NAUTILUS MINERALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(US dollars)

The following Management Discussion and Analysis ("MD&A") has been prepared as at August 15, 2016 for the period ended June 30, 2016.

The MD&A of Nautilus Minerals Inc. (the "Company", "NMI" or "Nautilus") should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2016, and related notes thereto (the "Second Quarter 2016 Financial Statements") which have been prepared in accordance with IAS 34, Interim Financial Reporting. This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015, and the related notes thereto (the "2015 Financial Statements"), and the related annual management's discussion and analysis and the Annual Information Form on file with the Canadian provincial and territorial securities regulatory authorities.

This MD&A includes references to United States dollars, Canadian dollars, Papua New Guinea kina, United Kingdom pounds sterling and euros. All dollar amounts referenced, unless otherwise indicated, are expressed in United States dollars and the Canadian dollars are referred to as C$, Papua New Guinea kina are referred to as PGK, United Kingdom pounds sterling are referred to as £ and euros are referred to as €.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This document includes "forward-looking statements" which include all statements other than statements of historical fact.

Forward-looking statements include, but are not limited to, statements with respect to the future price of copper, gold and other metals; the estimation of mineral resources; the realization of mineral resource estimates; plans for establishing or expanding mineral resource estimates on the Company's projects; the construction and delivery of the Production Support Vessel ("PSV"); the fulfillment of the obligations under the Tongling sales agreement and the timing and sustainability of such arrangements; costs and timing of the development of the Company's seafloor production system; the Company's seafloor massive sulphide ("SMS") prospects (including Solwara 1) and new deposits; success of exploration and development activities; permitting time lines; currency fluctuations; requirements for additional capital; government regulation of exploration operations; the Company's financial position; business strategy; plans and objectives of management for future operations; the design and performance of the PSV and Seafloor Production Tools ("SPTs"); and the procurement of the PSV. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements involve known and unknown risks, uncertainties and other factors which 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 the forward-looking statements. Such factors include, among others, the risk of failure to obtain required equity or debt funding; the risk that material assumptions listed in the paragraph below will not be borne out; changes in project parameters as plans continue to be refined; any additional permitting or licensing requirements associated with any modifications to the scope of the Solwara 1 Project; future prices of copper, gold and other metals being lower than expected; the over-arching risk that the Company will not commence production of mineralized material; possible variations in resources, grade or recovery rates; the risk of failure to conclude the investigation into the cyber-attack, the inability to reach agreement with Marine Assets Corporation ("MAC") as to the deposit under the vessel charter agreement, the insolvency of MAC or the applicable shipyard and other events which may cause a delay to the delivery of the PSV; the risk that the obligations under the Tongling sales agreement are not fulfilled; late delivery of the PSV and SPTs or other equipment; variations in the cost of the PSV and SPTs or other equipment; variations in exchange rates; the failure to obtain regulatory approval for financings; changes in the cost of fuel and other inflationary factors; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities.

Such forward-looking statements are current only as at the date of this MD&A and are based on numerous material assumptions (that management believes were reasonable at the time they are made) regarding the Company's present and future business strategies and the environment in which the Company will operate in the future, including the Company's continued compliance with regulatory requirements and the estimated cost and availability of funding for the continued exploration of the Company's tenements and the development of the Seafloor Production System. The Company has also assumed that market fundamentals will result in sustained copper and gold demand and prices; that the proposed development of its mineral projects will be viable operationally and economically and proceed as expected, subject to funding; and that any additional financing needed will be available on reasonable terms. With respect to the arrangement with MAC, the Company is assuming that the parties will observe their obligations, that the investigation into the cyber-attack will reach a timely conclusion and that MAC and the Company can agree how to proceed in relation to the payment of the deposit under the vessel charter agreement.

Although the Company has attempted to identify important factors that could cause actual results to differ materially, the assumptions made may not prove to be correct or there may be unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Except as may be required by applicable laws, the Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based.

OUR BUSINESS

Overview

Nautilus is a seafloor resource exploration company and the first publicly listed company to commercially explore the ocean floor for copper, gold, silver and zinc rich seafloor massive sulphide deposits and for manganese, nickel, copper and cobalt nodule deposits. 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 the Bismarck Sea. The Solwara 1 Project and the Company's other projects are described in detail in the Company's Annual Information Form, available on SEDAR at www.sedar.com.

