



**NXT ENERGY SOLUTIONS INC.**

**As at and for the three and nine month periods ended September 30, 2011**

**NXT ENERGY SOLUTIONS INC.**  
**Consolidated Balance Sheets**  
(Unaudited) (Expressed in Canadian dollars)

	September 30 2011	December 31 2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 714,524	\$ 464,583
Short term investments	-	905,651
Accounts receivable	35,839	3,071
Work-in-progress	49,550	-
Prepaid expenses and other	52,631	45,941
	852,544	1,419,246
Restricted cash [note 4]	45,461	101,856
Property and equipment	436,912	525,804
	\$ 1,334,917	\$ 2,046,906
 <b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities [note 3]	\$ 586,577	\$ 576,588
Current portion of capital lease obligation	9,294	10,684
	595,871	587,272
Long term liabilities:		
Capital lease obligation	1,762	8,153
Asset retirement obligation	57,076	54,444
	654,709	649,869
Future operations [note 1]		
Commitments and contingencies [note 10]		
Subsequent event [note 8]		
Shareholders' equity:		
Preferred shares: - authorized unlimited		
Issued: 10,000,000	3,489,000	3,489,000
Common shares: - authorized unlimited		
Issued: 34,022,396 shares as of September 30, 2011 (2010 - 30,801,796) [note 5]	53,202,476	52,031,435
Contributed capital	5,283,197	4,659,026
Deficit	(62,005,400)	(59,493,359)
Accumulated other comprehensive income	710,935	710,935
	680,208	1,397,037
	\$ 1,334,917	\$ 2,046,906

Signed "George Liszicasz"  
Director

Signed "Brian Kohlhammer"  
Director

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

**NXT ENERGY SOLUTIONS INC.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**(Unaudited) (Expressed in Canadian dollars)**

	For the three months ended September 30		For the nine months ended September 30	
	<b>2011</b>	2010	<b>2011</b>	2010
Revenue				
Survey revenue	\$ -	\$ -	\$ 144,650	\$ 443,011
Oil and natural gas revenues	1,398	820	4,570	4,162
	<u>1,398</u>	<u>820</u>	<u>149,220</u>	<u>447,173</u>
Expense				
Survey cost	1,846	5,275	45,836	466,290
General and administrative	1,032,914	908,417	2,529,065	3,030,428
Amortization and depreciation	38,978	38,880	114,596	124,402
	<u>1,073,738</u>	<u>952,572</u>	<u>2,689,497</u>	<u>3,621,120</u>
	<u>(1,072,340)</u>	<u>(951,752)</u>	<u>(2,540,277)</u>	<u>(3,173,947)</u>
Other expense (income)				
Interest income, net	(2,817)	(3,982)	(8,345)	(7,476)
Loss (gain) on foreign exchange	(44,146)	8,434	(23,217)	1,286
Oil & natural gas operations and other	-	5,471	-	4,195
Loss on sale of property	-	-	-	1,074
Accretion and abandonment of asset retirement obligation	1,437	915	3,326	2,709
	<u>(45,526)</u>	<u>10,838</u>	<u>(28,236)</u>	<u>1,788</u>
<b>Net loss and comprehensive loss</b>	<u>\$ (1,026,814)</u>	<u>\$ (962,590)</u>	<u>\$ (2,512,041)</u>	<u>\$ (3,175,735)</u>
Net loss per share - basic and diluted [note 6]	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>	<u>\$ (0.10)</u>

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**NXT ENERGY SOLUTIONS INC.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited) (Expressed in Canadian dollars)**

	For the three months ended September 30		For the nine months ended September 30	
	<b>2011</b>	2010	<b>2011</b>	2010
<b>Operating activities</b>				
Net loss for the period	\$ (1,026,814)	\$ (962,590)	\$ (2,512,041)	\$ (3,175,735)
Items not affecting cash				
Amortization and depreciation	38,978	38,880	114,596	124,402
Accretion of asset retirement obligation	877	798	2,632	2,393
Stock-based compensation expense	246,000	72,899	294,785	173,763
Loss (gain) on sale of property	-	-	-	1,074
	(740,959)	(850,013)	(2,100,028)	(2,874,103)
Changes in non-cash working capital balances (note 9)	185,680	20,682	(79,019)	903,602
Net cash generated by (used in) operating activities	<u>(555,279)</u>	<u>(829,331)</u>	<u>(2,179,047)</u>	<u>(1,970,501)</u>
<b>Financing activities</b>				
Repayment of capital lease obligation	(2,390)	(2,192)	(7,781)	(6,441)
Issue of common shares and warrants, net of issuance costs	-	-	1,487,827	54,518
Exercise of stock options and warrants	12,600	-	12,600	-
Net cash generated by (used in) financing activities	<u>10,210</u>	<u>(2,192)</u>	<u>1,492,646</u>	<u>48,077</u>
<b>Investing activities</b>				
Purchase of property and equipment	(5,022)	(9,856)	(25,704)	(58,978)
Proceeds from sale of property and equipment	-	-	-	401
Decrease (increase) in restricted cash	254,183	45,967	56,395	(43,971)
Decrease (increase) in short term investments	-	197,429	905,651	(1,803,884)
Net cash generated by (used in) investing activities	<u>249,161</u>	<u>233,540</u>	<u>936,342</u>	<u>(1,906,432)</u>
<b>Net cash inflow (outflow)</b>	<u>(295,908)</u>	<u>(597,983)</u>	<u>249,941</u>	<u>(3,828,856)</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>1,010,432</u>	<u>943,272</u>	<u>464,583</u>	<u>4,174,145</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 714,524</u>	<u>\$ 345,289</u>	<u>\$ 714,524</u>	<u>\$ 345,289</u>
<b>Supplemental information:</b>				
Cash interest paid	\$ 347	\$ 479	\$ 1,187	\$ 1,572

