

NAUTILUS MINERALS INC.

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

(US dollars, in accordance with Canadian GAAP)

The following Management Discussion and Analysis ("MD&A") has been prepared as at August 10, 2010 for the six months ended June 30, 2010. It 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 €.

The MD&A of Nautilus Minerals Inc. (the "Company", "NMI" or "Nautilus") should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009. This section contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including, but not limited to those described under "Forward-Looking Information."

FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by management and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements relate to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration of the Company's exploration properties. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievement of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

OUR BUSINESS

Overview

Nautilus is the first company to commercially explore the ocean floor for copper, gold, silver and zinc seafloor massive sulphide ("SMS") deposits, and is well positioned to develop the world's first seafloor massive sulphide system. The Company's main focus for 2010 is the Solwara 1 Project which is located in the territorial waters of Papua New Guinea ("PNG") in the western Pacific Ocean. The proposed operations of the Company, subject to permitting and financing, will be the exploration for and the mining of SMS deposits for copper, zinc, gold and silver where there are economically viable discoveries.

FIRST QUARTER 2009 HIGHLIGHTS

- \$184.7 million (equivalent) in cash and cash equivalents held on deposit with major banks as at June 30, 2010
- Contract signed for 2010 drilling program
- Offshore Production System Definition and Cost Study Released
- Nautilus strengthens Board with New Director

\$184.7 Million (equivalent) in Cash and Cash Equivalents Held on Deposit with Major Banks

Nautilus is in a strong financial position with \$184.7 million (equivalent) in cash and cash equivalents held on deposit with banks holding an S&P rating of A+ or better, as at June 30, 2010.

Contract Signed for 2010 Drilling Program

On June 10, 2010 Nautilus signed a contract with the TSMarine Group of Companies ("TSMarine") under which TSMarine agreed to provide drilling services in the territorial waters of Papua New Guinea starting in October 2010. The drilling program will focus on improving the resource and geotechnical understanding at Solwara 1 as well as scout drilling at other prospects on the Company's 100% owned tenements in the Bismarck Sea.

TSMarine will provide the vessel, operating crew, remotely operated vehicles and drilling equipment. The contract has a minimum value of approximately US\$7.5 million, with options to extend based on success. TSMarine will use Rovdrill 3, a second generation seafloor drilling system, with the ability to drill 70mm core wireline holes up to 80 metres deep.

Offshore Production System Definition and Cost Study

On June 23, 2010 Nautilus released the results of an independent definition and cost study (the "Study") for its proposed offshore production system (the "Offshore Production System") to be deployed in the territorial waters of Papua New Guinea ("PNG").

The Study provides definition and cost estimates to extract material from the seafloor mineral resources at the Company's Solwara 1 site (the "Project"), to raise it to the support vessel, dewater it and deliver it to the Port of Rabaul, PNG.

The key conclusions of the Study are as follows:

- Capital costs for the Offshore Production System, including those associated with barging to the Port of Rabaul, are estimated to be US\$383 million (including a 17.5% contingency).
- Average operating costs up to the Port of Rabaul are estimated to be US\$70 per tonne (including a 10% contingency) based on a 1.35 million tonnes per year production rate.
- The Study indicates production commencing at a rate of 1.2 million tonnes per year (dry equivalent) but notes that the Offshore Production System will have the capacity to ramp up to 1.8 million tonnes per year.
- The Study estimates it will take 30 months to complete the build of the Offshore Production System and to commence commercial production once approved by the Board of Nautilus.

To date, the complete build of the Offshore Production System has not been approved by the Board of Nautilus. Subject to securing adequate financing to advance the Project through to commercial production, Board approval is expected to be received during 2010. Nautilus does not intend to complete a formal feasibility study or define a large, long life resource or reserve before

it proceeds with the completion of the equipment build and commencement of production at the Solwara 1 Project. Management considers the Company's best interests are served by first demonstrating that existing offshore technologies can be adapted to cut and recover high grade seafloor massive sulphides from the deep ocean.

The Study

The Study was undertaken to obtain an independently confirmed summary of the components and an associated estimate of the offshore production costs only. Detailed information concerning the cost estimates and the basis for the estimates can be found in the Study.