Nautilus' seafloor production system has the potential to open a new frontier of resource development as land-based mineral deposits continue to be depleted. Nautilus plans to become the world's first seafloor producer of copper and gold.

2016 Q2 SIGNIFICANT EVENTS

- Solwara 1 Project advanced
- Production Support Vessel construction advanced
- Rights offering completed
- Nautilus Upgrades and Increases CCZ Mineral Resource to over 685 million tonnes and releases a NI 43-101 Technical Report on Polymetallic Nodules
- Change of Chairman

Solwara 1 Project advanced

During the second quarter of 2016, the Company continued to advance the Solwara 1 Project and in particular, the three key equipment contracts.

Project Build Progressed

The Auxiliary Cutter, Bulk Cutter and Collecting Machine completed shipping from Soil Machine Dynamics in Newcastle, England to Duqm port in Oman where they are being stored.

General Marine Contractors in Houston completed fabrication of the riser system and associated running tools during the period; at quarter end all work was mechanically complete with one item still to undergo Factory Acceptance Testing ("FAT") before the material will be placed in storage.

GE Hydril completed the FAT of the Subsea Slurry Lift Pump ("SSLP") in June 2016. It has been decided to hold the equipment in Houston with the possibility of performing some additional flow testing at its current location. The equipment is to be delivered in November 2016.

Progress on the contract with Sichuan Hong Hua Petroleum Ltd to fabricate the riser handling equipment continued throughout the quarter. The seawater pumping systems and associated equipment were delivered to the shipyard for installation into the vessel.

Community Activities

Nautilus continued the 2016 stakeholder engagement program in PNG during Q2 2016. During the quarter Nautilus held meetings with Ward Members and Local Level Government representatives, Working Group meetings with both New Ireland and East New Britain Provincial Governments and community awareness sessions. Maintaining our multi stakeholder approach, representatives from national government agencies were invited to attend community awareness meetings.

In collaboration with the New Ireland Provincial Government, Nautilus has continued to implement its water and sanitation program, initially focusing on schools. The plan will see 27 schools located nearest to the Solwara 1 Project site receive the program. Each school will receive health and hygiene training, along with new facilities which will provide students and teachers with a reliable supply of fresh water and access to sanitation facilities. During the quarter another three schools hosted the program, Matakan Elementary and Tubuana Elementary and Primary schools. At the end of Q2 2016, a total of 18 schools have been completed with a further two to be completed by the end of this year. The remaining seven schools, which currently fail to meet Nautilus' requirements to receive the program, will be audited during Q4 to assess their progress towards meeting the Company's criteria.

During Q2, Nautilus made positive progress on their Education Baseline Study, which was delivered in the schools (Primary, Elementary and Community) located nearest to the Solwara 1 Project as well as the Namatanai Secondary School. The final Study Report, which analysed data collected during the field work and reported against government policies and standards, was finalised and approved during Q2. This report identifies opportunities and a path forward for Nautilus and NIPG to improve educational outcomes.

Production Support Vessel construction advanced

Vessel basic design has continued, with the majority of drawings having been submitted to the classification society and approvals are well advanced. This will ensure the PSV is being designed and built in accordance with classification society rules. Keel laying was completed on June 10, 2016. Out of a total of 335 blocks for the ship, the Shipyard has issued drawings for 301 blocks of which 292 blocks have been cut representing 19,000 tonnes (95%) steel. 202 blocks have completed or in assembly with 169 of these having completed the painting stage. A total of 79 completed blocks have been lifted into the dry-dock for erection.

The orders for all major long lead items are in place and major equipment such as main engines, generators, thrusters and electrical equipment have been delivered to the shipyard.

C$28.3M raised through rights issue

On April 8, 2016 the Company received gross proceeds of C$28.3 million as a result of the closing of its rights offering through the issuance of an aggregate of 188,425,531 common shares at the subscription price of C$0.15 per share, representing approximately 27% of the total shares on offer.

The Company's largest shareholder, MB Holding Company LLC ("MB") participated in the rights offering, through its subsidiary Mawarid Offshore Mining Ltd., by partially exercising its basic subscription privilege. MB, together with its affiliates, now holds approximately 27% (previously 28%) of the Company's outstanding shares. The Company's second largest shareholder, Metalloinvest Holding (Cyprus) Limited, together with its affiliates, did not participate in the rights issue, and now holds approximately 15% (previously 21%) of the Company's outstanding shares (in each case excluding outstanding loan shares).