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**NXT ENERGY SOLUTIONS INC.**  
**Consolidated Statements of Shareholders' Equity**  
**(Unaudited) (Expressed in Canadian dollars)**

	for the nine months ended September 30	
	<b>2011</b>	2010
<b>Common Shares</b>		
Balance at beginning of the period	\$ 52,031,435	\$ 51,934,360
Issued upon exercise of stock options and warrants	12,600	54,518
Issued through private placement, net of issue costs	1,158,441	-
Transfer from contributed capital upon exercise of options and warrants	-	42,557
Balance at end of the period	<u>53,202,476</u>	<u>52,031,435</u>
<b>Preferred Shares</b>		
Balance at beginning and end of the period	<u>3,489,000</u>	<u>3,489,000</u>
<b>Contributed Capital</b>		
Balance at beginning of the period	4,659,026	3,939,953
Recognition of stock based compensation expense	294,785	350,989
Contributed capital transferred to common shares pursuant to exercise of options and warrants	-	(42,557)
Value attributed to warrants issued through private placement	329,386	-
Balance at end of the period	<u>5,283,197</u>	<u>4,248,385</u>
<b>Deficit</b>		
Balance at beginning of the period	(59,493,359)	(55,040,931)
Net loss for the period	(2,512,041)	(3,175,735)
Balance at end of the period	<u>(62,005,400)</u>	<u>(58,216,666)</u>
<b>Accumulated Other Comprehensive Income</b>		
Balance at beginning and end of the period	<u>710,935</u>	<u>710,935</u>
<b>Total Shareholders' Equity at end of the period</b>	<u>\$ 680,208</u>	<u>\$ 2,263,089</u>

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

**NXT ENERGY SOLUTIONS INC.**  
**Notes to the Consolidated Financial Statements**  
**For the nine month period ended and as at September 30, 2011**  
**(Unaudited) (Expressed in Canadian dollars unless otherwise stated)**

## **1. Organization and Future Operations**

NXT Energy Solutions Inc. (the "Company" or "NXT") was incorporated under the laws of the State of Nevada on September 27, 1994, and was later continued from the State of Nevada to the Province of Alberta, Canada on October 24, 2003.

NXT owns a proprietary technology called Stress Field Detection ("SFD®"), an airborne survey system that is designed to identify areas with oil and natural gas reservoir potential. This technology was acquired from NXT's current CEO and President on December 31, 2005 following a ten year period wherein the company controlled the technology through a series of licensing agreements.

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

This early period was effective in developing the technology to a stage where SFD® was both technically ready and had the required industry validation to embark on the commercial phase of the company. In 2006 the Company began the "commercialization" phase by offering SFD® survey services to clients engaged in oil and gas exploration activities with a focus on potential clients operating in the western Canadian sedimentary basin.

The global financial crisis of late 2008 affected a number of markets and resulted in a dramatic decline in NXT's Canadian market opportunities. This caused NXT to re-focus its sales activities towards international markets, and in 2009 NXT commenced active operations in Colombia.

Despite having provided services to clients since 2006, NXT is still in the early stage of commercializing its SFD® technology. The generation of positive cash flow from operations in the future will depend largely on its ability to demonstrate the value of the NXT survey system to a much wider client base. NXT recognizes that this early commercialization phase can last for several years and that its' financial position is dependent upon a limited number of client projects, on obtaining additional financing and attracting future clients.

These consolidated financial statements have been prepared on a "going concern" basis in accordance with United States generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because the Company has experienced losses and negative cash flow from operations over the past several years and has traditionally had minimal working capital. NXT recognizes that current working capital is not sufficient to support the operations for the next twelve months without generating additional revenues and / or capital.