The estimated operating costs set out in the Study do not include the cost of stockpiling material in Rabaul, reclaim from the stockpile, shipment to a treatment facility or any other downstream processing, transportation and sales costs including, but not limited to concentration, treatment and refining charges, cost of sales and any statutory royalties or production taxes. These costs are significant. The estimated operating costs also exclude the capital and financing costs associated with establishing the Offshore Production System.

In preparing the operating cost estimate, a heavy fuel oil price of US\$523 per tonne and a production support vessel charter rate of US\$75,000 per day (being a portion of the estimated daily costs of US\$144,796 for the production support vessel) were assumed based on recent competitive market quotes. These two key assumptions account for approximately 40% of the estimated operating costs. Fuel costs will be subject to fluctuations in the market price of oil. The Study assumes that the production support vessel for the Project will be chartered. As Nautilus has not yet entered into a charter for the vessel, the price used in the estimate may not be realized.

Investors are cautioned that the Study is not an economic assessment of the Solwara 1 Project as a whole and does not confirm the Project's economic viability. Investors are cautioned not to use the Study for that purpose and that a study of all costs, rates of recovery and reasonable revenue projections is necessary before any assessment of economic viability can be made.

The Study was developed from a preliminary mine plan that includes inferred mineral resources. Investors are cautioned that inferred resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the costs relating to the Offshore Production System set forth in the Study will be realized. In addition, the indicated mineral resources included in the mine plan are not mineral reserves and do not have demonstrated economic viability.

The Study addresses the entire proposed Offshore Production System, including barging to a land-based stockpile at Rabaul in Papua New Guinea. The principal operations involve:

- Seafloor cutting and gathering;
- Mineralized material (slurry) recovery to surface;
- Slurry dewatering;
- Mineralized material discharge to transportation barges; and
- Transport of the mineralized material to the Port of Rabaul.

The proposed Offshore Production System is composed of various technologies utilised in the oil and gas, mining and dredging industries but modified for the Offshore Production System.

Seafloor cutting is proposed to be undertaken by two large robotic machines that would excavate material from the seafloor by a continuous cutting process, not unlike coal or other bulk continuous mining machines on land. The Auxiliary Miner is a preparatory machine that deals

with rough terrain and creates benches for the other machines to work. It will operate on tracks with spud assistance and has a boom mounted cutting head for flexibility. The second machine, the Bulk Miner, has higher cutting capacity but will be limited to working benches created by the Auxiliary Miner. Both machines would leave cut material on the seafloor for collection by the Gathering Machine. The Gathering Machine, also a large robotic vehicle, will collect the cut material by drawing it in as a seawater slurry through internal pumps. The slurry will exit the Gathering Machine through a flexible pipe and would then be transferred to the Riser and Lift System (RALS).

The proposed RALS system comprises a large pump and rigid riser pipe hanging from a vessel which delivers the slurry to the surface. The proposed pump is a positive displacement type, designed and built by GE Hydril (Houston, TX). The pump would hang from a solid vertical riser pipe suspended beneath the support vessel. The pipe would be deployed to the seabed by a large derrick and draw works system on board the vessel.

On deck of the production support vessel (PSV), the slurry would pass through a dewatering plant. The dewatered material would be discharged to a transportation barge moored alongside. Used seawater would be pumped back to the seafloor through the riser pipes and would provide the hydraulic power to operate the RALS pump. Discharge of the return water at the seafloor would avoid impacts to the warm surface seawaters, minimizing the environmental impact of the operation.

The transportation barges will haul the material a short voyage of approximately 50 kms from the Solwara 1 site to a stockpile location in the Port of Rabaul. Definition and costs for barge unloading and all subsequent activities are not included in the scope of the Study.

The Study, which is titled "Offshore Production System Definition and Cost Study" and dated June 21, 2010, was prepared by Phil Jankowski, Erich Heymann and John Blackburn of SRK (Australia) Pty Ltd. in Perth and includes information prepared by Peter Chwastiak of Clough Limited, Peter Munro of Mineralogy Pty Ltd, Andrew See of Ausenco Services Pty. Ltd and Ian Lipton of Golder Associates Pty. Ltd (collectively, the "Qualified Persons").

Issue of Variation Order

The Offshore Production System described in the Study requires the build of three subsea deepwater machines for cutting and gathering, being the Auxiliary Miner, Bulk Miner and Gathering Machine.

