Nautilus Minerals Inc.
(an exploration stage company)

Consolidated Financial Statements
For the years ended December 31, 2015 and December 31, 2014
(Expressed in US Dollars)

MANAGEMENT'S RESPONSIBIILTY FOR FINANCIAL REPORTING

The preparation and presentation of the accompanying consolidated financial statements, Management Discussion and Analysis ("MD&A") and all financial information in the Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Financial statements, by nature, are not precise since they include certain amounts based upon estimates and judgements. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances.

Management, under the supervision of and the participation of the President and Chief Financial Officer, have a process in place to evaluate disclosure controls and procedures and internal control over financial reporting as required by Canadian securities regulations. We, as President and Chief Financial Officer, will certify our annual filings with the CSA as required in Canada by National Instrument 52-109.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee which is independent from management.

The Audit Committee is appointed by the Board of Directors and reviews the consolidated financial statements and MD&A; considers the report of the external auditors; examines the fees and expense for audit services; and recommends to the Board the independent auditors for appointment by the shareholders. The independent auditors have full and free access to the Audit Committee and meet with the Audit Committee to discuss their audit work, the Company's internal control over financial reporting and financial reporting matters. The Audit Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders.

Signed: "Michael Johnston"

President and Chief Executive Officer

Signed: "Shontel Norgate"

Chief Financial Officer

March 17, 2016

Independent Auditor's Report

To the Shareholders of Nautilus Minerals Inc.

We have audited the accompanying consolidated financial statements of Nautilus Minerals Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and the related notes, which comprise 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

Auditor's 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 our audits 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 the auditor's 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, the auditor considers 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.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nautilus Minerals Inc. as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants
Vancouver, BC.
March 17, 2016

Nautilus Minerals Inc.

Consolidated Statements of Financial Position

(expressed in US Dollars)

	December 31, 2015 $	December 31, 2014 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 5)	56,456,820	118,770,134
Prepaid expenses and advances	730,187	766,226
	57,187,007	119,536,360
Non-current assets		
Restricted cash (Note 9)	516,144	595,952
Prepaid expenses and advances (Note 12)	8,500,000	-
Property, plant and equipment (Note 11)	198,167,119	177,699,461
Exploration and evaluation assets (Note 10)	47,263,716	41,735,818
	254,446,979	220,031,231
TOTAL ASSETS	311,633,986	339,567,591
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	8,870,120	7,414,236
Project partner contribution (Note 7)	16,104,471	10,733,912
Provision for employee entitlements	859,673	743,035
	25,834,264	18,891,183
Non-current liabilities		
Accounts payable and accrued liabilities (Note 6)	4,563,233	4,570,655
Project partner contribution (Note 7)	48,522,297	60,172,942
Provision for employee entitlements	582,128	402,480
	53,667,658	65,146,077
TOTAL LIABILITIES	79,501,922	84,037,260
Equity (Note 15)		
Share Capital	514,161,841	514,149,818
Contributed Surplus	50,368,719	48,896,679
Deficit	(332,398,496)	(307,516,166)
Total Equity	232,132,064	255,530,331
TOTAL LIABILITIES AND EQUITY	311,633,986	339,567,591

Approved by the Board of Directors

Signed: “Russell Debney”

Russell Debney

Signed: “Cynthia Thomas”

Cynthia Thomas

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

Nautilus Minerals Inc.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2015 and 2014
(expressed in US Dollars)

	December 31, 2015 $	December 31, 2014 $
Operating expenses		
Exploration (Note 16)	9,236,368	3,581,282
General and administration (Note 17)	11,648,349	11,351,167
Corporate social responsibility	1,621,232	974,949
Technology	410,157	313,759
Development	1,485,422	2,764,730
Foreign exchange loss	940,930	9,355
Operating loss	25,342,458	18,995,242
Security deposit expensed (Note 18)	-	10,000,000
Interest income	(195,152)	(207,049)
Rent and other income (Note 19)	(264,976)	(15,037,953)
Loss and comprehensive loss for the year	24,882,330	13,750,240
Weighted average number of shares outstanding, basic and diluted	445,449,605	442,263,742
Loss per share		
Basic and diluted	0.06	0.03

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

Nautilus Minerals Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(expressed in US Dollars)

	December 31, 2015 $	December 31, 2014 $
Operating activities		
Loss for the year	(24,882,330)	(13,750,240)
Adjustments for:		
Depreciation and amortization	807,222	1,194,460
Unrealized foreign exchange loss	1,078,050	39,425
Share-based payments	1,476,700	1,259,192
Security deposit expensed	-	10,000,000
Changes in non-cash working capital		
Prepaid expenses and advances	36,039	(207,549)
Accounts payable and accrued liabilities	(230,892)	(208,062)
Net cash used in operating activities	(21,715,211)	(1,672,774)
Investing activities		
Restricted cash	79,808	62,371
Charterers guarantee payment	(10,000,000)	-
Purchase of plant and equipment	(23,142,571)	(12,235,806)
Exploration and evaluation assets	(6,464,653)	(3,169,800)
Joint venture contribution	-	35,772,992
Security deposit expensed	-	(10,000,000)
Net cash generated from (used) in investing activities	(39,527,416)	10,429,757
Financing activities		
Prepaid joint venture contribution	-	69,418,756
Issuance of shares for cash - net of issue costs	7,363	15,857
Net cash generated from financing activities	7,363	69,434,613
Effect of exchange rate changes on cash and cash equivalents	(1,078,050)	(39,425)
(Decrease) / Increase in cash and cash equivalents	(62,313,314)	78,152,171
Cash and cash equivalents - Beginning of year	118,770,134	40,617,963
Cash and cash equivalents - End of year (Note 5)	56,456,820	118,770,134

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

Nautilus Minerals Inc.