NXT anticipates it will be able to expand operations in order to generate both net income and cash from operations in future years with its existing business model; however, the occurrence and timing of this outcome cannot be predicted with certainty.

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

## **2. Significant Accounting Policies**

### **Basis of presentation**

These interim unaudited consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles of the United States of America in accordance with the same accounting policies and methods used in preparing the consolidated financial statements for the fiscal year ended December 31, 2010. These interim statements should be read in conjunction with the 2010 annual audited consolidated financial statements as they contain disclosure which is supplemental to NXT's annual consolidated financial statements and accordingly certain disclosure normally required for annual financial statements has been condensed or omitted.

### **Consolidation**

These consolidated financial statements reflect the accounts of the Company and its wholly owned subsidiaries (two inactive United States subsidiary companies). 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.

### 3. Accounts payable and accrued liabilities

	September 30 2011	December 31, 2010
Accrued liabilities related to		
Professional fees	\$ 108,250	\$ 118,065
Consultant fees	33,750	15,100
Board of Directors' fees	53,750	-
Vacation pay	73,042	60,748
	268,792	193,913
Trade payables, payroll withholdings and other	317,785	382,675
	<u>\$ 586,577</u>	<u>\$ 576,588</u>

### 4. Restricted cash

Restricted cash consists of U.S. dollar money market securities (plus accrued interest) which has been deposited by NXT with financial institutions as security in order for these institutions to issue bank letters of credit for the benefit of third party clients. A Barbados bank holds on deposit U.S. \$42,408 (encumbered until 2012) to satisfy a contractual requirement related to ongoing SFD® survey services in Colombia.

### 5. Common shares

The Company has an unlimited number of shares authorized.

The following is a continuity of issued and outstanding common shares:

	Common Shares	
	# of Shares	Amount
As at December 31, 2010	30,801,796	\$ 52,031,435
Transactions during the 9 month period ended September 30, 2011		
Issued through private placement; net of issue costs and value attributed to warrants	3,200,600	1,158,441
Issued on exercise of stock options	20,000	12,600
As at September 30, 2011	<u>34,022,396</u>	<u>\$ 53,202,476</u>

On February 16, 2011 NXT closed a non-brokered private placement (the "Placement") for aggregate proceeds of \$1,600,300 (net \$1,487,827) including \$40,000 from two officers of the Company. NXT issued 3,200,600 units at a price of \$0.50 per unit where each unit consisted of one common share and one warrant, with each warrant entitling the holder to acquire an additional common share at a price of \$0.60 per share on or before the expiry date of February 16, 2012. The expiry date may become accelerated at the discretion of NXT if the shares trade at a price greater than \$0.90 for 10 consecutive trading days. In connection with closing of the Placement, NXT paid a finder's fee of \$72,600 and issued 145,320 warrants with the same terms as above.

The common shares were recorded at a value equal to the net proceeds received less \$329,386 which was the estimated fair value attributed to the 3,345,920 warrants that were issued on the Placement.

### 6. Earnings (loss) per share

	For the three months ended September 30		For the nine months ended September 30	
	2011	2010	2011	2010
Net (loss) for the period	\$ (1,026,814)	\$ (962,590)	\$ (2,512,041)	\$ (3,175,735)
Weighted average number of shares outstanding - basic and diluted	34,007,613	30,801,796	33,453,135	30,765,935
Net (loss) per share	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>	<u>\$ (0.10)</u>

All outstanding stock options, common share purchase warrants and preferred shares were excluded from the diluted earnings per share calculation for the periods ended September 30, 2011 and 2010 as they were anti-dilutive.

## 7. Stock Options issued to Employees, Directors and Contractors

The following is a summary of stock options outstanding as at September 30, 2011:

exercise price	# of options outstanding	# of options exercisable	average remaining contractual life (years)
\$ 0.45	166,600	166,600	4.0
\$ 0.53	150,000	50,000	2.4
\$ 0.63	1,466,741	1,190,075	1.0
\$ 1.16	504,800	214,800	4.8
	<u>2,288,141</u>	<u>1,621,475</u>	<u>2.4</u>

	For the nine months ended September 30, 2011		For the year ended December 31, 2010	
	# of options	weighted average exercise price	# of options	weighted average exercise price
Outstanding at beginning of period	2,134,804	\$ 0.61	2,757,204	\$ 1.76
Granted	654,800	\$ 1.02	248,900	\$ 0.45
Granted on re-pricing in 2010	-	-	2,113,204	\$ 0.63
Cancelled for re-pricing	-	-	(2,113,204)	\$ 1.92
Forfeited	(270,000)	\$ 0.63	(431,300)	\$ 1.48
Expired	(211,463)	\$ 0.63	(340,000)	\$ 0.66
Exercised	(20,000)	\$ 0.63	(100,000)	\$ 0.55
Options outstanding as at end of period	<u>2,288,141</u>	<u>\$ 0.73</u>	<u>2,134,804</u>	<u>\$ 0.61</u>
Options exercisable as at end of the period	<u>1,621,475</u>	<u>\$ 0.68</u>	<u>1,737,637</u>	<u>\$ 0.61</u>

Stock options granted generally vest at a rate of one-third at the end of each of the first three years following the date of grant, except as noted below. Options lapse, if unexercised, generally five years from the date granted.