Nautilus also finalised and issued a variation order to Soil Machine Dynamics Ltd ("SMD") to modify the existing design-build contract for the provision of two integrated machines and one handling system to three specialist machines and the associated launch and recovery systems.

The variation order, valued at approximately £19 million (US\$28 million or C\$29 million equivalent)⁽¹⁾ has been incorporated in the Study. It should be noted that no approval has been granted by the Nautilus Board for the recommencement of the building of any other equipment for the Offshore Production System.

⁽¹⁾ Exchange rates used: C\$1.00 equal to US\$0.97 and £0.66.

Nautilus Strengthens Board with New Director

At the Company's AGM on June 23, 2010, Ms Cynthia Patricia Thomas (age 49) was appointed to the Nautilus Board.

Cynthia Thomas has 28 years of banking and mine finance experience, and currently acts as Principal of Conseil Advisory Services Inc. ("Conseil"), an independent financial advisory firm specialising in the natural resource industry which she founded in 2000. Prior to founding Conseil, Ms. Thomas worked with Bank of Montreal, Scotiabank and ScotiaMcLeod in the corporate and investment banking divisions. Ms. Thomas holds a Bachelor of Commerce degree from the University of Toronto and a Masters in Business Administration from the University of Western Ontario. Ms. Thomas was formerly a Director of PolyMet Mining Corp. and is currently a Director and Chair of Victory Nickel Inc., Director of KWG Resources Inc. and a Director and Chair of the Audit Committee for Ferrinov Inc., a private corporation.

SUMMARY OF QUARTERLY RESULTS (unaudited)

The following table sets out selected unaudited quarterly financial information of Nautilus and is derived from unaudited quarterly consolidated financial statements prepared by management. The Company's interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and expressed in US dollars.

Period	Revenues (in millions)	Income (Loss) and Comprehensive Income (Loss) for the Period (in millions)	Basic Income (Loss) per Share	Diluted Income (Loss) per Share
2 nd Quarter 2010	Nil	\$(11.7)	\$(0.08)	\$(0.08)
1 st Quarter 2010	Nil	\$(8.0)	\$(0.05)	\$(0.05)
4 th Quarter 2009	Nil	\$(14.4)	\$(0.09)	\$(0.09)
3 rd Quarter 2009	Nil	\$(7.4)	\$(0.05)	\$(0.05)
2 nd Quarter 2009	Nil	\$2.7	\$0.02	\$0.02
1 st Quarter 2009	Nil	\$(8.0)	\$(0.05)	\$(0.05)
4 th Quarter 2008	Nil	\$(35.2)	\$(0.24)	\$(0.24)
3 rd Quarter 2008	Nil	\$(38.4)	\$(0.26)	\$(0.26)

RESULTS OF OPERATIONS

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

For the six months ended June 30, 2010

Income for the period

Net income

For the six months ended June 30, 2010, the Company recorded a loss of \$19.7 million (\$0.13 loss per share) compared to a loss of \$5.4 million (\$0.03 loss per share) for the same period in 2009. The increase in loss is attributable to an unrealised foreign exchange loss of \$5.2 million compared to an unrealised foreign exchange gain of \$5.3 million for the same period in 2009.

Exploration expense

Exploration expense increased to \$7.7 million (2009 - \$5.9 million) due to an increase in the number of exploration personnel compared to the same period in 2009.

Interest income

Interest income earned on cash and cash equivalents held during the period was \$0.8 million (2009 - \$1.2 million). The decrease was attributable to the decrease in cash held during the

period. The Company maintains its cash and cash equivalents with banks with an S&P rating of A+ or better.

Non-cash stock based compensation

A total of \$2.1 million in non-cash stock based compensation was expensed during the period (2009 - \$2.0 million). The increase is attributable to the increase in the number of options outstanding over the period.

Foreign exchange gains and losses

A foreign exchange loss of \$5.2 million was recorded during the period (2009 – gain of \$5.4 million). The foreign exchange loss consists of realised and unrealised gains and losses on actual cash transactions during the period and revaluations of cash denominated in different currencies at the period end.

Depreciation expense

Depreciation expense decreased slightly to \$0.4 million (2009 - \$0.5 million).

Other general and administrative costs

There has been an overall increase in other general and administrative expenses compared to the same period in 2009 as the Company focuses its attention on securing a strategic partner, continuing engineering studies and planning for the exploration program scheduled for later in the year.