Consolidated Statements of Changes in Equity

(expressed in US Dollars)

	Share capital		Contributed Surplus	Deficit	Total equity
	Number of shares	Amount			
		$	$	$	$
Balance January 1, 2014	**440,772,865**	**514,123,985**	**47,647,463**	**(293,765,926)**	**268,005,522**
Exercise of share options	80,000	15,857			15,857
Share-based payments	-	-	1,259,192	-	1,259,192
Transfer of value on exercise of share options		9,976	(9,976)		-
Issue of shares in Share Loan Plan	4,450,000	-	-	-	-
Loss for the year	-	-	-	(13,750,240)	(13,750,240)
Balance December 31, 2014	**445,302,865**	**514,149,818**	**48,896,679**	**(307,516,166)**	**255,530,331**
Exercise of loan shares	-	7,363	-	-	7,363
Share-based payments	-	-	1,476,700	-	1,476,700
Transfer of value on exercise of loan shares		4,660	(4,660)		-
Issue of shares in Share Loan Plan	400,000	-	-	-	-
Loss for the year	-	-	-	(24,882,330)	(24, 882,330)
Balance December 31, 2015	**445,702,865**	**514,161,841**	**50,368,719**	**(332,398,496)**	**232,132,064**

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

1 Corporate Information

Nature of Operations

Nautilus Minerals Inc. (the "Company", "Nautilus" or "NMI") is a company whose common shares are listed on the Toronto Stock Exchange and quoted on OTCQX International and Nasdaq International Designation program.

Nautilus is engaged in the exploration and development of the ocean floor for copper and gold rich seafloor massive sulphide deposits and for manganese, nickel, copper and cobalt nodule deposits. To date the Company has not earned any revenues from operations and is considered to be in the exploration stage. The Company has one segment being mineral property exploration in Australasia. The exploration activity involves the search for deepwater copper and gold rich seafloor massive sulphides in the western Pacific Ocean and nodule deposits in the eastern Pacific Ocean. The Company's main focus is to create shareholder value by demonstrating the seafloor production system and establishing a pipeline of development projects to maximize the value of mineral licenses and exploration applications that Nautilus holds in various locations in the Pacific Ocean. The Company's principal project is the Solwara 1 Project in Papua New Guinea (PNG) in the Bismarck Sea. The proposed principal operations of the Company subject to permitting will be the extraction of copper, zinc, gold and silver deposits where there are economically viable discoveries.

The Company's consolidated financial statements and those of its controlled subsidiaries ("consolidated financial statements") are presented in US Dollars.

Nautilus is a company incorporated in British Columbia, Canada. The registered office, head office and principal offices of the Company are located at:

Registered Office (Vancouver, Canada)
Nautilus Minerals Inc.
Floor 10
595 Howe St
Vancouver, BC, V6C 2T5
Canada

Head Office (Vancouver, Canada)
Nautilus Minerals Inc.
Suite 1400
400 Burrard Street
Vancouver, BC, V6C 3A6
Canada

Corporate Office (Toronto, Canada)
Nautilus Minerals Inc.
Suite 1702, 141 Adelaide Street West
Toronto, Ontario M5H 3L5
Canada

Operations (Brisbane, Australia)
Nautilus Minerals Inc.
Level 3, 33 Park Road
Milton Queensland, Australia 4064

2 State of PNG's participation in Solwara 1 Project and Liquidity Risk

State of PNG Participation in Solwara 1 Project

On April 24, 2014, the Company announced that it and the Independent State of Papua New Guinea ("State") had signed the PNG Equity Agreement, enabling the Solwara 1 Project to move forward toward production with the full support of the State.

Under the PNG Equity Agreement, the State has taken an initial 15% interest in the Solwara 1 Project, with an option to take up to a further 15% interest within 12 months of completion under the Agreement. On April 24, 2014, the date the PNG Equity Agreement was executed, the State paid Nautilus a non-refundable deposit for its initial 15% interest of $7.0 million.

On December 11, 2014, completion occurred in accordance with the PNG Equity Agreement such that the sum of $113.0 million was released from escrow to Nautilus and the unincorporated joint venture between Nautilus and the State's Nominee (Eda Kopa (Solwara) Limited) in respect of the Solwara 1 Project was formed (the "Solwara 1 JV"). The Solwara 1 JV is governed by the Joint Venture Agreement among the parties to the PNG Equity Agreement.

On June 11, 2015 the Company announced that it has agreed to extend by six months the exercise date of the options granted to the State Nominee under the PNG Equity Agreement to increase its stake by up to a further 15%. On December 11, 2015 the State Nominee, the Company's joint venture partner in the Solwara 1 Project in Papua New Guinea elected not to exercise its option to take up a further 15% interest in the Project.

Nautilus and the State Nominee, which maintains a 15% interest in the Project, continue to work together to complete the seafloor production system to be used at the Project site when mining is planned to commence in Q1 2018.

