

Nautilus Minerals Inc.

(an exploration stage company)

Interim Consolidated Financial Statements

June 30, 2010 and 2009

(expressed in U.S. dollars)

Nautilus Minerals Inc.
(an exploration stage company)

Interim Consolidated Balance Sheets
(expressed in U.S. dollars)

	June 30 2010 \$	December 31 2009 \$
Assets		
Current assets		
Cash and cash equivalents	184,654,831	209,339,066
Prepaid expenses and advances	303,596	415,383
	<u>184,958,427</u>	<u>209,754,449</u>
Non current assets		
Restricted cash (note 6)	338,211	342,308
Property, plant and equipment (note 7)	21,745,728	19,556,423
Mineral properties (note 8)	12,213,367	12,213,367
	<u>34,297,306</u>	<u>32,112,098</u>
	<u>219,255,733</u>	<u>241,866,547</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,176,559	8,113,708
Non current liabilities		
Accounts payable and accrued liabilities	204,512	216,141
Non-controlling interest (note 10)	173,698	209,972
Shareholders' Equity		
Share capital (note 9a)	343,598,701	343,598,701
Contributed surplus (note 9b)	42,806,474	40,730,323
Deficit	(170,704,211)	(151,002,298)
	<u>215,700,964</u>	<u>233,326,726</u>
	<u>219,255,733</u>	<u>241,866,547</u>

Commitments and contingencies (note 12)

On behalf of the Board:

Signed: Russell Debney

Signed: Stephen Rogers

Nautilus Minerals Inc.
(an exploration stage company)

Interim Consolidated Statements of (Income)/ Loss and Comprehensive (Income)/ Loss and Deficit

(expressed in U.S. dollars)

	Three months ended June 30 2010 \$	Three months ended June 30 2009 \$	Six months ended June 30 2010 \$	Six months ended June 30 2009 \$
Expenses				
Exploration costs (note 8)	5,606,448	4,263,718	7,748,292	5,868,488
Wages and salaries	671,165	627,237	1,878,777	1,429,245
Stock-based compensation	1,018,072	964,304	2,076,151	1,993,007
General administrative	697,231	478,737	1,173,093	782,223
Professional fees	388,919	206,578	626,360	303,876
Depreciation	182,377	242,627	365,633	494,148
Travel	172,211	113,165	337,244	170,733
Listing and filing fees	25,298	16,670	97,214	96,433
Shareholder information	95,805	35,394	154,320	60,711
Management fees and salaries	432,795	555,205	878,057	895,671
Foreign exchange loss (gain)	2,809,748	(9,479,326)	5,198,849	(5,442,469)
	<u>12,100,069</u>	<u>(1,975,691)</u>	<u>20,533,990</u>	<u>6,652,066</u>
Other Income (Expense)				
Interest income	341,476	664,477	795,803	1,238,463
Rental and other income	-	10,855	-	18,459
Loss on sale of fixed assets	-	(25)	-	(25)
	<u>341,476</u>	<u>675,307</u>	<u>795,803</u>	<u>1,256,897</u>
(Income)/Loss and comprehensive (income)/ loss before non-controlling interest	11,758,593	(2,650,998)	19,738,187	5,395,169
Non-controlling interest	27,066	1,095	36,274	21,368
(Income)/Loss and comprehensive (income)/ loss	11,731,527	(2,652,093)	19,701,913	5,373,801
Deficit - Beginning of period	158,972,684	131,920,148	151,002,298	123,894,254
Deficit - End of period	170,704,211	129,268,055	170,704,211	129,268,055
(Income)/Loss per share – basic and diluted	0.08	(0.02)	0.13	0.03
Weighted average number of shares outstanding – basic and diluted	155,558,884	156,264,536	155,558,884	155,558,884

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

Nautilus Minerals Inc.
(an exploration stage company)

Interim Consolidated Statements of Cash Flows

(expressed in U.S. dollars)
(unaudited)