Other general and administrative expenses consist of:

- management fees and salaries of \$0.9 million (2009 - \$0.9 million);
- wages and salaries of \$1.9 million (2009 - \$1.4 million), an increase of \$0.5 million due to an increase in the number of employees and general increase in salaries in keeping with market rates;
- office expenses increased to \$1.2 million (2009 - \$0.8 million), an increase of \$0.4 million in keeping with the increase in personnel;
- travel expenses of \$0.3 million (2009 - \$0.2 million), an increase of \$0.1 million over the period due to the timing of business travel taken during the quarter;
- professional fees of \$0.6 million (2009 - \$0.3 million), an increase of \$0.3 million over the period due to the timing of professional services provided; and
- shareholder information, listing and filing fees of \$0.3 million (2009 – \$0.2 million).

Overall, Nautilus' expenses increased to \$20.5 million for the period ended June 30, 2010, up from \$6.7 million for the same period in 2009 due to an increase in foreign exchange losses of \$10.6 million and an increase in exploration costs, salaries and wages. Engineering work directly related to the purchase of equipment has been included as assets under construction and is detailed below under Investing activities.

Cash flows

Operating activities

Cash used in operating activities for the six month period ended June 30, 2010 was \$16.0 million as compared to cash flows used in operating activities of \$12.1 million for the period ended June 30, 2009. The increase in cash used in operating activities is attributable to the higher exploration costs and salaries and wages during the period.

Investing activities

Cash used in investing activities for the six month period ended June 30, 2010 was \$3.5 million as compared to \$0.8 million for the six month period ended June 30, 2009. This related to the purchase of equipment.

Financing activities

Cash from financing activities for the six month period ended June 30, 2010 and June 30, 2009 was \$Nil respectively.

For the three months ended June 30, 2010

Income for the period

Net income

For the three months ended June 30, 2010, the Company recorded a loss of \$11.7 million (\$0.08 loss per share) compared to a profit of \$2.7 million (\$0.02 gain per share) for the same period in 2009. The increase in loss is attributable to an unrealised foreign exchange loss of \$2.8 million compared to an unrealised foreign exchange gain of \$9.5 million for the same period in 2009.

Exploration expense

Exploration expense increased to \$5.6 million (2009 - \$4.3 million) due to an increase in the number of exploration personnel compared to the same period in 2009.

Interest income

Interest income earned on cash and cash equivalents held during the period was \$0.3 million (2009 - \$0.7 million). The decrease was attributable to the decrease in cash held during the period. The Company maintains its cash and cash equivalents with banks with an S&P rating of A+ or better.

Non-cash stock based compensation

A total of \$1.0 million in non-cash stock based compensation was expensed during the period (2009 - \$1.0 million).

Foreign exchange gains and losses

A foreign exchange loss of \$2.8 million was recorded during the period (2009 – gain of \$9.5 million). The foreign exchange loss consists of realised and unrealised gains and losses on actual cash transactions during the period and revaluations of cash denominated in different currencies at the period end.

Depreciation expense

Depreciation expense remained unchanged at \$0.2 million (2009 - \$0.2 million).

Other general and administrative costs

There has been an overall increase in other general and administrative expenses compared to the same period in 2009 as the Company focuses its attention on securing a strategic partner, continuing engineering studies and planning for the exploration program scheduled for later in the year.

Other general and administrative expenses consist of:

- management fees and salaries of \$0.4 million (2009 - \$0.6 million);
- wages and salaries of \$0.7 million (2009 - \$0.6 million), an increase of \$0.1 million due to an increase in the number of employees and general increase in salaries in keeping with market rates;

- office expenses increased to \$0.7 million (2009 - \$0.5 million), an increase of \$0.2 million in keeping with the increase in personnel;
- travel expenses of \$0.2 million (2009 - \$0.1 million), an increase of \$0.1 million over the period due to the timing of business travel taken during the quarter;
- professional fees of \$0.4 million (2009 - \$0.2 million), an increase of \$0.2 million over the period due to the timing of professional services provided; and
- shareholder information, listing and filing fees of \$0.1 million (2009 – \$0.1 million).