In the first quarter of 2011 an officer of the Company was granted 150,000 options at an exercise price of \$0.53 per share with one third of the options vesting at the date of grant and one-third vesting at the end of each of the following two years. These options will expire three years from the date of grant.

A total of 214,800 of the 504,800 stock options which were granted in July 2011 at an exercise price of \$1.16 per share had immediate vesting.

### Compensation expense associated with grants of stock options

The fair value attributed to grants of stock options is calculated using the Black-Scholes option valuation model utilizing the following weighted average assumptions:

	For the nine months ended September 30	
	2011	2010
Expected dividends paid per common share	Nil	Nil
Expected life (years)	3.7	3
Expected volatility in the price of common shares (%)	115%	95%
Risk free interest rate (%)	2.2%	1.5%
Weighted average grant date fair market value per share	\$ 0.83	\$ 0.57

The intrinsic (or "in-the-money") value of options exercised in 2011 was \$0.36 per share (2010 - \$0.53 per share).

As of September 30, 2011 there was \$334,636 (2010 - US \$434,132) of unrecognized stock based compensation expense related to non-vested stock options. This amount will be recognized in expense over the remaining vesting periods of the underlying stock options.

## 8. Warrants

The following is a summary of outstanding common share purchase warrants:

	# of warrants	weighted average exercise price
Outstanding as at January 1, 2011	-	\$ -
Issued on February, 2011 private placement	3,345,920	\$ 0.60
Outstanding as at September 30, 2011 (expire February 16, 2012)	3,345,920	\$ 0.60

In November 2011, a total of 700,000 of the warrants were exercised, resulting in net proceeds to the Company of \$420,000.

There were no warrants outstanding in 2010.

The value attributed to warrants that were issued pursuant to the private placement on February 16, 2011 was calculated using the Black-Scholes warrant valuation model utilizing the following weighted average assumptions:

Expected dividends paid per common share	Nil
Expected life in years	0.8
Expected volatility in the price of common shares	94%
Risk free interest rate	1.5%
Weighted average grant date fair market value per share	\$ 0.14

## 9. Changes in non-cash operating working capital

The change in non-cash working capital is comprised of:

	3 months ended September 30		9 months ended September 30	
	2011	2010	2011	2010
Accounts receivable	67,823	13,421	(32,768)	1,069,972
Work-in-progress	-	-	(49,550)	-
Prepaid expenses and other	8,710	24,327	(6,690)	17,874
Unearned revenue	-	-	-	-
Accounts payable and accrued liabilities	109,147	(17,066)	9,989	(184,244)
	<u>185,680</u>	<u>20,682</u>	<u>(79,019)</u>	<u>903,602</u>
Portion attributable to:				
Operating activities	185,680	20,682	(79,019)	903,602
Financing activities	-	-	-	-
Investing activities	-	-	-	-
	<u>185,680</u>	<u>20,682</u>	<u>(79,019)</u>	<u>903,602</u>

## 10. Commitments and contingencies

The Company has an operating lease commitment on office space through October 31, 2012 which requires minimum monthly lease payments of \$32,212.

In addition, the Company has in place an agreement to utilize a minimum annual volume of aircraft charter hours, the terms of which it expects to meet for 2011.



## **NXT ENERGY SOLUTIONS INC.**

**As at and for the three and nine month periods ended September 30, 2011**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following management's discussion and analysis ("MD&A") was prepared by management based on information available as at November 24, 2011. It should be reviewed in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2010. This MD&A is for the 3 month ("Q3-11") and 9 month year-to-date ("2011 YTD") periods ended September 30, 2011, with comparative 2010 totals for the 3 month ("Q3-10") and 9 month year-to-date ("2010 YTD") periods ended September 30, 2010.

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 unless specific reference is made to United States or U.S. dollars.

#### **Forward-Looking Statements**

Certain statements in this document may constitute "forward-looking statements". These forward-looking statements can generally be identified as such because of the context of the statements including words such as "believes", "anticipates", "expects", "plans", "estimates" or words of a similar nature.