The net proceeds from the rights offering will be used by the Company as set forth under "Use of Proceeds" in the Company's final prospectus dated February 23, 2016.

<u>Nautilus Upgrades and Increases CCZ Mineral Resource to over 685 million tonnes and releases a NI 43-101 Technical Report on Polymetallic Nodules</u>

On May 26, 2016 the Company announced that its wholly owned subsidiary, Tonga Offshore Mining Limited ("TOML"), upgraded its Mineral Resource estimate for its polymetallic nodule project to include portions in the Inferred, Indicated and Measured categories. This follows on from the successful completion of exploration campaigns in the Clarion-Clipperton Fracture Zone ("CCZ") in the Central Pacific in 2013 and late 2015.

The Mineral Resource includes portions in the Inferred, Indicated and Measured categories and has been reported in the table below. The Mineral Resource estimate at an abundance cut-off of 6 wet kg/m^2 is the selected base case scenario considering a non-selective bulk mining operation. Mr Mathew Nimmo, independent Qualified Person ("QP") for the project, has assessed the available information regarding mining and processing of the polymetallic nodules and concluded that there are reasonable prospects for economic extraction. The effective date for the estimate is March 30, 2016.

Mineral Resource Estimate for TOML Areas A-F within the Clarion-Clipperton Fracture Zone

Mineral Resource Classification	Abundance (wet kg/m^2)	Mn (%)	Ni (%)	Cu (%)	Co (%)	Polymetallic Nodules (x10^6 wet t)*
Measured	11.81	27.57	1.33	1.05	0.23	2.6
Indicated	12.19	30.32	1.35	1.18	0.21	68.1
Inferred	11.52	29.05	1.29	1.14	0.20	685.3

NOTE: *Abundance cut-off of 6 wet kg/m2 used. As the nodules effectively form a single layer on the seafloor, "abundance" (kg/m^2) is used to define the mineral resource tonnage. Variations in totals are due to rounding of individual values Mn, Ni, Cu and Co assays on samples dried at 105° C. Moisture content of nodules is estimated at 29% (free water removed after drying at 105°C).

On July 4, 2016 the Company filed on SEDAR a technical report, entitled "NI 43-101 Technical Report TOML Clarion Clipperton Zone Project, Pacific Ocean" (Technical Report).

The Technical Report describes in detail the abovementioned upgrade and increase in the Mineral Resource estimate for TOML's polymetallic nodule project and also provides more information regarding the exploration, technical aspects and historical work completed in the Clarion Clipperton Zone.

All scientific or technical information contained in this MD&A has been reviewed and approved by Michael Johnston, President and CEO, who is a qualified person under National Instrument 43-101.

Change of Chairman

On May 27, 2016 the Company announced that Mr. A. Geoffrey Loudon advised the Board that he was retiring and would not stand for re-election at the Annual General Meeting held on June 1, 2016.

Mr. Loudon enjoyed a long history with Nautilus, having been Chairman of the Board of Directors since the Company listed on the Toronto Stock Exchange in 2006 and for the 10 years prior to that, having been a founding investor and active participant in the strategic development and growth of the Company.

The Board of Directors appointed Mr. Russell Debney to replace Mr. Loudon as Chairman. Mr. Debney has been a director of the Company since it listed in 2006. He was Chairman of Nautilus Minerals Niugini Limited and Nautilus Minerals Oceania Limited prior to their acquisition by the Company and has been involved with Nautilus almost since its inception.

Cost Cutting Measures Implemented

As previously disclosed, the Company requires significant additional funding in order to complete the build and deployment of the seafloor production system to be utilized at the Solwara 1 Project by the Company and its joint venture partner (as to 15%), the Independent State of Papua New Guinea's nominee.

In view of the Company's funding requirements, the Company and its operating subsidiaries continue to explore alternatives for securing immediate bridge financing to facilitate the time required to secure the significant additional project funding that is needed and/or to explore alternative transactions aimed at maximizing shareholder value. However, there can be no assurances that the Company will be able to obtain the necessary bridge financing or project financing on acceptable terms or at all.

The Company has reviewed all aspects of its business during this process and as result, has, following the end of the quarter, implemented certain measures aimed at preserving the Company's capital position. These measures include reducing the Company's workforce, terminating contracts for the construction of any seafloor production equipment that was in the early stages of development and not entering into any new construction contracts until the additional funding required is secured.