Overall, Nautilus' expenses increased to \$12.1 million for the three months ended June 30, 2010, up from a profit of \$2.0 million for the same period in 2009 due to an increase in foreign exchange losses of \$12.3 million and an increase in exploration costs and salary and wages. Engineering work directly related to the purchase of equipment has been included as assets under construction and is detailed below under Investing activities.

Cash flows

Operating activities

Cash used in operating activities for the three month period ended June 30, 2010 was \$5.6 million as compared to cash flows used in operating activities of \$1.0 million for the three month period ended June 30, 2009. The increase in cash used in operating activities is attributable to the higher exploration costs and salaries and wages during the period.

Investing activities

Cash used in investing activities for the three month period ended June 30, 2010 was \$2.9 million as compared to \$0.3 million for the three month period ended June 30, 2009. This related to the purchase of equipment.

Financing activities

Cash from financing activities for the three month period ended June 30, 2010 and June 30, 2009 was \$Nil respectively.

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 to support the Company's strategy of becoming the first company to commercially extract copper, gold, silver and zinc from the seafloor.

Key financial measures

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

	June 30 2010	December 31 2009
Debt to Equity	Nil	Nil
Current Ratio	58.2 to 1	25.9 to 1
Working Capital	\$181.8 million	\$201.2 million
Cash and Cash Equivalents	\$184.7 million	\$209.3 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 and capital requirements

The Company's known contractual obligations at June 30, 2010, are quantified in the table below:

	June 30 2010 \$
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>
Non-cancellable exploration and vessel agreements	
Not later than 1 year	7,515,800
	<u>7,515,800</u>
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 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 budgeted to spend approximately \$30 million for exploration work in 2010 on the Solwara 1 Project and other regional exploration programs. If exploration results and engineering studies are positive, the Company may consider committing additional funds to finance further engineering and exploration studies. In addition, the Company may consider further increases in staffing levels.

In order to maintain the exploration leases, licenses and permits in which the Company is involved, the Company is expected to fulfill 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 whether the Company forms joint ventures in the future.

The Company has reactivated the contract with Soil Machine Dynamics ("SMD") of Newcastle upon Tyne, UK for the design and build of the 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.

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 authorized 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.

The Company will need to obtain significant additional capital to develop any of its exploration properties, including Solwara 1, and debt financing may not be obtainable for a project such as that contemplated. The Company may need to rely on the equity markets for future financing of the Company's development of Solwara 1 in the form of joint ventures, leasing options and offtake agreements which may not be obtainable for the project as contemplated.

Nautilus expects that the cash and cash equivalents will be sufficient to pay for the continued budgeted exploration, capital expenditure and general and administrative costs of the Solwara 1 Project and other Company expenditures for the next 12 months. Depending upon future events, the rate of expenditures and other general and administrative costs could increase or decrease. Other than as disclosed above, the Company has not formally sought to secure sources of additional financing to fund future expenditures.

Nautilus' opinion concerning liquidity and its ability to avail itself in the future of the financing options mentioned in the above forward-looking statements 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 financing include Nautilus' performance (as measured by various factors including the progress and results of its exploration work), the state of international debt and equity markets, investor perceptions and expectations of past and future performance, the global financial climate, metal and commodity prices, political events in the south Pacific, obtaining approvals from the PNG government for the Solwara 1 Project, drilling and metallurgical testing results, results from environmental studies, engineering studies and detailed design of equipment.

Foreign currency exchange rate risk

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

Foreign exchange risk is mitigated by the Company maintaining its cash 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
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Interest rate risk

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

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

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 other receivables.

Liquidity risk

The Company manages liquidity by maintaining adequate cash and short-term investment balances.

In addition, the Company regularly monitors and reviews both actual and forecasted cash flows.

The exposure of the Company to liquidity risk is considered to be minimal.

CRITICAL ACCOUNTING POLICIES

The details of the Company's accounting policies are presented in Note 2 of the audited consolidated financial statements for the year ended December 31, 2009. The following policies are considered by management to be essential to understanding the processes and reasoning that go into the preparation of the Company's financial statements and the uncertainties that could have a bearing on its financial results:

Resource properties

Acquisition and exploration costs are expensed as incurred since the Company is in the process of exploring its mineral tenements and has not yet determined whether these properties contain ore reserves that are economically recoverable. If and when the Company's management determines that economically extractable resource have been established, the subsequent costs incurred to develop such property, including costs to further delineate the ore body will be capitalised.