Liquidity Risk

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

On February 23, 2016 the Company filed a short form prospectus within each province of Canada, other than Quebec, in respect of a rights offering to raise gross proceeds of up to C$103M through the issuance of rights to subscribe for an aggregate of 686,666,666 common shares at a subscription price of C$0.15 per common share.

The Company plans to use the net proceeds from the Offering, together with the Company's existing cash reserves, to advance the development of the Company's Seafloor Production System and for general working capital requirements.

The Company has no source of revenue and has significant cash requirements to be able to meet its administrative overhead and maintain its property interests. In order to be able to complete the ongoing sub-sea equipment construction contracts and advance the development of its mineral property interests, the Company will need to raise additional equity, debt and/or joint venture partner funding in excess of the maximum Offering amount. Until that time, certain discretionary expenditures may be deferred and measures to reduce operating costs may be taken in order to preserve working capital.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

3.1 Basis of measurement

The consolidated financial statements of Nautilus Minerals Inc. have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared under the historical cost convention, as modified by any financial assets and financial liabilities measured at fair value through profit or loss.

The consolidated financial statements were authorized for issue by the Board of Directors on March 17, 2016.

3.2 Consolidation

The financial statements of the Company consolidate the accounts of Nautilus Minerals Inc and its subsidiaries. All intercompany transactions, balances and any unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are all entities (including structured entities) over which Nautilus Minerals Inc has control. We control an entity when we are exposed to, or have rights to, variable returns from its involvement with the entity and have the ability to affect those returns through our power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date which control is transferred to us until the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

These consolidated financial statements include the accounts of the Company which is incorporated in Canada and all of its subsidiaries. The Company's significant subsidiaries include Nautilus Minerals Niugini Limited (Papua New Guinea), Nautilus Minerals Pacific Proprietary Limited (Australia), Nautilus Minerals (Tonga) #1 Limited, Tonga Offshore Mining Limited (Tonga), Nautilus Minerals Singapore Limited and Koloa Moana Resources Inc (Canada), all of which are wholly owned subsidiaries.

3.3 Foreign currency translation

a) Functional and presentational currency

The consolidated financial statements are presented in United States Dollars, which is the functional and presentational currency of Nautilus Minerals Inc. Items included in the financial statements of each consolidated entity in the Nautilus Minerals group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency for all significant entities within the consolidated group is United States Dollars.

b) Transactions and balances

Foreign currency transactions are accounted for at the rates of exchange at the date of the transaction. Monetary assets and liabilities are translated at year-end exchange rates. Gains and losses arising on settlement of such transactions and from the translation of foreign currency monetary assets and liabilities are recognized in the statement of loss.

3.4 Cash and cash equivalents

The Company considers cash and cash equivalents to comprise amounts held in banks and highly liquid investments with maturities at time of purchase of 90 days or less.

3.5 Financial assets

a) Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. All of the Company's financial assets are currently classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise restricted cash and cash and cash equivalents. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

b) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognises an impairment loss as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

3.6 Property, plant and equipment

Equipment is recorded at cost less accumulated depreciation. The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Depreciation is calculated over the estimated useful life of the assets on a straight-line basis as follows:

	Estimated useful life (in years)
Leasehold improvements	3
Plant and equipment	3 – 15
Office equipment	1 – 20
Motor vehicles	6 - 8

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

3.7 Exploration and evaluation assets

All costs directly related to the acquisition of rights to explore for minerals are capitalized.

Once the right to explore has been obtained, the Company will incur exploration and evaluation expenditures to advance an area of interest. Such expenditures include:

- Exploratory drilling;
- Geological, geochemical and geophysical studies;
- Sampling;
- The depreciation of equipment used in the above activities, and
- Activities involved in evaluating the technical feasibility and commercial viability of extracting mineral resources.

The Company expenses all exploration and evaluation expenditures until management conclude that a future economic benefit is more likely than not to be realized. In evaluating if expenditures meet this criterion to be capitalized, management considers the following:

- The extent to which reserves or resources, as defined in National Instrument 43-101 have been identified in relation to the project in question;
- The status of cost assessments or scoping studies;
- The status of environmental permits, and
- The status of mining leases or permits.

Once the Company considers that a future economic benefit is more likely than not to be realized from an area of interest, all subsequent costs directly relating to the advancement of the related area of interest are capitalized. Capitalized costs are considered to be tangible assets as they form part of the underlying mineral property and are recorded within 'exploration and development assets' at cost less impairment charges, if applicable. No amortization is charged during the exploration and evaluation phase because the asset is not available for use. When the Company considers that the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, capitalized exploration and evaluation costs are reclassified to mineral properties.

3.8 Joint Arrangements

Under IFRS 11 Joint Arrangements, investments in joint arrangements are typically classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Under the terms of the unincorporated joint venture agreement between the Company and the State Nominee, Nautilus and the State Nominee each beneficially own, 85% and 15% respectively, of the Solwara 1 project and the subsea equipment tools. They are tenants in common in proportion to their ownership interest.

Accordingly, the Company records its 85% interest in the assets and liabilities and income and expenses of the unincorporated joint venture in the consolidated financial statements. The impact of this is similar to proportionate consolidation.

