may be converted on a one-to-one basis into common shares. The convertible debenture is payable on demand and is secured by a general security agreement, subordinate to the long-term debt.

<b>Repayment of principal and interest (US\$):</b>	<b>US\$</b>	<b>CDN\$<sup>1</sup></b>
2024	\$ 245,400	\$ 332,173
2025	2,812,200	3,806,594
2026	740,050	1,001,732
Total principal and interest payments	3,797,650	5,140,499
Less interest	(525,650)	(711,520)
Less debt issuance costs	(17,004)	(23,016)
Net principal remaining	3,254,996	4,405,963
Current portion of convertible debentures	1,400,000	1,895,040
Non-current portion of convertible debentures	1,854,996	2,510,923

1. Converted at 1.3536

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended March 31, 2024

(Expressed in Canadian dollars unless otherwise stated)

## 8. Lease obligation

	March 31, 2024	December 31, 2023
Aircraft	\$ 1,600,487	\$ 37,242
Office Building	477,080	550,548
Printer	7,214	7,727
	2,084,781	595,517
Current portion of lease obligations	800,255	343,513
Long-term lease obligations	1,284,526	252,004

Maturity of lease liabilities:	Finance	Operating	Total	Weighted
	Lease	Leases		Average
				Remaining
2024	\$ 489,598	\$ 258,673	\$ 748,271	2.6 years
2025	652,798	259,528	912,326	2.0 years
2026	652,798	3,139	655,937	1.2 years
2027	109,757	-	109,757	0.2 years
Total lease payments	1,904,951	521,340	2,426,291	
Less imputed interest	(304,698)	(36,812)	(341,510)	
Total discounted lease payments	1,600,253	484,528	2,084,781	
Current portion of lease obligations	486,951	313,304	800,255	
Non-current portion of lease obligations	1,113,302	171,224	1,284,526	

	Lease Term Till	Option to Extend	Incremental Borrowing Rate
Aircraft	March 2027	No	12.0%
Office Building (Note 6)	September 2025	No	6.1%
Printer	November 2026	No	10.8%

As of March 31, 2024 the Company's aircraft lease was a financing lease and the other leases were operating leases. The Company's aircraft lease began to be treated as a finance lease as of March 22, 2024. The first payment on the finance lease was made in April 2024. The Company's total operating lease expenditures for the period ended March 31, 2024 was \$177,382 (2022 - \$207,230). The Company's total financing lease expenditures for the period ended March 31, 2024 was \$ nil (2023 - \$nil).

## 9. Commitments

The table below is the non-lease operating cost components associated with the costs of the building lease as of March 31, 2024. As a result of the Company surrendering approximately 3,207 square feet of its office building lease to the landlord as of May 1, 2024, its non-lease operating cost commitments for the building lease for the current term will be reduced by approximately 47,801 for 2024 and \$53,776 for 2025. (See Note 4.)

**Office Premises**

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended March 31, 2024

(Expressed in Canadian dollars unless otherwise stated)

<b>For the fiscal period ending December 31,</b>	
2024	\$ 175,383
2025	176,139
Total	351,522

## 10. Common shares

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

	<b>For the three months ended March 31,</b>			
	<b>2024</b>		<b>2023</b>	
	# of shares	\$ amount	# of shares	\$ amount
As at the beginning of the period	78,025,237	\$98,179,271	68,949,109	\$96,423,648
Private placement, net of issuance costs	-	-	8,510,000	1,622,057
Employee Share Purchase Plan (Note 12)	96,509	14,962	87,849	17,458
Restricted Stock Units	-	-	52,173	14,473
As at the end of the period	78,121,746	98,194,233	77,599,131	98,077,636

On December 22, 2022 the Company announced a multi-tranche private placement (the “Private Placement”) at \$0.195 per share. At December 22, 2022 the Company issued 1,148,282 common shares for gross proceeds of \$223,915 in the first tranche, less issuance costs of \$7,732. On January 25, 2023, the Company closed the Private Placement by issuing an additional 8,510,000 common shares, at \$0.195 per common share, for additional aggregate gross proceeds of approximately \$1,659,450, less issuance costs of \$37,393.

## 11. Loss per share

	<b>For the three months ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Net loss for the period	\$(1,786,600)	\$(1,614,647)
Weighted average number of shares outstanding for the year:		
Basic	78,085,304	76,452,260
Diluted	78,085,304	76,452,260
Net loss per share – Basic	\$(0.02)	\$(0.02)
Net loss per share – Diluted	\$(0.02)	\$(0.02)

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

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian dollars unless otherwise stated)

## 12. Share based compensation

The Company has an equity compensation program in place for its executives, employees and directors. Executives and employees are given equity compensation grants that vest based on a recipient's continued employment. The Company's stock-based compensation awards outstanding as at March 31, 2024, include stock options, deferred share units ("DSUs") and the employee share purchase plan ("ESP Plan"). The following tables provide information about stock option, RSUs, DSU, and ESP Plan activity.