RISK FACTORS

Nautilus' ability to generate revenues and achieve a return on shareholders' investment must be considered in light of the early stage nature of the Solwara 1 deposit and seafloor resource production in general. The Company is subject to many of the risks common to early stage enterprises, including personnel limitations, financial risks, metals prices, permitting and other regulatory approvals, the need to raise capital, resource shortages, lack of revenues, equipment failures and potential disputes with, or delays or other failures caused by third party contractors or joint venture partners. Substantial expenditures are required to discover and establish sufficient resources and to develop the mining and processing facilities and infrastructure at any site chosen for mining. There can be no assurance that the Company will be able to raise sufficient financing to facilitate this development. The Company's existing funds are not sufficient to bring the Solwara 1 Project into production and there can be no assurance that additional sources of finance will be available to the Company. As the Company has not completed an economic study in respect of the Solwara 1 Project, there can be no assurance that the Company's production plans will, if fully funded and implemented, successfully demonstrate that seafloor resource production is commercially viable. Other factors that influence the Company's ability to succeed are more fully described in the Company's 2015 Annual Information Form available on www.sedar.com, under the heading "Risk Factors". See also the factors discussed under "Cautionary Note Regarding Forward Looking Statements" above.

SUMMARY OF QUARTERLY RESULTS (unaudited)

The following table sets out selected unaudited quarterly financial information of Nautilus and is derived from unaudited quarterly condensed consolidated interim financial statements prepared by management and expressed in US dollars in accordance with International Financial Reporting Standards ("IFRS") applicable to interim financial reports.

		2014		2015				2016	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	$'M	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Loss for the period	$'M	(4.6)	(2.0)	(4.1)	(7.5)	(8.3)	(5.0)	(3.6)	(3.7)
Basic and diluted loss per share	$/share	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.01)	(0.01)	(0.01)

As Nautilus is currently a pre-production entity engaging in exploration activities there is a significant amount of variability in the quarterly expenditure of the Company depending on the timing of contract milestones and exploration campaigns. Below is a summary of the more significant fluctuations in results, excluding those resulting from foreign exchange movements:

Q2 2015
The loss for the period reflected a significant increase in exploration expenditure to $3.3 million for the quarter as the Company works to progress exploration work in the Solomon Islands.

Q3 2015
The loss for the period reflected a significant increase in exploration expenditure to $3.9 million for the quarter as the Company completed exploration work in the Solomon Islands and commenced resource evaluation and environmental baseline field work in the CCZ.

Q4 2015
The loss for the period reflected a significant decrease in exploration expenditure to $1.5 million dollars for the quarter as the Company completed the resource evaluation and environmental baseline field work in the CCZ.

Q1 2016
The loss for the period reflected a decrease in exploration expenditure to $0.7 million with current exploration campaigns completed in Q4 2015. No new campaigns were undertaken in Q1 2016. G&A expenditure decreased to $2.2 million due to a decrease in professional fees and travel expenses.

RESULTS OF OPERATIONS – FOR THE THREE MONTHS ENDED JUNE 30, 2016

The following discussion provides an analysis of the financial results of Nautilus:

Loss for the period

For the three months ended June 30, 2016, the Company recorded a loss of $3.7 million ($0.01 loss per share) compared to a loss of $7.5 million ($0.02 loss per share) for the same period in 2015. The primary variances were as follows:

Exploration
Exploration expense decreased to $0.9 million (2015 - $3.3 million), with no exploration campaigns undertaken in the current quarter, compared to the previous year, which included costs for a campaign to the Solomon Islands and preliminary expenditure for the CCZ campaign in Q3 2015.

	Nodule Exploration Three months ended June 30,		**SMS Exploration Three months ended June 30,**		**Total Exploration Three months ended June 30,**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
General and administration	-	-	11,954	9,101	11,953	9,101
Geological services	138,893	855,420	238,157	1,607,852	377,050	2,463,272
Mineral property fees	186	-	19,950	4,165	20,136	4,165
Professional services	13,675	96,707	64,754	101,897	78,429	198,604
Travel	19,517	28,386	26,772	105,833	46,290	134,219
Salary and wages	134,501	125,175	259,625	348,241	394,126	473,416
Total exploration expenditure	**306,772**	**1,105,688**	**621,212**	**2,177,089**	**927,984**	**3,282,777**

General & Administration
General & Administration expenditure decreased to $2.3 million (2015 - $3.1 million). Professional fees decreased due to a reduced work in relation to network monitoring and investigation of the cyber attack that occurred in Q4 2014, the decrease in office and general reflects the reduced office lease costs under the new lease that was effective July 1, 2015 and depreciation expense has decreased due to the full depreciation of Leasehold improvements at June 30, 2015.