	Three months ended June 30 2010 \$	Three months ended June 30 2009 \$	Six months ended June 30 2010 \$	Six months ended June 30 2009 \$
Cash flows from (used in) operating activities				
Income/(Loss) for the period	(11,731,557)	2,652,093	(19,701,913)	(5,373,801)
Items not affecting cash				
Stock-based compensation	1,018,072	964,304	2,076,151	1,993,007
Non-controlling interest	(27,066)	(1,095)	(36,274)	(21,368)
Depreciation	182,377	242,627	365,633	494,148
Unrealised FX Loss/(Gain)	2,842,465	(9,484,111)	5,187,015	(5,263,290)
Restricted cash	10,849	4,014,055	4,097	4,009,865
Change in non-cash working capital items				
Prepaid expenses and advances	23,436	89,835	111,787	798,570
Accounts payable and accrued liabilities	2,071,213	539,703	(3,989,633)	(8,736,708)
	<u>(5,610,211)</u>	<u>(982,589)</u>	<u>(15,983,137)</u>	<u>(12,099,577)</u>
Cash flows from (used in) investing activities				
Purchase of equipment	(2,887,715)	(314,268)	(3,514,083)	(805,356)
	<u>(2,887,715)</u>	<u>(314,268)</u>	<u>(3,514,083)</u>	<u>(805,356)</u>
Unrealised FX Gain/(Loss)	(2,842,465)	9,484,111	(5,187,015)	5,263,290
Increase (decrease) in cash and cash equivalents	(11,340,391)	8,187,254	(24,684,235)	(7,641,643)
Cash and cash equivalents - Beginning of period	<u>195,995,222</u>	<u>215,314,905</u>	<u>209,339,066</u>	<u>231,143,802</u>
Cash and cash equivalents - End of period	<u>184,654,831</u>	<u>223,502,159</u>	<u>184,654,831</u>	<u>223,502,159</u>
Cash			7,141,539	7,149,783
Cash equivalents			177,513,292	216,352,376
Cash and cash equivalents – end of period			<u>184,654,831</u>	<u>223,502,159</u>

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Nautilus Minerals Inc.
(an exploration stage company)

Notes to Interim Consolidated Financial Statements

June 30, 2010 and 2009
(expressed in U.S. dollars)

1. Basis of Presentation, Operations and Subsidiaries

Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

These consolidated financial statements are presented in United States Dollars ("USD"), the functional and presentational currency of the Company.

Nature of Operations

Nautilus Minerals Inc. (the "Company", "Nautilus" or "NMI") is engaged in the exploration of the ocean floor for copper, gold, silver and zinc seafloor massive sulphide deposits. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The exploration activity involves exploration of underwater copper, gold, silver and zinc seafloor massive sulphide deposits in the western Pacific Ocean. The Company's main focus for 2010 is the Solwara 1 Project in Papua New Guinea in the western Pacific Ocean. The proposed principal operations of the Company subject to permitting will be the mining of copper, zinc, gold and silver deposits where there are economically viable discoveries.

Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Company controls another entity.

These consolidated financial statements include the accounts of the Company (Canada) and all of its subsidiaries. The significant subsidiaries include Nautilus Minerals Niugini Limited (Papua New Guinea), Nautilus Minerals Oceania Limited (Vanuatu), Nautilus Minerals Pacific Proprietary Limited (Australia), Nautilus Minerals (Tonga) #1 Limited (Tonga), Nautilus Minerals Solomon Islands Limited (Solomon Islands), Nautilus Minerals Singapore Limited (Singapore), United Nickel Inc. (Canada) and Nautilus Minerals USA Inc.

Intercompany transactions, balances, income and expenses are eliminated on consolidation.

2. Significant Accounting Policies

Basis of Presentation

These unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and follow the same accounting policies and methods of their application as the most recent annual financial statements. As these unaudited interim financial statements do not contain all the disclosures required by Canadian GAAP, they should be read in conjunction with the audited consolidated financial statements as at December 31, 2009.

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3. Future Accounting Pronouncements

Sections 1582, Business Combinations, 1601 Consolidated Financial Statements and 1602 Non-controlling interests

Sections 1582, Business Combinations, 1601 Consolidated Financial Statements and 1602 Non-controlling interests will replace the former Sections 1581 Business Combinations, 1600 Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 is effective for business combinations for which the acquisition date is on or after January 1, 2011 and Sections 1601 and 1602 apply to consolidated financial statements relating to years beginning on or after January 1, 2011. The Company is currently assessing the impact on its Financial Statements.

4. Capital Disclosures

The Company's financial objective is to ensure that it has sufficient liquidity in the form of cash and/or debt capacity to continue its activities. In order to facilitate the management of our capital requirements, we prepare annual expenditure budgets and continuously monitor and review actual and forecasted cash flow. The annual and updated budgets are approved and monitored by the Board of Directors.

Currently the Company has no external debt and, 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.

5. Financial Instruments - Disclosures

The Company's financial instruments consist of cash and cash equivalents, advances, restricted cash and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at June 30, 2010:

	Financial assets that are held at fair value, as at June 30, 2010			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash and cash equivalents	184,654,831	-	-	184,654,831
	184,654,831	-	-	184,654,831

The nature and extent of risks arising from financial instruments to which the entity is exposed at the balance sheet date are detailed below:

Interest rate risk

The Company holds cash and cash equivalents which earn interest at variable rates as determined by financial institutions.

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5. Financial Instruments – Disclosures (continued)

For the period ending June 30, 2010, with other variables unchanged, a 1% increase in the interest rate would have increased our net earnings by approximately \$981,193. There would be no significant effect on other comprehensive income.