	<b>For the three months ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Stock Option Expense	\$ -	\$ 46,250
Restricted Stock Units	6,349	18,388
Employee Share Purchase Plan	7,481	7,604
Compensation Expense	32,366	-
<b>Total stock-based compensation expense</b>	<b>46,196</b>	<b>72,242</b>

### Stock Options:

The following is a summary of stock options which are outstanding as at March 31, 2024.

<b>Exercise price per share</b>	<b># of options outstanding</b>	<b># of options exercisable</b>	<b>Average remaining life (in years)</b>
\$0.174	69,200	69,200	3.6
\$0.200	166,200	166,200	4.2
\$0.216	2,005,200	55,200	3.8
\$0.252	115,250	115,250	4.5
\$0.259	100,000	-	4.5
\$0.260	52,650	52,650	3.8
\$0.264	177,200	177,200	3.8
\$0.440	21,360	21,360	2.2
\$0.510	16,000	16,000	1.5
\$0.520	100,000	100,000	0.3
\$0.550	30,000	30,000	0.8
\$0.620	18,050	18,050	2.8
\$0.680	32,250	32,250	2.9
\$0.720	24,460	24,460	3.2
	<b>2,927,820</b>	<b>877,820</b>	<b>3.6</b>

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended March 31, 2024

(Expressed in Canadian dollars unless otherwise stated)

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, 2023 are as follows:

	For the three months ended March 31, 2024		For the year ended December 31, 2023	
	# of stock Options	weighted average exercise price	# of stock Options	Weighted Average exercise price
Options outstanding, start of the year	2,927,820	\$0.25	461,320	\$0.51
Granted	-	-	2,716,500	\$0.22
Forfeited	-	-	(100,000)	\$(0.22)
Expired	-	-	(150,000)	\$(0.59)
Options outstanding, end of the period	2,927,820	\$0.25	2,927,820	\$0.25
Options exercisable, end of the period	877,820	\$0.32	877,820	\$0.32

Stock options granted generally expire, if unexercised, five years from the date granted and entitlement to exercise them generally vests at a rate as determined by the Board.

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

	For the three months ended March 31, 2024	For the year ended December 31, 2023
Expected dividends paid per common share	-	Nil
Expected life in years	-	5.0
Weighted average expected volatility in the price of common shares	-	79%
Weighted average risk-free interest rate	-	3.32%
Weighted average fair market value per share at grant date	-	\$0.22
Forfeiture rate	-	18.5%

## Deferred Stock Units:

A continuity of the number of DSUs which are outstanding at the end of the current period and as at the prior fiscal year ended December 31, 2023 are as follows:

	For the three months ended March 31, 2024	For the year ended December 31, 2023
<b>Opening balance</b>		
Opening balance	37,354	37,354
Granted	-	-
Closing balance	37,354	37,354

# NXT ENERGY SOLUTIONS INC.

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

## Restricted Stock Units:

RSUs entitle the holder to receive, at the option of the Company, either the underlying number of shares of the Company's common shares upon vesting of such units or a cash payment equal to the value of the underlying shares. The RSUs vest at a rate of one-third at the end of each of the first three years following the date of grant. Historically the Company settled the RSUs that vested with shares and cash.

On February 21, 2024 the Company granted 1,035,000 RSUs to employees and officers which will vest each year for three years.

A continuity of the number of RSUs, including fair value ("FV") which are outstanding at the end of the current period and as the end of the prior fiscal year ended December 31, 2023 are as follows:

	For the three months ended		For the year ended	
	March 31, 2024		December 31, 2023	
	# of RSUs	FV/Unit	# of RSUs	FV/Unit
RSUs outstanding, beginning of the period	-	-	348,334	\$0.21
Granted	1,035,000	\$0.14	-	-
Forfeited	(120,000)	(\$0.14)	-	-
Common shares issued	-	-	(256,619)	(\$0.26)
Payroll withholdings settled in cash	-	-	(91,715)	(\$0.23)
RSUs outstanding, end of the period	915,000	\$0.20	-	-

## Employee Share Purchase Plan:

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

A continuity of the number of commons shares under the ESP Plan which are outstanding at the end of the current period and as at the prior fiscal year ended December 31, 2023:

	For the three months ended		For the year ended	
	March 31, 2024		December 31, 2023	
	# of shares	\$ amount	# of shares	\$ amount
Purchased by employees	48,254	\$ 7,481	168,515	\$ 36,246
Matched by the Company	48,255	7,481	140,994	30,509
Total Common Shares issued	96,509	14,962	309,509	66,755



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## Compensation Expense:

On October 1, 2023 the Company entered into a service agreement with a marketing consultant to provide sales and market services to introduce potential customers to the SFD® technology, attend trade shows, and update the Company's market systems. The consultant agreed to be compensated in Common Shares only for approximately US\$16,000 per month, based on the five-day volume average price at the end of each month until February 29, 2024. Issuance of any shares is subject to approval by the TSX. If the TSX does not approve the share issuance, the marketing consultant will be paid in cash. As of March 31, 2024, 634,439 common shares, less withholding taxes, are due to the marketing consultant (360,139 common shares at December 31, 2023).

## **13. Financial instruments**

### **Non-derivative financial instruments:**

The Company's non-derivative financial instruments consist of cash and cash equivalents, accounts receivable, deposits, accounts payables and accrued liabilities, long-term debt and convertible debentures. The carrying value of these financial instruments, excluding lease obligations and long-term debt, approximates their fair values due to their short terms to maturity-

### Credit Risk

Credit risk arises from the potential that the Company may incur a loss if counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The carrying value of cash and cash equivalents and accounts receivable reflects management's assessment of maximum exposure to credit risk. At March 31, 2024, cash and cash equivalents included balances in bank accounts placed with financial institutions with investment grade credit ratings and Accounts Receivable. The Company manages Accounts Receivable credit risk by requiring advance payments before entering into certain contract milestones and when possible, accounts receivable insurance.

### Foreign Exchange Risk

The Company is exposed to foreign exchange risk in relation to its holding of significant US\$ balances in cash and cash equivalents, deposits, accounts payables, accrued liabilities, and lease obligations, and entering into United States dollar revenue contracts. The Company does not currently enter into hedging contracts, but to mitigate exposure to fluctuations in foreign exchange the Company uses strategies to reduce the volatility of United States Dollar assets including converting excess United States dollars to Canadian dollars. As at March 31, 2024, the Company held net U.S. dollar liabilities totaling US\$3,670,788. Accordingly, a hypothetical 10% change in the value of one United States dollar expressed in Canadian dollars as at March 31, 2024 would have had an approximately \$496,878 effect on the unrealized foreign exchange gain or loss for the year.

# NXT ENERGY SOLUTIONS INC.

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(Expressed in Canadian dollars unless otherwise stated)

## 14. Change in non-cash operating working capital

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

	For the three months ended March 31,	
	2024	2023
Accounts receivable	\$ 1,004,100	\$ (34,699)
Prepaid expenses and deposits	(2,786)	(5,953)
Accounts payable and accrued liabilities	(337,282)	(222,251)
	664,032	(262,903)

## 15. Geographic information

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

Revenues for the three-month period ended March 31, 2024 were generated solely from the Hydrocarbon Right and two customers. There were no revenues attributable to the Geothermal Right.

	For the three months ended March 31,	
	2024	2023
International	\$ 602,072	\$ -
Other	-	-
	602,072	-

## 16. Other related party transactions

One of the members of the Board is a partner in a law firm which provides legal advice to NXT. Accounts payable and accrued liabilities includes a total of \$27,481 (\$36,938 as at December 31, 2023) payable to this law firm.

Another member of Board is a board member of Pana Holdings Mauritius, the parent company of Ataraxia Capital, which holds convertible debentures (Note 7). Accounts payable and accrued liabilities includes a total of \$19,972 (US\$14,755), (\$19,699 or US\$14,890, as at December 31, 2023) to Ataraxia Capital for accrued interest.

All members of the Board elected to have most of their Board fees payable at December 31, 2023 (note 7) converted into the November Debentures, for a total of US\$147,000 (CDN\$196,686). Accounts payable and accrued liabilities includes a total of \$4,349 (US\$3,213), (\$nil as at December 31, 2023) to Board members for accrued interest.

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended March 31, 2024

(Expressed in Canadian dollars unless otherwise stated)

Accounts payable and accrued liabilities include \$72,468 (\$228,199 as at December 31, 2023) for Board fees.

	<b>For the three months ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Legal Fees	\$ 15,352	\$ 32,678
Interest Expense <sup>1</sup>	51,235	-

1. US\$37,734. Includes Ataraxia and Board members.