3.9 Impairment of non-financial assets

Property, plant and equipment, and mineral properties are considered for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If an impairment indicator is identified, the asset's recoverable amount is calculated and compared to the carrying amount. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Fair value is determined as the amount that would be obtained by the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value of mineral assets is generally determined as the present value of the estimated cash flows expected to arise from the continued use of the asset, including any expansion projects.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and from its ultimate disposal.

Impairment is normally assessed at the level of CGUs, which are identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets.

Non-financial assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed. When a reversal of a previous impairment is recorded, the reversal amount is adjusted for depreciation that would have been recorded had the impairment not taken place.

3.10 Share based payments

The cost of equity-settled and cash settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the relevant vesting period.

The company grants either stock options or loan shares as remuneration for directors and as a part of a long term incentive plan for certain employees. Where the shared based payment is for remuneration they generally vest over 2.5 years (20% every six months) and expire after three years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Where the share based payment is as part of a long term incentive plan they generally vest in a single tranche 2.5 years from issue and expire after 3.5 years. In both instances the fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model.

At each period end, before vesting, the cumulative expense is calculated based on management's best estimate of the number of equity instruments that will ultimately vest. The movement in this cumulative expense is recognised in the income statement, with a corresponding entry in equity.

The proceeds from the exercise of stock options in addition to the carrying value attributable to those options exercised are recorded as share capital.

3.11 Employee Benefits

a) Annual Leave

The liability for accrued annual leave is recognised in respect of employees' services up to the end of the reporting period and is measured at the amounts expected to be paid when the liability is settled. All liabilities recognised in respect of annual leave are classified as current given the Company does not have an unconditional right to defer settlement of these amounts.

b) Long Service Leave

The provision for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using an appropriate risk-free rate at the end of the reporting period, giving consideration to the terms and currencies that match, as closely as possible to the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit and loss.

Where the Company does not have an unconditional right to defer settlement for at least the next twelve months, regardless of when the actual settlement is to occur, the liability is recognised as current, with all other amounts recognised as non-current.

3.12 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.13 Income tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured at tax rates that are expected to apply in periods in which the temporary differences reverse based on tax rates and law enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.14 Share capital

Incremental external costs directly attributable to the issue of new common shares are deducted from share capital.

3.15 Loss per share

Basic loss per share is computed by dividing loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion or exercise of securities only when such conversion or exercise would have a dilutive effect on earnings per share. The dilutive effect of outstanding stock options and their equivalents is reflected in diluted earnings per share by application of the treasury stock method which assumes that any proceeds from the exercise of share options would be used to purchase common shares at the average market price during the period. During years when the Company has generated a loss, the potential shares to be issued from the assumed exercise of options are not included in the computation of diluted per share amounts because the result would be anti-dilutive.

3.16 Significant accounting judgements and estimates

The preparation of the financial statements in conformity of IFRS requires the use of judgements and estimates that affect the amount reported and disclosed in the consolidated financial statements and related notes. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ materially from the amounts included in the financial statements. Information about such judgements and estimates is contained in the accounting policies and notes to the financial statements.

The area of judgement that has the most significant effect on the amounts recognised in these consolidated financial statements is the review of asset carrying values and impairment assessment.

In considering whether any impairment indicators occurred in respect of the Company's long lived assets as at December 31, 2015, management took into account a number of factors such as long term metal prices, projected costs to operate equipment, availability and costs of finance, cost and state of completion of subsea equipment construction, exploration successes in other areas, the existence and terms of binding off-take agreements and the Company's market capitalization compared to its net asset value. Management has concluded, based on this analysis that no impairment was required to be recognized at December 31, 2015 in respect of the Solwara 1 project and the subsea equipment currently under construction.

4 Changes in accounting policy and disclosures

New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2015 that would be expected to have a material impact on the Company.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016. The company has reviewed the disclosure requirements of changes in IFRS 8 'Operating Segments', IFRS 9 'Financial Instruments: Classification and Measurement' (effective January 1, 2018) and IFRS 7 'Financial Instruments: Disclosure' (effective January 1, 2018), however this does not currently require any changes to disclosures within the financial statements of the Company.

IFRS 15 Revenue from Contracts with Customers deals with revenue recognition and establishes principles of reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when the customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Standard replaces IAS 18 Revenue, and IAS 11 Construction Contracts and related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is still in the process of assessing the impact, if any, on the financial statements of this new standard.

IFRS 16 Leases will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted, provided the Company has adopted IFRS 15 Revenue from Contracts with Customers. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

(expressed in US Dollars)

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on our consolidated financial statements.

5 Cash and cash equivalents

	December 31, 2015 $	December 31, 2014 $
Cash	7,772,514	70,901,963
Term Deposits	48,684,306	47,868,171
	56,456,820	118,770,134

6 Accounts payable and accrued liabilities

	December 31, 2015 $	December 31, 2014 $
Current		
Accounts Payable	925,693	963,995
Accrued Liabilities	3,350,734	2,323,975
Retention Payable	4,593,693	4,126,266
	8,870,120	7,414,236

	December 31, 2015 $	December 31, 2014 $
Non-current		
Retention Payable	4,563,233	4,570,655
	4,563,233	4,570,655

The current and non-current Retention Payable represents the contractual retention from payments to Soil Machine Dynamics and General Marine Contractors to be paid on completion of the contract for the construction of the Seafloor Production Tools. The amounts considered non-current are not due within the next 12 months.