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.

International Financial Reporting Standards (“IFRS”)

In January 2006, the Canadian Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. In February 2008, as part of its strategic plan, AcSB confirmed that Canadian publicly accountable entities will be required to report under International Financial Reporting Standards (“IFRS”), which will replace Canadian GAAP for years beginning on or after January 1, 2011. Financial reporting under IFRS differs from Canadian GAAP in a number of respects, some of which are significant. IFRS on the date of adoption is also expected to differ from current IFRS due to new IFRS standards and pronouncements that are expected to be issued before the changeover date. We plan to prepare our financial statements in accordance with IFRS for periods commencing as of January 1, 2011.

The following information is presented pursuant to the October 2008 recommendations of the Canadian Performance Reporting Board relating to pre-2011 communications about IFRS conversion and to comply with Canadian Securities Administrators Staff Notice 52-320, Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards. This information is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effect on our financial statements. Readers are cautioned, however, that it may not be appropriate to use such information for any other purposes. This information also reflects the Company’s most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

IFRS Changeover Plan

The Company has developed a plan for its changeover to IFRS comprised of three related phases:

- Review and Assessment
- Design
- Implementation

Phase 1: Review and Assessment Phase

The objective of this phase is to identify the required changes to the Company’s accounting policies and practices resulting from the changeover to IFRS to determine the scope of the work effort required for the Design and Implementation phases.

Phase 1 involves:

- A detailed review of all relevant IFRS standards to identify differences with the Company’s current accounting policies and practices
- The separate consideration of one-time accounting policy alternatives that must be addressed at the changeover date, and those accounting policy choices that will be applied on an ongoing basis in periods subsequent to the changeover to IFRS
- The prioritization of those differences that could have a more than inconsequential impact on the Company’s financial statements, business processes or IT systems
- The identification of internal stakeholders and business areas that may be affected by the changeover.

Phase 2: Design Phase

Phase 2 will result in the design and development of detailed solutions to address the differences identified in the first phase of the Company’s changeover plan. These solutions will result in certain necessary changes to the Company’s internal business processes and financial systems to comply with IFRS accounting and disclosure requirements.

Phase 2 activities include:

- The evaluation of accounting policy alternatives
- The investigation, development and documentation of solutions to resolve differences identified in Phase 1, reflecting changes to existing accounting policies and practices, business processes, IT systems and internal controls
- The implementation of a change management strategy to address the information and training needs of internal and external stakeholders

Phase 3: Implementation Phase

In the third and final phase of its changeover plan the Company will finalise the quantification of any differences identified on transition to IFRS. To date the Company has not identified any significant financial adjustments required on transition.

In addition, the Company will implement the changes to affected accounting policies and practices, business processes, systems and internal controls. These changes will be tested prior to the formal reporting requirements under IFRS to ensure all significant differences are appropriately addressed in time for the changeover.

Progress towards Completion of the Company's IFRS Changeover Plan

Nautilus expects to adopt IFRS effective January 1, 2011. In 2011, the Company will present 2010 comparative figures restated using IFRS for each comparative period after the transition date.

Nautilus has completed Phase 1 and 2 and is currently completing Phase 3 of its changeover plan.

For all changes to policies and procedures that are identified, the effectiveness of internal controls over financial reporting and disclosure controls and procedures will also be assessed and any changes implemented. In addition, controls over the IFRS changeover process will be implemented as necessary. The Company does not expect these changes to be significant.

The Company is continuing to assess the impact of the IFRS transition on its information systems; however does not anticipate significant changes to its systems arising from the transition to IFRS.

At the end of 2010, the Company will prepare two sets of financial statements. One set will comply with Canadian GAAP for reporting purposes. The other set will comply with IFRS for use as comparative figures once Nautilus adopts IFRS on January 1, 2011.

Key Differences

Nautilus has performed its review of IFRS based on standards applicable as of the date of this report. The ISAB is still developing IFRS and may propose changes to the standards between the date of this report and the date the Company adopts IFRS. Nautilus' assessment of differences between Canadian GAAP and IFRS are based on its historical, current and expected business activities. Changes in business activities could also lead to unexpected differences to the Company's financial statements, notes and other disclosures as reported under Canadian GAAP and IFRS. Changes to business activities or transactions and/or IFRS could have material effects on Nautilus' assessment below. Nautilus will track the difference between Canadian GAAP and IFRS on individual transactions throughout 2010. It will also analyse the effect of changes in IFRS as they occur. Nautilus will continue to provide quarterly and annual updates on the IFRS Changeover Plan in future filings throughout the transition period to 2011.