Foreign exchange risk

The Company's activities are located in several different countries, including Canada, Australia, Papua New Guinea, Tonga and Singapore. The company also purchases equipment from several different countries in different currencies. 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.

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, 2010 the Company held its cash in the following currencies:

Currency Denomination	% of total cash in US\$ terms held
USD	62
GBP	21
AUD	6
EUR	8
CAD	3
	<hr/>
	100

Credit risk

The Company places its cash 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 restricted cash.

Liquidity risk

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

6. Restricted Cash

\$338,211 (December 31, 2009 - \$342,308) has been provided as security for leases, tenements held in Papua New Guinea, superannuation bank accounts held on behalf of employees, and electricity and information technology deposits.

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Notes to Interim Consolidated Financial Statements

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7. Property, Plant and Equipment

Details are as follows:

	June 30, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$	\$	\$	\$
Leasehold improvements	609,977	559,236	50,741	604,677	530,397	74,280
Plant and equipment	669,517	169,832	499,685	661,569	132,760	528,809
Office equipment	318,007	79,712	238,295	301,765	61,921	239,844
Computer hardware	788,767	586,021	202,746	729,905	484,741	245,164
Computer software	1,137,539	828,980	308,559	1,029,275	656,528	372,747
Tradeshaw display equipment	3,876	3,676	200	3,876	3,676	200
Motor vehicle	162,794	22,865	139,929	90,391	14,667	75,724
Land	30,101	-	30,101	30,101	-	30,101
Subsea equipment under construction	20,275,472	-	20,275,472	17,989,554	-	17,989,554
	<u>23,996,050</u>	<u>2,250,322</u>	<u>21,745,728</u>	<u>21,441,113</u>	<u>1,884,690</u>	<u>19,556,423</u>

8. Mineral Properties

The Company has titles granted and applications lodged that provide the Company with rights to explore for minerals in offshore Papua New Guinea, Tonga and Solomon Islands. In addition, the Company has lodged exploration or prospecting applications in the exclusive economic zones of Fiji and New Zealand.

Exploration Expenditures

	Three months ended	Three months ended	Six months ended	Six months ended
	June 30 2010	June 30 2009	June 30 2010	June 30 2009
	\$	\$	\$	\$
Assaying and sampling	6,830	5,116	10,793	31,738
Boat charters and fuel	9,703	2,026,860	9,703	2,163,154
Drilling	28,108	-	47,111	-
Engineering services	2,619,681	18,193	2,619,681	63,678
Environmental consulting	105,641	111,616	114,551	226,620
General	467,337	566,926	752,494	837,166
Geological and field expenses	26,803	75,398	209,219	119,411
Maps, reports and data	6,841	7,898	14,935	14,111
Mineral property fees	148,247	124,614	158,040	379,497
Supplies	13,071	52,210	16,913	73,898
Travel	234,410	233,109	359,803	336,843
Wages and salaries	1,939,776	1,041,778	3,435,049	1,622,372
	<u>5,606,448</u>	<u>4,263,718</u>	<u>7,748,292</u>	<u>5,868,488</u>

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8. Mineral Properties (continued)

Exploration Expenditures (continued)

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 June 30, 2010, total rental commitments are \$2.9 million and total expenditure commitments are \$18.6 million over the life of the licenses which extend to a maximum of four years. All of the Company's exploration commitments are up to date.

9. Share Capital

a) Details of share capital

Authorized:

Unlimited common shares without par value

	Shares	Amount \$
Balance – December 31, 2008, 2009 and June 30, 2010	155,558,884	<u>343,598,701</u>

b) Details of contributed surplus

	Amount \$
Balance – December 31, 2008	36,144,187
Fair value of stock-based compensation	<u>4,586,136</u>
Balance – December 31, 2009	40,730,323
Fair value of stock-based compensation	<u>2,076,151</u>
Balance – June 30, 2010	<u>42,806,474</u>

c) Share purchase options

The Company has established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Options granted must be exercised no later than five years from the date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option must be determined in accordance with the share purchase option plan. The board of directors must determine the vesting period in accordance with the share purchase option plan.