(expressed in US Dollars)

7 Project Partner Contribution

The project partner contribution liability is the unearned portion of the purchase price of the State's initial 15% interest of the Solwara 1 JV recorded as a current liability, being 15% of the approved project budget for the next 12 months, with the balance recorded as non-current.

	December 31, 2015 $	**December 31, 2014 $**
JV partner cash contribution		120,000,000
Prior period JV contribution		1,797,081
Opening Balance	**70,906,854**	**121,797,081**
Previously expensed exploration expenditure	-	(12,068,246)
Capital charge	-	(2,740,006)
Prepaid Charterers Guarantee	(1,500,000)	-
Subsea equipment under construction	(3,665,350)	(31,073,449)
Exploration and evaluation assets	(975,511)	(5,008,526)
Management Fee	(139,226)	-
Total project partner contribution	64,626,768	70,906,854
Current project partner contribution	16,104,471	10,733,912
Non Current Project partner contribution	**48,522,297**	**60,172,942**

8 Income Tax

a) A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	December 31, 2015 $	**December 31, 2014 $**
Loss before income taxes	(24,882,330)	(13,750,240)
Canadian statutory tax rate	26.00%	26.00%
Income tax recovery based on the above rates	(6,469,406)	(3,575,062)
Increase/(decrease) due to:		
Non-deductible expenses and other	7,438,131	9,607,982
Effect of change in Canadian and foreign future tax rates	(324,352)	1,617,512
Tax effect of tax losses and temporary differences not recognized	(644,373)	(7,650,432)
Income tax expense/(recovery)	-	-

(expressed in US Dollars)

b) The significant components of the Company's future income tax assets and liabilities are as follows:

	December 31, 2015 $	**December 31, 2014 $**
Future income tax assets		
Non-capital losses	35,979,855	33,799,763
Capital losses	2,418,882	2,885,746
Unamortized share issue costs	198,338	405,947
Unrealized foreign exchange losses and other	5,984,977	8,285,783
Mineral properties and property, plant and equipment	35,193,477	35,042,663
Total future income tax assets	79,775,529	80,419,902
Less: Tax benefits not utilised	(79,775,529)	(80,419,902)
Net future income tax assets/(liabilities)	-	-

c) The Company has non-capital loss carry forwards of $128,636,322 that may be available for tax purposes. The loss carry forwards expire as follows:

	Canada $	**Australia, Singapore and Tonga $**
2018	-	-
2019	-	-
2020	-	-
2021	-	-
2022	-	-
2023	-	-
2024	-	-
2025	-	-
2026	2,076,826	-
2027	3,718,513	-
2028	-	-
2029	4,268,713	-
2030	4,341,289	-
2031	4,066,305	-
2032	1,335,066	-
2033	2,232,771	-
2034	2,377,770	-
2035	3,134,604	
Not limited	-	101,084,465
Total non-capital losses	27,551,857	101,084,465

(expressed in US Dollars)

9 Restricted cash

$516,144 (December 31, 2014 - $595,952) has been provided as security for leases and tenements held in Papua New Guinea and Fiji.

10 Exploration and evaluation assets

In 2006, the Company through its 100% owned subsidiary Nautilus Minerals Niugini Ltd acquired a 100% interest in certain PNG subsea exploration licenses by issuing common shares with an estimated historical fair value of $12,213,367 to Barrick Gold Inc., following its acquisitionon of Placer Dome.

Following the grant of the mining lease (ML154) for the Solwara 1 deposit on January 13, 2011 the Company determined that an economic benefit is more likely than not to be recovered from the Solwara 1 deposit and, accordingly, commenced capitalizing exploration and evaluation costs associated with the Solwara 1 deposit.

With the formation of the joint venture (Note 12) between the Company and the State Nominee on December 11, 2014, the Company commenced recording its 85% share of the related joint venture expenditure on exploration and evaluation assets.

	December 31, 2015 $	**December 31, 2014 $**
Opening balance	**41,735,818**	**43,448,448**
Boat charter and fuel	150,856	-
Engineering services	998,006	735,650
Environmental consulting	561,868	230,302
Project management and oversight	3,652,672	2,220,764
Geological services and field expenses	143,776	32,400
Mineral property fees	20,720	28,371
Disposal to joint venture (Note 12)	-	(4,960,117)
	5,527,898	(1,712,630)
Closing balance	**47,263,716**	**41,735,818**

The disposal to joint venture amount of $4,960,117 represents the recovery, under the terms of the PNG Equity Agreement, of 15% of the costs, as defined, previously capitalised to the Solwara 1 project that are attributable to the State Nominee (Note 12).

Although the Company has taken steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee a clear title. Property title may be subject to unregistered prior agreements and regulatory requirements. The Company is not aware of any disputed claim of title.

