

Nautilus Minerals Inc.

(an exploration stage company)

Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2016 and September 30, 2015

(Expressed in US Dollars)

(Unaudited)

Nautilus Minerals Inc.

Consolidated Statements of Financial Position

(expressed in US Dollars)

(unaudited)

	September 30, 2016 \$	December 31, 2015 \$
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	34,138,561	56,456,820
Prepaid expenses and advances	875,427	730,187
	35,013,988	57,187,007
Non-current assets		
Restricted cash (Note 7)	543,308	516,144
Prepaid expenses and advances (Note 10)	8,500,000	8,500,000
Property, plant and equipment (Note 9)	219,142,170	198,167,119
Exploration and evaluation assets (Note 8)	51,114,412	47,263,716
	279,299,890	254,446,979
TOTAL ASSETS	314,313,878	311,633,986
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	6,726,760	8,870,120
Project partner contribution (Note 6)	3,613,596	16,104,471
Provision for employee entitlements	504,530	859,673
	10,844,886	25,834,264
Non-current liabilities		
Accounts payable and accrued liabilities (Note 5)	3,978,285	4,563,233
Project partner contribution (Note 6)	56,494,564	48,522,297
Provision for employee entitlements	340,495	582,128
	60,813,344	53,667,658
TOTAL LIABILITIES	71,658,230	79,501,922
Equity (Note 12)		
Share Capital	535,626,519	514,161,841
Contributed Surplus	50,658,163	50,368,719
Deficit	(343,629,034)	(332,398,496)
Total Equity	242,655,648	232,132,064
TOTAL LIABILITIES AND EQUITY	314,313,878	311,633,986

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 condensed interim consolidated financial statements

Nautilus Minerals Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the three and nine months ended September 30, 2016 and 2015

(expressed in US Dollars)

(Unaudited)

	Three months ended September 30, 2016 \$	Three months ended September 30, 2015 \$	Nine months ended September 30, 2016 \$	Nine months ended September 30, 2015 \$
Operating expenses				
Exploration (Note 13)	314,987	3,902,764	1,978,132	7,740,033
General and administration (Note 14)	3,262,107	2,726,111	7,684,721	9,128,704
Corporate social responsibility	189,343	690,186	746,906	1,186,877
Technology	77,382	86,675	223,602	303,528
Development	243,240	443,689	1,300,636	1,055,599
Foreign exchange (gains)/losses	(85,921)	546,706	(489,701)	833,500
Operating loss	4,001,138	8,396,131	11,444,296	20,248,241
Interest income	(4,419)	(62,206)	(56,671)	(150,602)
Rent and other income	(34,108)	(41,665)	(157,087)	(219,730)
Loss and comprehensive loss for the period	3,962,611	8,292,260	11,230,538	19,877,909
Weighted average number of shares outstanding, basic and diluted	628,336,439	445,702,865	564,844,139	445,455,246
Loss per share				
Basic and diluted	0.01	0.02	0.02	0.05

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

Nautilus Minerals Inc.

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2016 and 2015

(expressed in US Dollars)

(Unaudited)

	Nine Months ended September 30, 2016 \$	Nine Months ended September 30, 2015 \$
Operating activities		
Loss for the period	(11,230,538)	(19,877,909)
Adjustments for:		
Depreciation and amortization	247,225	726,020
Unrealized foreign exchange (gain) loss	(260,899)	991,683
Share-based payments	289,444	1,194,305
Changes in non-cash working capital:		
Prepaid expenses and advances	(145,240)	(643,198)
Accounts payable and accrued liabilities	(1,587,355)	995,046
Net cash used in operating activities	<u>(12,687,363)</u>	<u>(16,614,053)</u>
Investing activities		
Restricted cash	(27,164)	93,445
Charterers guarantee payment	-	(10,000,000)
Purchase of plant and equipment	(26,500,089)	(17,780,440)
Exploration and evaluation assets	(4,829,220)	(4,628,523)
Net cash used in investing activities	<u>(31,356,473)</u>	<u>(32,315,518)</u>
Financing activities		
Issuance of shares for cash – net of issue costs	21,464,678	7,363
Net cash generated from financing activities	<u>21,464,678</u>	<u>7,363</u>
Effect of exchange rate changes on cash and cash equivalents	260,899	(991,683)
Decrease in cash and cash equivalents	(22,318,259)	(49,913,891)
Cash and cash equivalents - Beginning of period	<u>56,456,820</u>	<u>118,770,134</u>
Cash and cash equivalents - End of period (Note 4)	<u>34,138,561</u>	<u>68,856,243</u>

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

Nautilus Minerals Inc.