	Three months ended June 30, 2016	**Three months ended June 30, 2015**
Office and general	559,491	849,558
Professional services	224,583	439,816
Salary and wages	1,018,610	1,039,127
Shareholder related costs	201,375	94,164
Travel	166,132	270,501
Depreciation	84,425	371,616
Total general and administration expenditure	**2,254,616**	**3,064,782**

Corporate Social Responsibility
Corporate Social Responsibility expense remained consistent at $0.3 million (2015 - $0.3 million) for the quarter.

Technology
Technology expense was consistent at $0.1 million (2015 - $0.1 million) for the quarter.

Development
Development expenses increased to $0.6 million (2015 - $0.3 million) due to increased consultant and contractor fees related to design and manufacture of the PSV build.

Foreign exchange
A foreign exchange gain of $0.3 million was recorded during the quarter (2015 – $0.5 million loss). The foreign exchange gain consists of realized gains and losses on actual cash transactions during the period and unrealized gains and losses on cash denominated in different currencies at the period end. The Company holds a “basket of currencies” to act as a natural hedge against its expected cash outflows and can therefore experience unrealized fluctuations at period end when cash balances are converted to US dollars for reporting purposes, as experienced during the current quarter.

Interest income
Interest income earned on cash and cash equivalents held during the period was $0.02 million (2015 - $0.04 million). The Company maintains its cash and cash equivalents with banks with an S&P rating of A+ or better.

Other income
Other income of $0.1 million was consistent (2015 – $0.1 million), with the current year including management fee income charged to the joint venture.

Operating Losses
Overall, Nautilus’ operating loss decreased to $3.8 million for the three months ended June 30, 2016, compared to $7.6 million for the corresponding period in 2015. When adjusting the current period operating loss for the respective foreign currency exchange movements, the actual operating loss was $4.1 million (2015 - $7.1 million).

RESULTS OF OPERATIONS – FOR THE SIX MONTHS ENDED JUNE 30, 2016

The following discussion provides an analysis of the financial results of Nautilus:

Loss for the period

For the six months ended June 30, 2016, the Company recorded a loss of $7.3 million ($0.01 loss per share) compared to a loss of $11.6 million ($0.03 loss per share) for the same period in 2015. The primary variances were as follows:

Exploration
Exploration expense decreased to $1.7 million (2015 - $3.8 million) for the six months ended June 30, 2016, with no exploration campaigns undertaken in the current period, compared to the previous year, which included bathymetry mapping and plume hunting activities in the Solomon Islands and preliminary costs in relation to the CCZ resource evaluation work that was conducted in Q3 2015.

	Nodule Exploration Six months ended June 30,		SMS Exploration Six months ended June 30,		Total Exploration Six months ended June 30,	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
General and administration	-	-	22,609	18,312	22,609	18,312
Geological services	186,187	856,590	326,449	1,620,775	512,636	2,477,365
Mineral property fees	47,186	47,000	115,374	6,147	162,560	53,147
Professional services	21,824	120,229	72,618	120,042	94,442	240,271
Travel	24,146	46,213	53,490	136,491	77,636	182,704
Salary and wages	198,046	184,695	595,216	680,775	793,262	865,470
Total exploration expenditure	**477,389**	**1,254,727**	**1,185,756**	**2,582,542**	**1,663,145**	**3,837,269**

General & Administration

General & Administration expenditure decreased to $4.4 million (2015 - $6.4 million). The majority of the reduced expenditure was in professional fees, due to a significant reduction in work relating to network monitoring and investigation of the cyber attack that occurred in Q4 2014, the decrease in office and general reflects the reduced office lease costs under the new lease that was effective July 1, 2015 and depreciation expense has decreased due to the full depreciation of Leasehold improvements at June 30, 2015.