(expressed in US Dollars)

11 Property, plant and equipment

Year ended December 31, 2015

	Opening Cost Balance	Additions	Disposals	Closing Cost Balance	Accum Dep'n	Closing Carrying Value
	$	$	$	$	$	$
Leasehold improvements	2,829,694	11,214	(2,770,958)	69,950	(58,465)	11,485
Plant and equipment	785,935	189,579	-	975,514	(655,894)	319,620
Office equipment	3,220,918	224,649	(386,304)	3,059,263	(2,653,397)	405,866
Motor vehicles	165,562	88,447	(16,583)	237,426	(127,436)	109,990
Land	466,969	-	-	466,969	-	466,969
Subsea equipment under construction (Note 12)	176,082,878	20,770,311	-	196,853,189	-	196,853,189
Total property, plant & equipment	183,551,956	21,284,200	(3,173,845)	201,662,311	(3,495,192)	198,167,119

Year ended December 31, 2014

	Opening Cost Balance	Additions	Disposals	Closing Cost Balance	Accum Dep'n	Closing Carrying Value
	$	$	$	$	$	$
Leasehold improvements	2,828,884	810	-	2,829,694	(2,315,383)	514,311
Plant and equipment	778,781	7,154	-	785,935	(582,675)	203,260
Office equipment	3,205,369	15,549	-	3,220,918	(2,842,122)	378,796
Motor vehicles	165,562	-	-	165,562	(112,315)	53,247
Land	466,969	-	-	466,969	-	466,969
Subsea equipment under construction (Note 12)	195,745,530	11,150,223	(30,812,875)	176,082,878	-	176,082,878
Total property, plant & equipment	203,191,095	11,173,736	(30,812,875)	183,551,956	(5,852,495)	177,699,461

(expressed in US Dollars)

12 Joint Arrangements

On December 11, 2014, the Company announced that all terms of the PNG Equity Agreement had been met and the unincorporated joint venture between Nautilus and the State Nominee in respect of the Solwara 1 Project was formed. The table below presents the carrying value of the project assets on this date that were transferred on formation of the joint venture.

	100%	Nautilus 85%	State Nominee 15%
Subsea equipment under construction	205,419,165	174,606,290	30,812,875
Exploration and evaluation assets	33,067,447	28,107,330	4,960,117
	238,486,412	202,713,620	35,772,992

The table below presents the carrying value of the project assets as at December 31, 2015.

	100%	Nautilus 85%	State Nominee 15%
Prepaid Charterers Guarantee	10,000,000	8,500,000	1,500,000
Subsea equipment under construction	231,591,987	196,853,189	34,738,798
Exploration and evaluation assets	39,893,584	33,909,546	5,984,038
	281,485,571	239,262,735	42,222,836

As at 31 December 2015 Nautilus Minerals Inc recognised its share of the joint venture assets as follows

	December 31, 2015 $	December 31, 2014 $
Prepaid Charterers Guarantee	8,500,000	-
Subsea equipment under construction (Note 11)	196,853,189	176,082,878
Exploration and evaluation assets (Note 10)	33,909,546	28,381,647
	239,262,735	204,464,525

(expressed in US Dollars)

13 Compensation of Key Management

Key management includes the company's directors and members of the Executive Committee that includes the CEO, CFO, VP Projects, VP PNG Operations (employment commenced August 2014), VP Strategic Development & Exploration and VP Corporate Social Responsibility (employment ended August 2014). Compensation awarded to key management included:

	December 31, 2015 $	December 31, 2014 $
Salaries and short-term employee benefits	2,013,446	2,470,914
Benefits paid on termination	-	181,178
Stock based compensation	1,075,049	712,786
Superannuation payments	118,430	145,145
	3,206,925	3,510,023

14 Related party transactions

Protection Group International Ltd, trading as PGI Strontium Ltd ("PGI") is a company based in the United Kingdom which provides integrated, intelligence-led risk management solutions with respect to the protection of assets. PGI is a privately owned company of which 51% is owned by United Engineering Services, a wholly owned subsidiary of MB Holding Company LLC, one of the Company's major shareholders with a 28.14% interest. PGI provided risk assessment and training related services to the Company in the normal course of business and on an arm's length basis. For the year ended December 31, 2015 the Company incurred costs of $1,019,988 (2014 – nil) for services provided by PGI.

(expressed in US Dollars)

15 Equity

a) Share options

Outstanding share options

	Share options	Weighted average exercise price C$
At January 1, 2014	4,075,000	0.88
Granted	2,250,000	0.53
Expired	(500,000)	2.91
Forfeited	(800,000)	1.07
Exercised	(80,000)	0.22
At December 31, 2014	**4,945,000**	**0.50**
Granted	1,800,000	0.45
Forfeited	(400,000)	0.52
Expired	(700,000)	0.91
At December 31, 2015	**5,645,000**	**0.43**

Information relating to share options outstanding at December 31, 2015 is as follows:

Price range C$	Outstanding share options	Vested stock options	Weighted average exercise price of outstanding options C$	Weighted average exercise price of vested options C$	Weighted average remaining life of outstanding options (months)
0.00 – 0.99	5,420,000	1,960,000	0.41	0.34	18.1
1.00 – 1.99	225,000	225,000	1.01	1.01	3.3
	5,645,000	2,185,000	0.41	0.41	17.5

(expressed in US Dollars)

b) Loan Shares

Outstanding loan shares

	Loan shares	Weighted average exercise price C$
At January 1, 2014	6,875,000	0.56
Granted	5,450,000	0.57
Forfeited	(800,000)	0.53
Expired	(200,000)	2.91
At December 31, 2014	**11,325,000**	**0.52**
Granted	400,000	0.45
Expired	(200,000)	0.91
Exercised	(40,000)	0.24
At December 31, 2015	**11,485,000**	**0.51**

Information relating to loan shares outstanding at December 31, 2015 is as follows:

Price range C$	Outstanding share loan shares	Vested loan shares	Weighted average exercise price of outstanding loan shares C$	Weighted average exercise price of vested loan shares C$	Weighted average remaining life of outstanding loan shares (months)
0.00 – 0.99	9,810,000	3,900,000	0.43	0.42	13.7
1.00 – 1.99	1,675,000	1,675,000	1.01	1.01	3.3
	11,485,000	5,575,000	0.51	0.60	12.2

(expressed in US Dollars)

The fair value of the share options and loan shares granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Options granted in 2015	Options granted in 2014
Expected dividend yield	Nil	Nil
Expected stock price volatility	104.04%	111.28%
Risk-free interest rate	0.58%	1.13%
Expected life of options in years	3.00	2.83

The weighted average fair value of the options granted was C$0.45 (2014 – C$0.53).