Consolidated Statements of Changes in Equity

(expressed in US Dollars)

(Unaudited)

	Share capital		Contributed	Deficit	Total
	Number of	Amount	Surplus		equity
	shares	\$	\$	\$	\$
Balance					
January 1, 2016	445,502,865	514,161,841	50,368,719	(332,398,496)	232,132,064
Rights issue (Note 12)	188,425,531	21,464,678	-	-	21,464,678
Expiration of loan shares	(5,635,000)	-	-	-	-
Share-based payments	-	-	289,444	-	289,444
Loss for the period	-	-	-	(11,230,538)	(11,230,538)
Balance					
September 30, 2016	628,293,396	535,626,519	50,658,163	(343,629,034)	242,655,648
Balance					
January 1, 2015	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	-	-	1,194,305	-	1,194,305
Transfer of value on exercise of Loan shares	-	4,660	(4,660)	-	-
Issue of shares in Share Loan Plan	400,000	-	-	-	-
Loss for the period	-	-	-	(19,877,909)	(19,877,909)
Balance					
September 30, 2015	445,702,865	514,161,841	50,086,324	(327,394,075)	236,854,090

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

Nautilus Minerals Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(expressed in US Dollars)

(Unaudited)

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 and funding requirements will be the extraction of copper, zinc, gold and silver deposits where there are economically viable discoveries.

The Company’s condensed interim 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

Nautilus Minerals Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(expressed in US Dollars)

(Unaudited)

2 Liquidity Risk

Liquidity Risk

These condensed interim consolidated 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 April 8, 2016 the Company received gross proceeds of C\$28.3M following the closing of its rights offering through the issuance of 188,425,531 common shares at the subscription price of C\$0.15 per share.

On August 21, 2016, the Company entered into a subscription agreement with Mawarid Offshore Mining Ltd. ("Mawarid") and Metalloinvest Holding (Cyprus) Limited ("Metallo"), and together with Mawarid, the "Purchasers") whereby the Purchasers agreed to purchase, on a private placement basis (the "Private Placement"), such number of common shares of the Company, as is necessary to raise gross proceeds of up to US\$20 million. Pursuant to the Subscription Agreement, the Private Placement will close in tranches, on a monthly basis, during the period from December 1, 2016 through to November 30, 2017 (the "Financing Period"), at the election of the Company.

The Company will determine the amount of funds to be raised under each tranche during each month of the Financing Period, subject to the limitations of receiving maximum subscription proceeds of US\$2.0 million per month and an aggregate maximum total amount of US\$20 million during the entire Financing Period.

Shares will be issued under each tranche at a price that is equal to the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange (the "TSX") for the 5-day period immediately prior to the date the Company issues the Purchasers a notice that the tranche will proceed. Closing of the bridge financing has been provisionally approved by the TSX. The subscription agreement was voted upon at the Extraordinary General Meeting (EGM) on October 26, 2016 and was approved by the shareholders. We await final approval formalities by the TSX.

The Company has no source of revenue and requires significant additional funding (in addition to the Private Placement) 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.

For the purposes of seeking the additional funding required and in order to continue operating during the Financing Period, the Company will implement a restructuring plan as outlined in the Management, Discussion and Analysis accompanying these Financial Statements.

There can be no assurances that the Company will be able to obtain the necessary project financing on acceptable terms or at all to complete the Solwara 1 Project. 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.

Nautilus Minerals Inc.

Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited)

The Company previously disclosed that in the event that the required bridge financing is secured and the Company is able to continue development of the Solwara 1 Project, the schedule would be delayed. The Company has now secured the necessary bridge financing to facilitate the time required to secure that additional required funding to complete the development of the Solwara 1 Project. If the additional required funding is secured by June 2017 and subject to ongoing detailed planning, the Company could be in a position to commence the initial deployment and testing operations at the Solwara 1 Project by the end of Q1 2019.

With the implementation of the restructure plan, Nautilus expects that cash and cash equivalents will be sufficient to pay for capital expenditure commitments and general and administrative costs for at least the next 12 months. Depending upon future events, the rate of expenditures and other general and administrative costs could increase or decrease. The Company continues to evaluate a range of alternative options available to it to access capital to fund future expenditures.

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 Company's ability to meet the conditions necessary to close the Private Placement, 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.

3 Basis of preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, IAS 34: Interim Financial Statements, and do not contain all of the information required for annual financial statements and should be read in conjunction with the most recent annual audited financial statements of the Company. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements.

These condensed interim consolidated financial statements were approved on 27 October, 2016 by the Board of Directors.

4 Cash and cash equivalents

	September 30, 2016 \$	December 31, 2015 \$
Cash	19,074,345	7,772,514
Term Deposits	15,064,216	48,684,306
	<u>34,138,561</u>	<u>56,456,820</u>

Nautilus Minerals Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(expressed in US Dollars)

(Unaudited)

5 Accounts payable and accrued liabilities

	September 30, 2016 \$	December 31, 2015 \$
<i>Current</i>		
Accounts Payable	1,017,219	925,693
Accrued Liabilities	2,592,266	3,350,734
Retention Payable	3,117,275	4,593,693
	<u>6,726,760</u>	<u>8,870,120</u>
	September 30, 2016 \$	December 31, 2015 \$
<i>Non-current</i>		
Retention Payable	<u>3,978,285</u>	<u>4,563,233</u>
	<u>3,978,285</u>	<u>4,563,233</u>

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.

Nautilus Minerals Inc.

Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited)

6 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. The current portion of the liability has reduced considerably as a result of the Solwara 1 project delivery restructure.

	September 30, 2016 \$	December 31, 2015 \$
Opening Balance	64,626,768	70,906,854
Prepaid Charterers Guarantee	-	(1,500,000)
Subsea equipment under construction	(3,707,464)	(3,665,350)
Exploration and evaluation asset	(679,534)	(975,511)
Management Fee	(131,610)	(139,226)
Total project partner contribution	60,108,160	64,626,768
Current project partner contribution	3,613,596	16,104,471
Non Current Project partner contribution	56,494,564	48,522,297

7 Restricted cash

\$543,308 (December 31, 2015 - \$516,144) has been provided as security for leases and tenements held in Papua New Guinea and Fiji.

8 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 fair value of \$12,213,367 to Barrick Gold Inc.

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 10) 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 the Solwara 1 exploration and evaluation assets.

Nautilus Minerals Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(expressed in US Dollars)

(Unaudited)

	September 30, 2016 \$	December 31, 2015 \$
Opening balance	47,263,716	41,735,818
Boat charter and fuel	24,114	150,856
Engineering services	626,489	998,006
Environmental consulting	288,816	561,868
Project management and oversight	2,869,228	3,652,672
Geological services and field expenses	-	143,776
Mineral property fees	42,049	20,720
	3,850,696	5,527,898
Closing balance	51,114,412	47,263,716

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.

9 Property, plant and equipment

Period ended September 30, 2016

	Opening Cost Balance \$	Additions \$	Disposals \$	Closing Cost Balance \$	Accum Dep'n \$	Closing Carrying Value \$
Leasehold improvements	69,950	-	-	69,950	(60,638)	9,312
Plant and equipment	975,514	88,181	-	1,063,695	(728,589)	335,106
Office equipment	3,059,263	59,552	(4,033)	3,114,782	(2,793,372)	321,410
Motor vehicles	237,426	69,609	-	307,035	(159,814)	147,221
Land	466,969	-	-	466,969	-	466,969
Subsea equipment under construction (Note 10)	196,853,189	21,008,963	-	217,862,152	-	217,862,152
Total property, plant & equipment	201,662,311	21,226,305	(4,033)	222,884,583	(3,742,413)	219,142,170

Nautilus Minerals Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(expressed in US Dollars)

(Unaudited)

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 10)	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

10 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
	238,486,612	202,713,620	35,772,992

The table below presents the carrying value of the project assets as at September 30, 2016.

