

## **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 November 8, 2016 for the period ended September 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 nine months ended September 30, 2016, and related notes thereto (the "Third 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](http://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 Q3 SIGNIFICANT EVENTS**

- Solwara 1 Project advanced
- Production Support Vessel construction advanced
- \$20 million bridge finance facility entered into by the Company and approved by shareholders ("Bridge Financing")

#### **Solwara 1 Project advanced**

During the third quarter of 2016, the Company continued to advance the Solwara 1 Project in accordance with the bridging finance proposal. The project and operations teams were restructured to reduce operating costs while still maintaining project execution capability.

#### **Seafloor Production Equipment Build Progressed**

Work on the Derrick and Draw-works has been suspended to defer costs, reflecting the revised vessel construction schedule. Discussions were held with the manufacturer Sichuan Hong Hua Petroleum Ltd. on the storage and preservation of equipment which has already been procured and built.

The Auxiliary Cutter, Bulk Cutter and Collecting Machine remain in storage at Duqm port in Oman. Discussions were advanced with Soil Machine Dynamics (the manufacturer of this equipment) to close out the fabrication contract and negotiate an operational support agreement.

The riser system manufactured by General Marine Contractors remains in storage in Louisiana, while work continues on riser handling tools in Poland. Problems identified during Factory Acceptance Testing (FAT) of the riser handling tools are being resolved. Further FAT is planned for the fourth quarter of 2016.

The Subsea Slurry Lift Pump remains at GE Hydril's test facility in Houston awaiting re-installation of components which had to be rebuilt following FAT. Notwithstanding these minor issues, FAT has demonstrated that the pump meets or exceeds all required performance criteria.

The only other major equipment contract that remains to be awarded is for the modular dewatering plant required to separate mineralized material from seawater on the Production Support Vessel. This work will now be retendered in mid 2017 to allow fabrication and delivery of this equipment in accordance with the revised vessel construction schedule.

### *Community Activities*

During the quarter Nautilus held meetings with both New Ireland Provincial and National Government representatives to explain bridging finance proposals. Both levels of Government maintain a supportive stance with respect to the Solwara 1 project.

Nautilus continued to implement a water and sanitation program in schools on the west coast of New Ireland with 22 schools having now benefitted from the program. Each school receives health and hygiene training, along with new facilities to provide students and teachers with a reliable supply of fresh water and access to sanitation facilities.

Planning also continued during the quarter for a medical patrol for seven wards on the west coast of New Ireland. The patrol will consist of two doctors holding clinics in every village in these wards in order to generate data on community health that will be used to guide further outreach programs in 2017 and subsequent years.

Nautilus also progressed an infrastructure improvement program which will see bridges installed in place of wet crossings on the main road on the west coast of New Ireland. A tender was completed during the quarter for supply of a panel bridge for the Dubonom wet crossing. The bridge will be delivered in the fourth quarter of 2016 and installed early in the New Year. The ultimate aim of the program is to provide all weather access between health centres on the west coast and the hospital in Namatanai. Improvements in infrastructure will also be an enabler for business development in the region.

### **Production Support Vessel construction advanced**

Agreement has been reached with Marine Assets Corporation and the Fujian Mawei shipyard on a revised vessel construction schedule which is consistent with the bridging finance proposal. The Production Support Vessel will now be built in two separate dry dock periods with basic construction and marine systems completed in early 2017, followed by integration of Seafloor Production Equipment later that year, subject to project financing. System completion, commissioning, acceptance inspection and sea trials would then be undertaken in 2018 with final delivery at the end of the third quarter.

The shipyard continues to make good progress with 96% of basic design drawings issued and 86% of drawings approved by the American Bureau of Shipping classification society. Out of a total of 335 blocks required to complete the vessel, 297 blocks have completed structural assembly and 218 blocks have been lifted into the dry dock. The bow section of the hull to main deck level has been welded in place, allowing the vessel to be floated in dry dock at the end of the quarter to facilitate the launch of two smaller vessels that were being built beside it.