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

- estimates of the amount and expected timing of revenue and costs related to new SFD® survey contracts to be conducted in Colombia, Guatemala, Argentina, and South Asia
- potential future growth opportunities in new international markets
- estimated future costs related to asset retirement obligations
- potential financing related activities, including the exercise of outstanding warrants, and their related effect on liquidity and capital resources
- limitations in disclosure controls, procedures, and internal controls over financial reporting.

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

#### **Description of the Business**

NXT is a Calgary based company providing an airborne survey system that enables our clients to focus their exploration decisions concerning land commitments, data acquisition expenditures or prospect prioritization onto the areas as identified by SFD® with the greatest hydrocarbon potential. Utilizing its proprietary airborne Stress Field Detection ("SFD®") survey system, NXT provides a unique survey method that is environmentally noninvasive and unaffected by ground security issues or difficult terrain. Additionally, SFD® surveys can generally be conducted year round and are effective both onshore and offshore. The advantage to NXT's clients is an efficient and reliable method to explore for hydrocarbons. SFD® and NXT® in Canada and the U.S. are the registered trademarks of NXT Energy Solutions Inc.

#### **Overall Performance - Business Overview**

NXT is now generating revenues from various international sales opportunities as were discussed in our 2010 year-end MD&A.

Our focus on Colombia and Latin America remains unchanged. The delays caused by national elections and the finalization of the 2010 bid round awards in Colombia are past and we anticipate that our growing position in the Colombian market will be the catalyst for new sales expansion in Latin America. In Q2-11, NXT announced a letter of intent ("LOI") with a major Canadian public exploration and production company to conduct a U.S. \$4.6 million SFD® survey on 6 separate exploration blocks in Colombia and Guatemala. We recently finalized contracts covering 5 of the 6 blocks, which have a total contract value of U.S. \$3.6 million. Dependent upon weather conditions, data acquisition and the majority of the related interpretation process is expected to be completed on this project by year-end.

Following completion of the Colombia survey projects, NXT plans to commence a U.S. \$1.65 million survey project with a new client in Argentina, followed by the Guatemala project. Interest in NXT's services is now also expanding beyond Colombia and Argentina to potential clients in new markets such as Ecuador, Peru and Brazil.

Our previously announced U.S. \$2.7 million contract in South Asia has encountered ongoing flight permitting delays, as multiple government agencies have a role in the permitting process. NXT, in conjunction with our local agent, continues to advance the project, and the client and key government decision makers have provided support for our SFD® survey. The permitting process has now advanced to its final stages, and once granted, the commencement of the survey can be planned.

Overall, these three projects may potentially generate up to U.S. \$9 million of revenue for NXT. The committed portion of the Colombia (now underway) and Guatemala projects, plus the upcoming Argentina survey, are planned to generate a total of U.S. \$5.2 million in revenues before the end of Q1-12.

In Q3-11, NXT finalized terms on a gross over-riding royalty ("GORR") on a prior survey project which had been conducted in Canada. NXT's GORR averages 1.5% on future gas production that may eventually become developed on a sizeable prospect (which is not yet on production) in the Horn River Basin of north-east British Columbia, an area which has become one of North America's largest new shale gas resource plays. This GORR is an example of the flexibility of NXT's business model, under which traditional fees for service can be combined with success fees and / or GORRs.

Market conditions for our SFD® survey services have improved domestically and accordingly we also continue sales and marketing activities within North America. This effort resulted in a U.S. \$150,000 pilot project survey which was conducted in Montana, USA in Q2-2011

NXT plans to continue to broaden the profile of SFD® within our target markets through the generation and dissemination of SFD® case studies, which are an effective tool to showcase SFD® capabilities and to educate the industry about the value of our service.

NXT continues to project periodic working capital deficiencies related to its anticipated operational requirements. The anticipated shortfall has increased since the end of 2010 due to not only the delay in commencing the South Asia survey project, but also the projected working capital requirements for pending and potential new contracts. This shortfall is mitigated through our normal practice of obtaining partial pre-payments from clients at the start of the surveys, and issuing interim progress billings. In addition, several sources of finance capital are being contemplated at this time. NXT expects this additional capital to be obtainable when required to meet ongoing operational requirements, however, there can be no assurances that future financings will be available, or on terms that will be acceptable to NXT.

## Results of Operations

The nature of NXT's business is such that operating results are not readily comparable on a quarter to quarter, or year over year basis. This is because revenues are derived from periodic large value survey projects, which can be conducted in a relatively short time frame, but can have a large effect on any single period in which they occur. In both 2011 and 2010, all of the year-to-date revenues were earned in the Q2 periods.