	Loan shares granted in 2015	Loan shares granted in 2014
Expected dividend yield	Nil	Nil
Expected stock price volatility	104.04%	111.28%
Risk-free interest rate	0.58%	1.13%
Expected life of loan shares in years	3.00	2.83

The weighted average fair value of the loan shares granted was C$0.45 (2014 – C$0.57).

The Black-Scholes pricing models used to price options and loan shares require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

16 Exploration Expenditures

	Year ended December 31, 2015 $	2014 $
General and administration	110,317	9,590
Geological services and field expenses	6,292,979	99,653
Mineral property fees	161,885	1,167,213
Professional services	506,808	492,024
Travel	372,165	139,078
Wages and salaries	1,792,214	1,673,724
Total operating expenses	9,236,368	3,581,282

In accordance with our policy on exploration and evaluation assets, all exploration expenditure incurred for the Solwara 1 project is capitalised to exploration and evaluation assets, with all other exploration expenditure expensed to the Statement of Loss.

(expressed in US Dollars)

In order to maintain the exploration leases, licenses and permits in which the Company is involved, the Company is expected to fulfil the minimum annual expenditure conditions under which the tenements are granted. These obligations may be varied from time to time, subject to approval, and are expected to be fulfilled in the normal course of operations of the Company. The exploration commitments are based on those exploration tenements that have been granted and may increase or decrease depending on whether additional applications are granted, relinquished or form joint ventures in the future. Based on tenements granted at December 31, 2015, total rental commitments are $0.7 million and total expenditure commitments are $29.1 million over the life of the licenses, which in the majority of cases extend to a maximum of two years, with the exception of the CCZ tenements where expenditure commitments extend to 5 years.

17 General and Administration Expenditures

	Year ended December 31, 2015 $	2014 $
Office and general	2,599,979	3,024,359
Professional services	2,652,712	1,123,702
Salary and wages	4,299,948	4,722,081
Shareholder related costs	479,808	496,497
Travel	808,680	790,068
Depreciation	807,222	1,194,460
Total general and administration expenses	11,648,349	11,351,167

18 Security Deposit Expensed

On February 2, 2015, the Company announced that it and MAC had been victims of a cyber attack by an unknown third party. The Company has engaged a cyber security consultant to investigate the cyber-attack that resulted in the Company paying a deposit of $10,000,000 owing to MAC under the vessel charter agreement to a bank account which the Company believed to be MAC's, but which MAC has advised was not its account. In the circumstances, the Company has agreed to pre-pay US$10,000,000 of the US$18,000,000 charterer's guarantee on the basis that: (i) the remaining US$8,000,000 of the charterer's guarantee will be provided to MAC by the Company on the commencement of the charter of the vessel in accordance with the original contract; and (ii) the parties have agreed to determine how to proceed in relation to the $10,000,000 deposit following the conclusion of the investigations, which may take some months.

Because of the uncertainty relating to the recovery of the deposit, the full amount was expensed as at December 31, 2014 to the statement of loss. Should the Company be able to recognise any future economic benefit attributable to the payment following the conclusion of the relevant investigations, a credit would be recorded in the statement of loss in the period of recovery.

(expressed in US Dollars)

19 Rent and Other Income

	Year ended December 31, 2015 $	2014 $
Other income	22,640	837
Rental income	103,110	228,864
Joint venture management fee	139,226	-
Capital charge	-	2,740,006
Reimbursement of exploration expenditures	-	12,068,246
Total rent and other income	264,976	15,037,953

The capital charge and the reimbursement of the exploration expenditures in 2014 represent items that were included in the purchase price paid by the State Nominee for its' 15% interest in the Solwara 1 project. The capital charge of $2.7 million was interest payable by the State Nominee under the PNG Equity Agreement in relation to interest accrued on outstanding amounts during the dispute resolution process. The amount of $12.1 million was the State Nominee's share of the exploration expenditure for the Solwara 1 project prior to the grant of the mining license. The exploration expenditures were expensed by the Company in prior years.

20 Contingencies and Commitments

a) Non-cancellable commitments

	December 31 2015 $
Non-cancellable operating leases	
Not later than 1 year	655,916
Later than 1 year and not later than 2 years	635,865
Later than 2 years and not later than 3 years	73,544,599
Later than 3 years and not later than 4 years	73,490,252
Later than 4 years and not later than 5 years	73,434,384
Later than 5 years	145,934,300
Total Commitments	367,695,316

The non-cancellable commitments as at December 31, 2015 include $365.0 million for payments to be made under the charter party arrangement with MAC for the PSV with a commencement date no later than January 1, 2018.

b) Cancellable commitments

In order to maintain the exploration leases, licenses and permits in which the Company is involved, the Company is committed to fulfil the minimum annual expenditure conditions under which the tenements are granted. These obligations may be varied from time to time, subject to approval, and are expected to be fulfilled in the normal course of operations of the Company. The exploration commitments are based on those exploration tenements that have been granted and may increase if applications are granted in the future.