	100%	Nautilus 85%	State Nominee 15%
Prepaid Charterers Guarantee	10,000,000	8,500,000	1,500,000
Subsea equipment under construction	256,308,414	217,862,152	38,446,262
Exploration and evaluation assets	44,423,809	37,760,238	6,663,571
	310,732,223	264,122,390	46,609,833

Nautilus Minerals Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(expressed in US Dollars)

(Unaudited)

As at September 30, 2016 Nautilus Minerals Inc recognised its share of the joint venture assets as follows.

	September 30, 2016 \$	December 31, 2015 \$
Prepaid Charterers Guarantee	8,500,000	8,500,000
Subsea equipment under construction (Note 9)	217,862,152	196,853,189
Exploration and evaluation assets (Note 8)	37,760,238	33,909,546
	<u>264,122,390</u>	<u>239,262,735</u>

11 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 LLC ("UES"), a wholly owned subsidiary of MB Holding Company LLC ("MB Holding"), one of the Company's major shareholders. 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 period ended September 30, 2016 the Company incurred costs of \$98,055 (Q3 2015 - \$1,005,755) for services provided by PGI.

On January 18, 2016, the Company announced that it had signed agreements with 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.

For the period ended September 30, 2016 the Company incurred costs of \$1,409,225 (Q3 2015 – nil) for services provided by UES.

On August 21, 2016, the Company announced that it signed a subscription agreement (the "Subscription Agreement") with Mawarid Offshore Mining Ltd. ("Mawarid") and Metalloinvest Holding (Cyprus) Limited ("Metallo", and together with Mawarid, the "Purchasers") under which the Purchasers agreed to purchase such number of common shares of the Company that will raise gross proceeds of up to US\$20 million.

Pursuant to the Subscription Agreement, the shares will be purchased on a private placement basis and will close in tranches, on a monthly basis, during the period from December 1, 2016 through to November 30, 2017 (the "Financing Period"), at the election of the Company.

The Company will determine the amount of funds to be raised under each tranche during each month of the Financing Period, subject to the limitations of receiving maximum subscription proceeds of US\$2.0 million per month and an aggregate maximum total amount of US\$20 million during the entire Financing Period.

Shares will be issued under each tranche at a price that is equal to the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange (the "TSX") for the 5-day period immediately prior to the date the Company issues the Purchasers a notice that the tranche will proceed. Closing of the bridge financing remains subject to the approval of the TSX.

Nautilus Minerals Inc.

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(Unaudited)

As the Purchasers are related parties to the Company, Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* and the rules of the TSX require that shareholder approval be obtained in order for the issuance of shares in the bridge financing to exceed 25% of the Company's market capitalization or 10% of the Company's current number of outstanding shares.

12 Equity

a) Common shares issues

Gross proceeds of C\$28,263,830 were raised through the issuance of rights to subscribe for an aggregate of 188,425,531 common shares at a subscription price of C\$0.15 per common share, with the offer closing on April 08, 2016.

b) Share options

Outstanding share options

	Share options	Weighted average exercise price C\$
At January 1, 2015	4,945,000	0.50
Granted	1,800,000	0.45
Expired	(400,000)	0.52
Forfeited	(700,000)	0.91
At December 31, 2015	5,645,000	0.43
Expired	(1,995,000)	0.31
At September 30, 2016	3,650,000	0.49

Information relating to share options outstanding at September 30, 2016 is as follows:

Nautilus Minerals Inc.