	Six months ended June 30, 2016	**Six months ended June 30, 2014**
Office and general	1,097,602	1,484,049
Professional services	541,016	1,415,702
Salary and wages	2,017,332	2,103,574
Shareholder related costs	349,950	290,692
Travel	249,675	453,029
Depreciation	167,039	655,547
Total general and administration Expenditure	**4,422,614**	**6,402,593**

Corporate Social Responsibility

Corporate Social Responsibility expense increased to $0.6 million (2015 - $0.5 million) for the six months ended June 30, 2016, with increased costs for community engagement during the current period.

Technology

Technology expense decreased to $0.1 million (2015 - $0.2 million) for the six months ended June 30, 2016. This was driven primarily by exchange rate movements.

Development

Development expenses increased to $1.1 million (2015 - $0.6 million) for the six months ended June 30, due to increased consultant and contractor fees related to design and manufacture of the PSV build.

Foreign exchange

A foreign exchange gain of $0.4 million was recorded during the six months ended June 30, 2016 (2015 – $0.3 million loss). The foreign exchange loss consists of realized gains and losses on actual cash transactions during the period and unrealized gains and losses on cash denominated in different currencies at the period end. The Company holds a “basket of currencies” to act as a natural hedge against its expected cash outflows and can therefore experience unrealized fluctuations at period end when cash balances are converted to US dollars for reporting purposes, as experienced during the current period.

Interest income
Interest income earned on cash and cash equivalents held during the six months ended June 30, 2016 was $0.1 million (2015 - $0.1 million). The Company maintains its cash and cash equivalents with banks with an S&P rating of A+ or better.

Other income
Other income decreased to $0.1 million (2015 – $0.2 million) for the six months ended June 30, 2016, due to the cessation of the office sub lease in 2015.

Operating Losses
Overall, Nautilus' operating loss decreased to $7.4 million for the six months ended June 30, 2016, compared to $11.9 million for the corresponding period in 2015. When adjusting the current period operating loss for the respective foreign currency exchange movements, the actual operating loss was $7.8 million (2015 $11.6 million), with the major impact coming from the reduced exploration expenditure and reduced professional service fees in relation to network monitoring and investigation of the cyber attack that occurred in Q4 2014.

Cash flows

Operating activities
Cash used in operating activities was $6.3 million for the six months ended June 30, 2016 compared to $8.9 million for the corresponding period in 2015, largely reflecting the decrease in exploration expenditures and reduced professional service fees in the period.

Investing activities
Cash used in investing activities was $20.5 million for the six months ended June 30, 2016, including $7.1 million in relation to the SPT's,. $5.7 million for the riser and lifting system and $5.7 million for project services and operations mobilisation, compared to $24.9 million for the corresponding period in 2015.

Financing activities
Cash flow from financing activities was $21.5 million for the six months ended June 30, 2016 and was nil for the corresponding period 2015. Funds were raised through a rights offering that closed April 2016.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial objective is to ensure that it has sufficient liquidity in the form of cash and/or debt capacity to finance its ongoing requirements.

Key financial measures

The Company uses the following key financial measures to assess its financial condition and liquidity:

	June 30, 2016	**June 30, 2015**
Working Capital	$26.6 million	$57.5 million
Cash and Cash Equivalents	$51.3 million	$84.6 million

Under the Company's Investment Policy, cash cannot be invested for more than 90 days and must be held on deposit with banks with an S&P credit rating of A+ or better.

Outlook, liquidity risk and capital requirements

The Company's known contractual obligations at June 30, 2016, are quantified in the table below:

	June 30, 2016 $
Non-cancellable commitments	
Not later than 1 year	709,170
Later than 1 year and not later than 2 years	671,823
Later than 2 years and not later than 3 years	73,549,982
Later than 3 years and not later than 4 years	73,516,426
Later than 4 years and not later than 5 years	73,170,327
Later than 5 years	145,934,300
Total Commitments	367,552,028

The non-cancellable commitments as at June 30, 2016 include the payments to be made under the charter party arrangement with MAC for the PSV with a commencement date no later than January 1, 2018.

The Company is involved in mineral exploration which is a high risk activity and relies on results from each exploration program to determine if areas justify any further exploration and the extent and method of appropriate exploration to be conducted.

The Company has no source of revenue and requires significant additional funding to be able to complete the build and deployment of the seafloor production system to be utilized at the Solwara 1 Project by the Company and its joint venture partner (as to 15%), the Independent State of Papua New Guinea's nominee.