The changes in share purchase options outstanding are as follows:

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9. Share Capital (continued)

c) Share purchase options (continued)

	Number of options	Weighted average exercise price C\$	Contractual weighted average remaining life (years)
Balance – December 31, 2008	14,012,306	3.92	2.2
Granted	6,101,000	1.30	
Expired/cancelled	(5,579,806)	3.25	
Balance – December 31, 2009	14,533,500	3.08	2.2
Granted	175,000	2.17	
Expired/cancelled	(1,805,000)	4.52	
Balance – June 30, 2010	12,903,500	2.87	2.4

The following table summarizes information about stock options as at June 30, 2010:

Total options outstanding			Exercisable options		
Range of exercise price C\$	Shares	Weighted average remaining contractual life (years)	Weighted average exercisable price C\$	Shares	Weighted average exercise price C\$
0.00 – 0.99	450,000	1.5	0.99	180,000	0.99
1.00 – 1.99	5,926,000	2.2	1.35	1,805,400	1.33
2.00 – 2.99	1,150,000	1.2	2.75	780,000	2.85
3.00 – 3.99	1,342,500	0.4	3.20	1,342,500	3.20
4.00 – 4.99	675,000	0.3	4.60	675,000	4.60
5.00 – 5.99	3,360,000	2.4	5.35	-	-
	<u>12,903,500</u>	2.4	2.87	<u>4,782,900</u>	2.55

10. Non-controlling Interest

On May 18, 2008 the Company acquired a 51% equity interest in United Nickel Inc. (UNI), a company associated with David Heydon, formerly director and CEO of the Company, with a \$1.3 million seed capital investment.

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11. Segmented Information

The Company has one operating segment, being exploration. Details on a geographical basis are as follows:

	Australasia \$	North America \$	Total \$
June 30, 2010			
Total assets	212,520,186	6,735,547	219,255,733
Loss for the three months ended June 30, 2010	10,089,219	1,642,308	11,731,527
Loss for the six months ended June 30, 2010	16,862,245	2,839,668	19,701,913
June 30, 2009			
Total assets	207,895,361	49,949,115	257,884,476
(Income)/Loss for the three months ended June 30, 2009	2,598,864	(5,250,957)	(2,652,093)
(Income)/Loss for the six months ended June 30, 2009	8,745,509	(3,371,708)	5,373,801

12. Commitments and Contingencies

	June 30 2010 \$
a) Non-cancellable operating leases	
Not later than 1 year	669,338
Later than 1 year and not later than 2 years	636,807
Later than 2 years and not later than 3 years	553,876
Later than 3 years and not later than 4 years	540,826
Later than 4 years and not later than 5 years	540,826
	<u>2,941,673</u>
b) Non-cancellable exploration and vessel agreements	
Not later than 1 year	7,515,800
	<u>7,515,800</u>
c) Non-cancellable development agreements	
Not later than 1 year	768,621
	<u>768,621</u>
Total Commitments	<u><u>11,226,099</u></u>

The Company has reactivated the contract with Soil Machine Dynamics ("SMD") of Newcastle upon Tyne, UK for the design and build of seafloor mining tools. The remaining value of the contract is US\$75.6 million (equivalent). The contract with SMD is cancellable by the Company at any time, however, in the event of cancellation, the Company would be liable for any costs incurred by SMD up to that point in time. No other penalties or cancellation fees are payable under this contract.

Notes to Interim Consolidated Financial Statements

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12. Commitments and Contingencies (continued)

Commitments (continued)

During the quarter, the Company entered into an EPCM contract with Technip Oceania Pty Ltd ("Technip") for engineering design, procurement and construction management for the integration of the subsea mining equipment onto a production support vessel. The current authorised value of the contract is US\$1.3 million. The contract with Technip is cancellable by the Company at any time, however, in the event of cancellation, the Company would be liable for any costs incurred by Technip up to that point in time. No other penalties or cancellation fees are payable under this contract.

All other contracts relating to the Solwara 1 mining system have been suspended without penalty.

The contracts that have been suspended will not incur any additional costs, unless instructed by the Company to continue with engineering studies, until those contracts are reactivated. The remaining value of the suspended contracts is US\$55.4 million. The suspended contracts also contain provisions allowing the Company to cancel at any time.

Contingencies

CSIRO

In addition to the above, the Company is a party to a contract with the Commonwealth Scientific and Industrial Research Organisation ("CSIRO") whereby the Company would pay A\$500,000 when its Net Income first exceeds A\$10 million; and a further A\$500,000 when Net Income first exceeds A\$20 million.

Milestone based shares

Nautilus has entered into an agreement with a consulting group, who are providing services to the Solwara 1 Project, where part of the consideration for services, is the issue of up to 300,000 fully paid common shares in the Company in stages subject to the achievement of each of the following project milestones:

- i) Signing of a project development agreement between Nautilus and the Government of PNG - 60,000 common shares;
- ii) Obtaining unencumbered title to the area of land where Nautilus decides to locate the processing plant - 60,000 common shares;
- iii) The required agencies of the government of PNG approve the Environmental Impact Statement for the Solwara 1 Project - 60,000 common shares;
- iv) The grant of a mining lease over the Solwara 1 resource within E1196 on terms acceptable to Nautilus Minerals - 60,000 common shares; and
- v) Commercial Completion of the Solwara 1 Project which is defined as being the point at which commissioning is complete and the operation has been producing concentrate at a rate of at least 70% scheduled rate for a period of 3 months - 60,000 common shares.