The Company incurred a loss of \$1,026,814 for Q3-11 as compared to a loss of \$962,590 for Q3-10. For 2011 YTD, the loss was \$2,512,041 as compared to \$3,175,735 for 2010 YTD. The lower YTD loss for 2011 YTD was primarily due to lower G&A costs, as discussed below.

### Revenue

	Q3-11		Q3-10		2011 YTD		2010 YTD	
SFD® survey revenue	\$	-	\$	-	\$	144,650	\$	443,011
Oil and natural gas revenues		1,398		820		4,570		4,162
		<u>1,398</u>		<u>820</u>		<u>149,220</u>		<u>447,173</u>

In Q2-11, NXT earned SFD® survey revenue of U.S. \$150,000 from a small project conducted in Montana, USA.

### Expenses

	Q3-11		Q3-10		2011 YTD		2010 YTD	
SFD® survey cost	\$	1,846	\$	5,275	\$	45,836	\$	466,290
General and administrative ("G&A")		1,032,914		908,417		2,529,065		3,030,428
Amortization and depreciation		38,978		38,880		114,596		124,402
		<u>1,073,738</u>		<u>952,572</u>		<u>2,689,497</u>		<u>3,621,120</u>

G&A expense above includes non-cash stock based compensation expense ("SBCE") as follows:

	Q3-11		Q3-10		2011 YTD		2010 YTD	
G&A	\$	786,914	\$	835,518	\$	2,234,280	\$	2,856,665
SBCE		246,000		72,899		294,785		173,763
		<u>1,032,914</u>		<u>908,417</u>		<u>2,529,065</u>		<u>3,030,428</u>

- **SFD® survey costs** - the 2010 YTD total includes approximately \$118,000 of costs for conducting research related surveys which did not generate revenues. In Q1-11, NXT incurred start-up costs of approximately \$50,000 for a survey contract which has not yet commenced, and which have been recorded as work-in progress on the balance sheet.

- **General & administrative** - excluding SBCE, the \$48,604 decrease in G&A expenses for Q3-11 as compared to Q3-10 (and a decrease of \$622,385 for 2011 YTD) is a combination of several factors. Primarily, it is due to salary reductions and administrative personnel cutbacks imposed in late 2010. In addition, initial start-up costs for the Colombia branch office were reflected in the Q1-10 period.

The large increase in SBCE in 2011 is mostly due to a grant of a significant number of options in July 2011, a portion of which had immediate vesting, and thus generated a large expense in the Q3-11 period.

#### Other Expense (Income)

	Q3-11	Q3-10	2011 YTD	2010 YTD
Interest income, net	(2,817)	(3,982)	(8,345)	(7,476)
Loss (gain) on foreign exchange	(44,146)	8,434	(23,217)	1,286
Oil and natural gas operations and other	-	5,471	-	4,195
Loss on sale of property	-	-	-	1,074
Accretion and abandonments re asset retirement obligation	1,437	915	3,326	2,709
	<u>(45,526)</u>	<u>10,838</u>	<u>(28,236)</u>	<u>1,788</u>

**Interest income, net** - interest income earned on short-term investments is offset by interest expense on a capital lease obligation.

**Loss (gain) on foreign exchange** - caused by changes in the relative exchange values of the U.S. dollar, Canadian dollar and Colombian peso ("COP"). For example, when the Canadian dollar trades higher relative to the U.S. dollar or COP, cash held in U.S. dollars or COP will decline in value and this decline will be reflected as a foreign exchange loss in the period. NXT normally holds its cash and short-term investments in Canadian dollars to reduce the effect of market volatility; however, we currently are contractually obligated to hold certain restricted cash funds in U.S. dollar instruments to support performance bond commitments.

**Accretion of asset retirement obligation ("ARO")** - ARO reflects the estimated net present value of NXT's net working interest in 8 gross (1.1 net) oil & gas wells in which NXT had a historical participation prior to 2005. The ARO is based upon estimates of the future costs (to be settled in approximately 4 years) to abandon, remediate and reclaim the well sites. Accretion expense represents the ongoing increase in the ARO due to the passage of time.

#### Summary of Quarterly Results (Unaudited)

A summary of operating results for each of the trailing 8 quarters follows. The extent of the loss each quarter is mainly due to the timing of survey contract activity, and variances in SBCE, which can occasionally be a significant expense in any given quarter.