In view of the Company's funding requirements, the Company has decided to delay project spending to facilitate the time required to secure the significant additional project funding that is needed and/or to explore alternative transactions aimed at maximizing shareholder value.

There can be no assurances that the Company will be able to obtain the necessary project financing on acceptable terms or at all. Failure to secure project financing may result in the Company taking various steps aimed at maximizing shareholder value, including suspending or terminating the development of the seafloor production system and the Solwara 1 Project, and engaging in various transactions including, without limitation, asset sales, joint ventures and capital restructurings.

There can be no assurances that any transaction will result from these matters and the Company will provide updates as circumstances warrant. Any transaction(s) will be subject to all necessary stock exchange and, if applicable, shareholder approvals as well as compliance with all other regulatory requirements.

The Company previously disclosed that the construction and development of the entire seafloor production system for initial deployment and testing operations at the Solwara 1 Project, was scheduled to occur during the first quarter of 2018 based on the Company's project timetable and subject to securing additional project funding. However, since, as indicated above, the necessary additional project funding has not been secured, the Company now believes that, in the event that the required funding is secured and the Company is able to continue development of the Solwara 1 Project, the schedule would be delayed but the Company is unable to determine the extent of the delay at this time.

While the Company has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future. Nautilus' opinion concerning liquidity and its ability to avail itself in the future of the financing options mentioned above are based on currently available information. To the extent that this information proves to be inaccurate, future availability of financing may be adversely affected.

Factors that could affect the availability of funding include Nautilus' performance (as measured by various factors including the progress and results of its exploration work), the state of international debt and equity markets, investor perceptions and expectations of past and future performance, the global financial climate, metal and commodity prices, political events in the south Pacific, obtaining operating approvals from the PNG government for the Solwara 1 Project, drilling and metallurgical testing results on the Company's tenements, ongoing results from environmental studies, engineering studies and detailed design and delivery of equipment.

Foreign currency exchange rate risk

The Company's operations are located in several different countries, including Canada, Australia, PNG, Tonga and Solomon Islands and require equipment to be purchased from several different countries. Nautilus has entered into key contracts in United States dollars and British pounds sterling. 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 in a "basket" of currencies that reflect its current and expected cash outflows. As at June 30, 2016 the Company held its cash in the following currencies:

Currency Denomination	% of total cash in US$ terms held
USD	55
GBP	5
CAD	32
AUD	7
EUR	1
	100

Interest rate risk

The Company holds cash and cash equivalents which earn interest at variable rates as determined by financial institutions. As at June 30, 2016, with other variables unchanged, a 0.1% increase (decrease) in the interest rate would have no significant effect on comprehensive loss.

Credit risk

The Company places its cash only with banks with an S&P credit rating of A+ or better.

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents and other receivables.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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 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 estimation is contained in the accounting policies and notes to the financial statements, and the key areas are summarized below.

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

Review of asset carrying values and impairment assessment
Property, plant and equipment and exploration and evaluation assets are considered for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. If an 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 dispose and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The determination of fair value less costs to sell and value in use requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, mineral resources, operating costs and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these assumptions, which may impact the recoverable amount of the assets.

In considering whether any impairment indicators occurred in respect of the Company's long lived assets as at June 30, 2016, management took into account a number of factors such as 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 that there are no impairment indicators relating to the Company's long-lived assets as at June 30, 2016.

FUTURE ACCOUNTING CHANGES

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2016 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 these standards did 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.

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.

OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as of August 15, 2016.

Common shares

A total of 628,293,396 common shares are outstanding including 5,850,000 restricted shares.

Restricted shares

A total of 5,850,000 restricted shares are issued and outstanding under the Company's share loan plan, with loan expiry dates ranging from October 2016 through to July 2018. The weighted average issue price for the restricted shares is C$0.56.

Stock Options

A total of 3,650,000 stock options are issued and outstanding, with expiry dates ranging from October 2016 through to July 2018. The weighted average exercise price for all stock options is C$0.49. All stock options entitle the holders to purchase common shares of the Company.

INTERNAL CONTROLS

Internal control over financial reporting

There have been no material changes in the Company's internal control over financial reporting since the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ADDITIONAL SOURCES OF INFORMATION

Additional information regarding Nautilus Minerals Inc., including its Annual Information Form, is available on SEDAR at www.sedar.com and on the Company's website www.nautilusminerals.com.