### **Restructure of Solwara 1 Project Delivery**

The Company requires significant funding, in addition to the Bridge Financing, 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.

For the purposes of seeking the additional funding required and in order to continue operating during the period of the Bridge Financing (being December 1<sup>st</sup>, 2016 to November 30<sup>th</sup>, 2017) (the "Financing Period"), the Company is implementing a restructuring plan that involves the following:

- Completing the Company's three key equipment contracts and storing that equipment when delivered, which includes:
  - the Seafloor Production Tools and associated equipment being supplied by Soil Machine Dynamics;
  - the Riser Pipe being supplied by General Marine Contractors; and
  - the subsea slurry lift pump being supplied by GE Hydril.
- Marine Assets Corporation continuing the construction of the production support vessel at the Fujian Mawei Shipyard up to the completion of the hull, with further construction dependent upon the Company securing additional funding.
- Undertaking, with its joint venture partner, the activities necessary to maintain the good standing of the Mining Lease and Environmental Permit for the Solwara 1 Project, including the completion of Environmental Management and Monitoring Plans, as well as the completion of local community projects in the regions of Papua New Guinea closest to the Solwara 1 Project area.
- Terminating other contracts for the construction of any seafloor production equipment that are in the early stages of development and not entering into any new construction contracts until additional funding is secured.
- Reviewing the joint venture's remaining development, testing and operations plans to take account of current market conditions.
- Reducing Company staff numbers by approximately 70% to maintain the key resources required to implement the above activities, whilst ensuring project and corporate knowledge is retained. In this regard, the remaining members of the Company's executive management team, who will be responsible for implementing the restructuring plan, are:
  - Mike Johnston, President & CEO; and
  - Adam Wright, Vice President – PNG Operations.

The Company previously disclosed 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. The Company has now secured the necessary bridge financing to facilitate the time required to seek that additional required funding. 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. There can be no assurances that the Company will be able to obtain on acceptable terms or at all such additional required funding during the Financing Period.

### **Bridge Financing approved by shareholders**

At an extraordinary general meeting held on October 26, 2016, eligible shareholders voted in favor of the Bridge Financing to be provided by the Company's two largest shareholders by way of private placements pursuant to a subscription agreement dated August 21, 2016 and amended September 19, 2016 (the "Subscription Agreement"). Subsequent to the shareholder meeting, the Company has received final approval of the Bridge Financing from the Toronto Stock Exchange.

The Bridge Financing allows for up to \$20 million of private placements of common shares of the Company with the two largest shareholders over the Financing Period from December 1, 2016 to November 30, 2017. The financing is subject to a maximum of \$2 million investment per month which will be equally shared (unless otherwise agreed) between the two largest shareholders and priced at the volume weighted average trading price of the Company's shares on the Toronto Stock Exchange for the five trading days prior to the date of a financing notice delivered by the Company under the Bridge Financing. This funding will allow the Company to continue with the adjusted project timescales whilst further funding arrangements and opportunities are investigated. Refer to the Company's information circular dated September 19, 2016 (available at [www.sedar.com](http://www.sedar.com)) for details of the Subscription Agreement and Bridge Financing.

### **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, including funds available under the Bridge Financing, 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 most recent Annual Information Form available on [www.sedar.com](http://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	Q3
Revenue	\$'M	Nil	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)	(4.0)
Basic and diluted loss per share	\$/share	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.01)	(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:

#### *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.

#### *Q3 2016*

The loss for the period reflected a decrease in expenditure across exploration, corporate social responsibility and development, relative to Q1 & Q2 2016. This reduced expenditure was offset by a significant increase in corporate costs due to employee termination costs resulting from the restructure of the Solwara 1 project delivery.