The Company has entered into various contracts for the design and build of the seafloor production system. As at December 31, 2015, the committed value of the contracts is $52.9 million (equivalent). The committed value of $52.9 million reflects ongoing milestone payments for continuing contracts. The contracts are cancellable by the Company at any time, however, in the event of cancellation, the Company is liable for any costs incurred up to that point, with an estimate of costs for terminated contracts included in the accrued costs at year end. No other penalties or cancellation fees are payable under these contracts.

21 Financial risk management

The Company's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

a) Capital Management

The Company's objectives in the managing of the liquidity and capital are to safeguard the Company's ability to continue as a going concern and provide financial capacity to meet its strategic objectives. The capital structure of the Company consists of equity attributable to common shareholders, comprising of issue share capital, contributed surplus and deficit.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets to facilitate the management of its capital requirements. The Company prepares annual expenditure budgets that are updated as necessary depending upon various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. As at December 31, 2015 the Company does not have any long-term debt and is not subject to any externally imposed capital requirements. The Company has sufficient funds to meet its current operating and exploration and development obligations.

b) *Foreign exchange risk*

The Company's operations are located in several different countries, including Canada, Australia, PNG, Tonga, Solomon Islands, Fiji and New Zealand and require equipment to be purchased from several different countries. Nautilus has entered into key contracts in United States dollars, British pounds sterling and euros. Future profitability could be affected by fluctuations in foreign currencies. The Company has not entered into any foreign currency contracts or other derivatives to establish a foreign currency protection program but may consider such actions in the future.

Foreign exchange risk is mitigated by the Company maintaining its cash and cash equivalents in a "basket" of currencies that reflect its current and expected cash outflows. As at December 31, 2015 the Company held its cash and cash equivalents in the following currencies:

(expressed in US Dollars)

Currency Denomination	**% of total cash in US$ terms held**
USD	76
GBP	15
CAD	2
AUD	5
EUR	2
	100

c) Credit Risk

The company places its cash and cash equivalents only with banks with an S&P credit rating of A+ or better. Our maximum exposure to credit risk at reporting date is the carrying value of cash and cash equivalents and other receivables.

d) Liquidity Risk

The Company manages liquidity by maintaining adequate cash and short-term investment balances. In addition, the Company regularly monitors and reviews both actual and forecasted cash flows. The exposure of the Company to liquidity risk is considered to be minimal.

22 Subsequent Events

Rights offering announced to raise C$103M

On February 23, 2016 the Company announced that it had filed a short form prospectus within each province of Canada, other than Quebec, in respect of a rights offering to raise gross proceeds or up to C$103M through the issuance of rights to subscribe for an aggregate of 686,666,666 common shares at a subscription price of C$0.15 per common share.

The rights offering includes an additional subscription privilege under which holders of rights who fully exercise their rights will be entitled to subscribe for additional common shares of the Company, if available, that were not otherwise subscribed for under the rights offering. The Company has also registered the offer and sale of the shares issuable on exercise of the rights within the United States with the United States Securities and Exchange Commission on a registration statement on Form F-7 under the U.S. Securities Act of 1933, as amended.

The offering is being made to all existing shareholders in eligible jurisdictions, as disclosed in the final prospectus.

The Company's two largest shareholders, MB Holding Company LLC and Metalloinvest Holding (Cyprus) Limited, which, together with their affiliates, collectively hold approximately 48% of the outstanding common shares of the Company, have each indicated to the board of directors of the Company their present intention to participate in the offering by exercising all or a portion of their basic subscription privilege. Pursuant to applicable regulatory requirements, completion of the rights offering is not subject to raising a minimum amount of proceeds.

The net proceeds from the offering will be used by the Company to advance the construction and development of the Company's Seafloor Production System and for general working capital requirements. In order to complete the entire Seafloor Production System for initial deployment and testing operations at the Company's Solwara 1 Project, Nautilus will need to obtain additional funding.

Equipment Storage and Wet Testing Contracts

On January 18, 2016, the Company announced that it had signed agreements with United Engineering Services LLC ("UES") to provide support services associated with wet testing the Company's seafloor production equipment and storing the equipment as it is delivered from various suppliers prior to integration onto the Production Support Vessel.

UES is a wholly-owned subsidiary of MB Holding, which holds, directly or indirectly, approximately 28% of the outstanding Common Shares and has two nominee directors sitting on the Company's board (Dr. Mohammed Al Barwani and Tariq Al Barwani). Accordingly, the support services and equipment storage contracts with UES constitute a "related party transaction" of the Company under Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* ("MI 61-101").

The board of directors of the Company, excluding the two interested directors, unanimously approved the contracts with UES, and determined that the transaction is exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 in reliance on the exemptions set forth in sections 5.5(a) and 5.7(1)(a) of MI 61-101, on the basis that, at the time the transaction was agreed to, neither the fair market value of the subject matter of, nor the fair market value of the consideration for, the transaction exceeds 25% of the Company's market capitalization.