	Q3-11 Sep 30, 2011	Q2-11 Jun 30, 2011	Q1-11 Mar 31, 2011	Q4-10 Dec 31, 2010
Survey revenue	\$ -	\$ 144,650	\$ -	\$ -
Net loss	(1,026,814)	(692,510)	(792,717)	(1,276,690)
Basic and diluted loss per share	(0.03)	(0.02)	(0.02)	(0.04)
	Q3-10 Sep 30, 2010	Q2-10 Jun 30, 2010	Q1-10 Mar 31, 2010	Q4-09 Dec 31, 2009
Survey revenue	\$ -	\$ 443,011	\$ -	\$ 1,044,766
Net loss	(962,590)	(890,673)	(1,322,472)	(657,401)
Basic and diluted loss per share	(0.03)	(0.03)	(0.04)	(0.02)

Q3-11 to Q2-11 comparison - NXT had survey revenue of \$nil (\$144,650 in Q2-11), SBCE of \$246,000 (\$18,843 in Q2-11) and \$nil survey costs (\$43,990 in Q2-11). The high total SBCE in Q3-11 is due to the large number of stock options granted in Q3-11, and the fact that 42% of such had immediate vesting.

Q2-11 to Q1-11 comparison - NXT had survey revenue of \$144,650 (\$nil in Q1-11), SBCE of \$18,843 (\$29,942 in Q1-11) and survey costs of \$43,990 (\$nil in Q1-11).

Q1-11 to Q4-10 comparison - NXT recognized \$nil survey revenue (\$nil in Q4-10) and SBCE of \$29,942 (\$404,053 in Q4-10). The \$374,111 decrease in SBCE from Q4-10 was attributed to nearly all contractor options being fully vested in Q1-11 and the large expense that was recognized in Q4-10 upon re-pricing of stock options to \$0.63.

Q4-10 to Q3-10 comparison - NXT recognized \$nil in survey revenue (\$nil in Q3-10) and SBCE of \$404,053 (\$72,899 in Q3-10). The increase in SBCE was due to a one-time valuation adjustment that occurred when 2,113,204 stock options were re-priced in December 2010 to a new exercise price of \$0.63 per share.

Q3-10 to Q2-10 comparison - in Q3-10 NXT had \$nil survey revenue (\$443,011 in Q2-10) and SBCE of \$72,899 (\$31,507 in Q2-10).

Q2-10 to Q1-10 comparison - in Q2-10 NXT recognized survey revenue of \$443,011 (\$nil for Q1-10), SBCE of \$31,507 (\$69,356 for Q1-10) and survey costs of \$342,959 (\$118,056 for Q1-10).

Q1-10 to Q4-09 comparison - in Q1-10 NXT had \$nil survey revenue (\$1,044,766 in Q4-09), SBCE of \$69,356 (\$187,343 for Q4-09) and \$118,056 survey costs (\$508,308 for Q4-09). The survey costs in Q1-10 were for non-revenue projects.

Q4-09 to Q3-09 comparison - in Q4-09 NXT had survey revenue of \$1,044,766 (\$nil in Q3-09), SBCE of \$187,343 (\$112,254 in Q3-09) and survey costs of \$508,308.

## Liquidity and Capital Resources

NXT's cash and cash equivalents plus short-term investments at the end of Q3-11 was \$714,524. This excludes a total of \$45,461 which is encumbered as security for contract performance bonds, and is classified on the Balance Sheet as restricted cash.

The process of gaining acceptance of NXT's revolutionary technology in the oil & gas exploration industry has been challenging. However, customer success in using SFD® to reduce their exploration time, cost, and risk is growing, and starting to yield repeat business. In mid 2011, NXT obtained a Letter of Intent to undertake a large SFD® survey project in Colombia and Guatemala totaling U.S. \$4.6 million (of which \$3.6 million is now formally awarded and operations are underway). It is planned that a U.S. \$1.65 million survey project will commence in Argentina following completion of data collection for the Colombia project. In addition, we are awaiting final security clearances and permits to conduct a U.S. \$2.7 million survey contract in South Asia. We project that these three survey contracts (a large portion of which should be completed before the end of Q4-11) will be profitable, but will require cash outflows during the pre-survey phase. Uncertainty as to the timeline from customer interest, through contract negotiation and actual project kick-off, puts additional strain on capital resources.

In late 2010 the Company implemented salary reductions and administrative personnel cutbacks, and has reviewed other options to conserve cash. Despite these measures the Company expects that it will need to raise additional capital in the short-term. NXT has an option of calling for an accelerated conversion (if NXT's common shares trade at over \$0.90 for ten consecutive days) of the common share purchase warrants which were issued in the February 2011 private placement. These 3,345,920 warrants expire February 16, 2012 and have an exercise price of \$0.60 per share, which would yield maximum exercise proceeds to NXT of up to \$2 million if exercised in full. A total of 700,000 of these warrants have been exercised to date in November, yielding proceeds to NXT of \$420,000.