### **RESULTS OF OPERATIONS – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016**

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

#### **Loss for the period**

For the three months ended 30 September, 2016, the Company recorded a loss of \$4.0 million (\$0.01 loss per share) compared to a loss of \$8.3 million (\$0.02 loss per share) for the same period in 2015. The primary variances were as follows:

#### *Exploration*

Exploration expense decreased to \$0.3 million (2015 - \$3.9 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 expenditure for the CCZ campaign in Q3 2015.

	<b>Nodule Exploration Three months ended September 30,</b>		<b>SMS Exploration Three months ended September 30,</b>		<b>Total Exploration Three months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
General and administration	-	-	4,236	31,209	4,236	31,209
Geological services	2,501	1,679,436	-20,263	1,430,838	-17,762	3,110,274
Mineral property fees	-	-	475	49,718	475	49,718
Professional services	11,628	67,609	20,938	48,295	32,566	115,904
Travel	8,409	62,070	2,012	38,903	10,421	100,973
Salary and wages	67,985	166,307	217,067	328,379	285,051	494,686
<b>Total exploration expenditure</b>	<b>90,523</b>	<b>1,975,422</b>	<b>224,465</b>	<b>1,927,342</b>	<b>314,987</b>	<b>3,902,764</b>

#### *General & Administration*

General & Administration expenditure increased to \$3.3 million (2015 - \$2.7 million). Salary and wages expense increased as a result of employee termination costs resulting from the restructure of the Solwara 1 project delivery. Professional fees decreased due to a reduced work in relation to network monitoring and investigation of the cyber attack that occurred in Q4 2014 and the decrease in office and general reflects the reduced office lease costs under the new lease that was effective July 1, 2015.

	<b>Three months ended September 30, 2016</b>	<b>Three months ended September 30, 2015</b>
Office and general	543,372	645,717
Professional services	299,504	652,880
Salary and wages	2,238,474	1,146,218
Shareholder related costs	51,397	116,049
Travel	49,174	94,776
Depreciation	80,186	70,471
<b>Total general and administration expenditure</b>	<b>3,262,107</b>	<b>2,726,111</b>

#### *Corporate Social Responsibility*

Corporate Social Responsibility expense decreased to \$0.2 million (2015 - \$0.7 million) for the quarter. Q3 2015 included preliminary design work associated with infrastructure projects in New Ireland province.

#### *Technology*

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

#### *Development*

Development expenses decreased to \$0.2 million (2015 - \$0.4 million) due to reduced consultancy costs related to preliminary design of the PSV build.

#### *Foreign exchange*

A foreign exchange gain of \$0.1 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 non US dollar denominated assets and liabilities at 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 \$0.01 million (2015 - \$0.06 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 \$4.0 million for the three months ended September 30, 2016, compared to \$8.3 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 \$3.9 million (2015 - \$7.8 million).

### **RESULTS OF OPERATIONS – FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

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

#### **Loss for the period**

For the nine months ended September 30, 2016, the Company recorded a loss of \$11.2 million (\$0.02 loss per share) compared to a loss of \$19.9 million (\$0.05 loss per share) for the same period in 2015. The primary variances were as follows:

#### *Exploration*

Exploration expense decreased to \$2.0 million (2015 - \$7.7 million) for the nine months ended September 30, 2016, with no new exploration campaigns undertaken in the current period, compared to the previous year, which included plume hunting activities in the Solomon Islands and the CCZ resource evaluation cruise conducted in Q3 2015.

	<b>Nodule Exploration Nine months ended September 30,</b>		<b>SMS Exploration Nine months ended September 30,</b>		<b>Total Exploration Nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
General and administration	-	-	26,845	49,522	26,845	49,522
Geological services	188,689	2,536,024	306,185	3,051,614	494,874	5,587,638
Mineral property fees	47,186	47,000	115,849	55,865	163,035	102,865
Professional services	33,452	187,837	93,556	168,338	127,008	356,175
Travel	32,555	108,282	55,502	175,395	88,057	283,677
Salary and wages	266,031	351,003	812,283	1,009,153	1,078,314	1,360,156
<b>Total exploration expenditure</b>	<b>567,913</b>	<b>3,230,146</b>	<b>1,410,220</b>	<b>4,509,887</b>	<b>1,978,133</b>	<b>7,740,033</b>

#### *General & Administration*

General & Administration expenditure decreased to \$7.7 million (2015 - \$9.1 million) for the nine months ended September 30, 2016. 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. Salary and wages expense increased as a result of employee termination costs resulting from the restructure of the Solwara 1 project delivery. Depreciation expense has decreased due to the full depreciation of leasehold improvements in the prior year.