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(Unaudited)

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	3,650,000	1,960,000	0.41	0.51	14.9
	<u>3,650,000</u>	<u>1,960,000</u>	0.41	0.51	14.9

c) Loan shares

Outstanding loan shares

	Loan shares	Weighted average exercise price C\$
At January 1, 2015	11,325,000	0.52
Granted	400,000	0.45
Expired	(200,000)	0.91
Exercised	<u>(40,000)</u>	0.24
At December 31, 2015	<u>11,485,000</u>	0.51
Expired	<u>(5,635,000)</u>	0.47
At September 30, 2016	<u>5,850,000</u>	0.56

Information relating to loan shares outstanding at September 30, 2016 is as follows:

Nautilus Minerals Inc.

Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited)

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	5,850,000	4,520,000	0.56	0.56	7.7
	<u>5,850,000</u>	<u>4,520,000</u>	0.56	0.56	7.7

13 Exploration Expenditures

	Three months ended September 30 2016 \$	Three months ended September 30 2015 \$	Nine months ended September 30 2016 \$	Nine months ended September 30 2015 \$
General and administration	4,236	31,209	26,844	49,522
Geological services and field expenses	(17,763)	3,110,274	494,874	5,587,638
Mineral property fees	475	49,718	163,035	102,865
Professional services	32,566	115,904	127,008	356,175
Travel	10,421	100,973	88,057	283,677
Wages and salaries	285,051	494,686	1,078,314	1,360,156
Total Exploration Expenditures	314,987	3,902,764	1,978,132	7,740,033

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.

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 September 30, 2016, total variable rental commitments are \$1.1 million and total variable expenditure commitments are \$27.4 million over the life of the

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Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(expressed in US Dollars)

(Unaudited)

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.

14 General and Administration Expenditures

	Three months ended September 30 2016 \$	Three months ended September 30 2015 \$	Nine months ended September 30 2016 \$	Nine months ended September 30 2015 \$
Office and general	543,372	645,717	1,640,975	2,129,765
Professional services	299,504	652,880	840,519	2,068,582
Salary and wages	2,238,474	1,146,218	4,255,806	3,249,792
Shareholder related costs	51,397	116,049	401,347	406,741
Travel	49,174	94,776	298,849	547,805
Depreciation	80,186	70,471	247,225	726,019
Total General & Administration Expenditures	3,262,107	2,726,111	7,684,721	9,128,704

15 Contingencies and Commitments

a) Non-cancellable commitments

	September 30 2016 \$
Non-cancellable operating leases	
Not later than 1 year	714,371
Later than 1 year and not later than 2 years	663,058
Later than 2 years and not later than 3 years	73,532,330
Later than 3 years and not later than 4 years	73,389,042
Later than 4 years and not later than 5 years	73,167,060
Later than 5 years	145,934,300
Total Commitments	367,400,161

The non-cancellable commitments as at September 30, 2016 include \$365.0 million for payments to be made under the charter party arrangement with MAC for the PSV with an amended commencement date no later than September, 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

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(Unaudited)

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 September 30, 2016, the committed value of the contracts is \$30.4 million. The committed value of \$30.4 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 period end. No other penalties or cancellation fees are payable under these contracts.

16 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 September 30, 2016 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 and Solomon Islands 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.

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For the three and nine months ended September 30, 2016 and 2015

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(Unaudited)

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 September 30, 2016 the Company held its cash and cash equivalents in the following currencies:

Currency Denomination	% of total cash in US\$ terms held
USD	51
GBP	7
CAD	40
AUD	1
EUR	1
	<hr/>
	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 the reporting date is the carrying value of cash and cash equivalents and other receivables.

d) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by the delivery of cash or another financial asset. 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 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 continue to advance the development of the Solwara 1 Project and its mineral property interests, the Company will need to secure additional equity, debt and/or joint venture partner funding. Until that time, certain discretionary expenditures may be deferred and measures to reduce operating costs may be taken in order to preserve working capital. See note 2, Liquidity Risk.

17 Subsequent Events

The subscription agreement was voted upon at the Extraordinary General Meeting (EGM) on October 26, 2016 and was approved by the shareholders. Subsequent to the shareholder meeting, the Company has received final approval of the Bridge Financing from the Toronto Stock Exchange.