The following summarizes NXT's net cash flows for 2011 and 2010:

Cash flows from (used in):	Q3-11	Q3-10	2011 YTD	2010 YTD
Operating activities	\$ (555,279)	\$ (829,331)	\$ (2,179,047)	\$ (1,970,501)
Financing activities	10,210	(2,192)	1,492,646	48,077
Investing activities	249,161	233,540	936,342	(1,906,432)
Net source (use) of cash	(295,908)	(597,983)	249,941	(3,828,856)
Cash, start of period	1,010,432	943,272	464,583	4,174,145
Cash, end of period	714,524	345,289	714,524	345,289

The major components of the above noted 2011 YTD totals are:

### Operating Activities

- the net cash (use) from operating activities is comprised of:

net loss for the period	(2,512,041)	(3,175,735)
add back non-cash expense items	412,013	301,632
	(2,100,028)	(2,874,103)
decrease (increase) in non-cash working capital balances	(79,019)	903,602
net cash (used in) operating activities	(2,179,047)	(1,970,501)

### Financing Activities

- the February 2011 private placement (\$1.6 million gross) resulted in net proceeds of \$1,487,827.
- repayment of a capital lease obligation totaled \$7,781
- stock option exercise proceeds were \$12,600

### Investing Activities

- the \$905,651 funds inflow arising from the net redemption of short-term investments was primarily used to fund ongoing operating expenses, and a temporary increase in restricted cash balances in the first half of 2011.
- a cash inflow of \$56,395 arose from a net increase in restricted cash balances which have been issued as security for contract performance bonds. In the Q3-11 period, a total of \$267,000 was released from restricted cash due to a delay in the start of the South Asia project
- \$25,704 was used in the purchase of property and equipment.

## Contractual Commitments

The Company has an office lease commitment until October 31, 2012 which requires minimum monthly lease payments of \$32,212.

In addition, the Company has in place an agreement to utilize a minimum annual volume of aircraft charter hours, the terms of which it expects to meet for 2011.



## Transactions with Related Parties

In Q1-11 two officers of the Company subscribed for a total of \$40,000 of the private placement.

## Additional Disclosures - Outstanding securities

	as at November 24, 2011	as at September 30, 2011	as at December 31, 2010
Shares issued:			
Common shares	34,742,396	34,022,396	30,801,796
Preferred shares	10,000,000	10,000,000	10,000,000
Common shares reserved for issue re:			
Stock options	2,268,141	2,288,141	2,134,804
Common share purchase warrants (\$0.60 exercise price, expire Feb 16, 2012)	2,645,920	3,345,920	-
Total, fully diluted	<u>49,656,457</u>	<u>49,656,457</u>	<u>42,936,600</u>

## Critical Accounting Estimates

Factors are substantially unchanged; refer to NXT's annual MD&A as at and for the year ended December 31, 2010.

## Changes in Accounting Policies Including Initial Adoption

Factors are substantially unchanged; refer to NXT's annual MD&A as at and for the year ended December 31, 2010.

## Disclosure Controls, Procedures and Internal Controls over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") (together, the "Responsible Officers") are responsible for establishing and maintaining disclosure controls and procedures, or causing them to be designed under their supervision, for the Company 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 financial statements and MD&A are being prepared.

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

As of September 30, 2011 an evaluation was carried out under the supervision of, and with the participation of management, including the CEO and the CFO, of the effectiveness of the Company's disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities and by the SEC. Through this evaluation the CEO and the CFO concluded that there are material weaknesses in the Company's internal controls over financial reporting that have a direct impact on the Company's disclosure controls:

- Due to the limited number of staff at the Company's Calgary head office, it is not feasible to achieve adequate segregation of incompatible duties. The Company mitigates this deficiency by adding management and audit committee review procedures over the areas where inadequate segregation of duties are of the greatest concern;
- The Company does not retain staff with the specialized expertise required to prepare, nor does the Company employ sufficient staff, to adequately review some complex or highly judgmental accounting issues. These complex areas include income tax accounting, stock based compensation expense, and other complex accounting matters. The Company 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; and
- In 2010 there was a change in the company's internal controls following the formation of a Colombian branch office that processes regional financial transactions. Although the branch is staffed solely by one senior administrative manager, the Company mitigated this deficiency by adding administrative and management over-sight procedures at NXT's Calgary head office.

Notwithstanding the Company's efforts to mitigate the risks associated with the above mentioned deficiencies, the CEO and CFO concluded that the Company's internal controls over financial reporting are not effective and as a result its disclosure controls and procedures are not effective as at September 30, 2011. The Company reached this conclusion based upon their assessment that there is more than a remote likelihood that its internal controls over financial reporting will not prevent or detect material misstatements if they should exist in our financial statements.

For additional information on NXT Energy Solutions Inc. please consult our web page at [www.nxtenergy.com](http://www.nxtenergy.com), or the SEDAR webpage at <http://www.sedar.com>.