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Office and general	1,640,975	2,129,765
Professional services	840,519	2,068,582
Salary and wages	4,255,806	3,249,792
Shareholder related costs	401,347	406,741
Travel	298,849	547,805
Depreciation	247,225	726,019
<b>Total general and administration Expenditure</b>	<b>7,684,721</b>	<b>9,128,704</b>

#### *Corporate Social Responsibility*

Corporate Social Responsibility expense decreased to \$0.7 million (2015 - \$1.2 million) for the nine months ended September 30, 2016. Expenditure was greater in the prior period due to preliminary design work associated with infrastructure projects in New Ireland province.

#### *Technology*

Technology expense decreased to \$0.2 million (2015 - \$0.3 million) for the nine months ended September 30, 2016. This was driven primarily by exchange rate movements.

#### *Development*

Development expenses increased to \$1.3 million (2015 - \$1.1 million) for the nine months ended September 30, due to increased consultant and contractor fees related to design and manufacture of the PSV build.

#### *Foreign exchange*

A foreign exchange gain of \$0.5 million was recorded during the nine months ended September 30, 2016 (2015 – \$0.8 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 non US dollar denominated assets and liabilities at 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 nine months ended September 30, 2016 was \$0.1 million (2015 - \$0.2 million). The Company maintains its cash and cash equivalents with banks with an S&P rating of A+ or better.

#### *Other income*

Other income remained consistent at \$0.2 million (2015 – \$0.2 million) for the nine months ended September 30, 2016, due to the cessation of the office sub lease in 2015.

### *Operating Losses*

Overall, Nautilus' operating loss decreased to \$11.2 million for the nine months ended September 30, 2016, compared to \$19.9 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 \$11.7 million (2015 \$19.1 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 \$12.7 million for the nine months ended September 30, 2016 compared to \$16.6 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 \$31.4 million for the nine months ended September 30, 2016, including \$7.4 million in relation to the SPT's, \$14.9 million for the riser and lifting system and \$6.7 million for project services and operations mobilisation, compared to \$32.3 million for the corresponding period in 2015.

#### *Financing activities*

Cash flow from financing activities was \$21.5 million for the nine months ended September 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:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Working Capital	\$24.2 million	\$31.4 million
Cash and Cash Equivalents	\$34.1 million	\$56.5 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 September 30, 2016, are quantified in the table below:

	<b>September 30 2016 \$</b>
<i><b>Non-cancellable commitments</b></i>	
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
<b>Total Commitments</b>	<b><u>367,400,161</u></b>

The non-cancellable commitments as at September 30, 2016 include the payments to be made under the charter party arrangement with MAC for the PSV with an amended commencement date no later than September, 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 (in addition to the Bridge Financing) 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 is implementing a restructuring plan as outlined above.

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.

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 seek 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 detailed above, 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 various conditions necessary to close draw downs under the Bridge Financing, 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 September 30, 2016 the Company held its cash in the following currencies:

<b>Currency Denomination</b>	<b>% of total cash in US\$ terms held</b>
USD	51
GBP	7
CAD	40
AUD	1
EUR	1
	<hr/>
	100
	<hr/>

#### ***Interest rate risk***

The Company holds cash and cash equivalents which earn interest at variable rates as determined by financial institutions. As at September 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 September 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 September 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 November 8, 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](http://www.sedar.com) and on the Company's website [www.nautilusminerals.com](http://www.nautilusminerals.com).