The Company has identified key areas where changes in accounting policy are expected on its transition from Canadian GAAP to IFRS and these are identified below. This list is intended to highlight the areas that the Company has determined to be the most significant and should not be regarded as a complete list of changes that will result from the transition to IFRS.

First-time adoption of IFRS

IFRS 1, "First time adoption of International Financial Reporting Standards", generally requires that all IFRS standards and interpretations be accounted for on a retrospective basis. IFRS 1 provides for certain optional exemptions and other mandatory exceptions to this general principal. The most significant IFRS optional exemption which the Company expects to apply is:

Exemption	Summary of exemption and decision
IFRS 3, Business Combinations	<p>Allows an entity that has conducted prior business combinations to apply IFRS 3 on a prospective basis from the date of transition. This avoids the requirement to restate prior business combinations.</p> <p>Nautilus believes that the Reverse Takeover on May 8 2006 would qualify as a business combination and therefore has elected to apply this exemption.</p>

Functional Currency

IFRS requires the functional currency to be assessed independently for each subsidiary within a consolidated group and introduces the concept of primary and secondary factors. Nautilus determined the U.S. dollar to be the functional currency for Canadian GAAP effective January 1, 2008 and expects the functional currency to remain unchanged under IFRS.

Income Taxes

There remains uncertainty around accounting for income taxes under IFRS. The IASB has recently issued an exposure draft suggesting changes to its income tax standard. The exposure draft has received a significant number of comments and it is uncertain what changes, if any, will be made before Nautilus' adoption date of January 1, 2011.

Asset Impairment

Canadian GAAP provides a two-step approach to testing a long-lived asset for impairment in the event that indicators exist. The first step is a test for recoverability whereby the carrying value is compared to the undiscounted cash flows that the asset is expected to generate. If the undiscounted cash flows exceed the carrying amount, then no impairment charge is necessary. If the undiscounted cash flows are lower than the carrying amount of the asset, then the asset is written down to the estimated fair value, determined based on the discounted cash flows.

Under IFRS, an entity is required to assess whether there is an indication of impairment at each reporting date. If such an indication exists, the entity must compare the carrying value of the asset or cash generating unit ("CGU") to the recoverable amount. Recoverable amount is defined as the higher of an asset or CGU's fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or CGU. An impairment loss is recognized to the extent that the carrying value exceeds the recoverable amount. Unlike Canadian GAAP, IFRS requires impairment charges to be reversed if the circumstances leading to the impairment no longer exist.

This change may result in impairment losses being recognized earlier under IFRS that would not be recognized under Canadian GAAP.

Nautilus does not expect an impairment loss to be recognized on transition to IFRS.

Provision for reclamation and rehabilitation

The primary differences between IFRS and Canadian GAAP for reclamation and rehabilitation provisions include the basis of estimation for undiscounted cash flows, the discount rate used, the frequency of liability re-measurement, and recognition of a liability when a constructive obligation exists.

Canadian GAAP requires the estimate of undiscounted cash flows to be based on the amount that a third party would demand to assume the obligation, whereas IFRS focuses on the use of management's best estimate of the expenditures required to settle the obligation.

The discount rate used to determine the present value of the expenditures for Canadian GAAP is the credit-adjusted risk free rate for the entity. IFRS requires the use of a discount rate that reflects the risks specific to the liability.

IFRS requires the re-measurement of the liability at each reporting date. The recognition principle is broadened with the implementation of IFRS, which requires that a liability be recorded if there is a legal or constructive obligation, where Canadian GAAP requires a liability to be recognized when there is a legal obligation.

The Company does not anticipate any impact from the provision for reclamation and rehabilitation on its consolidated financial statements on transition to IFRS.

Exploration & Evaluation ("E&E") Costs

The International Accounting Standards Board ("IASB") has still not made a definitive determination as to whether E&E costs should be capitalized or expensed. IFRS 6 allows companies to choose a policy that capitalizes these costs. The policy must be disclosed in the notes to the financial statements.

The Company is currently evaluating its existing policy for E&E costs in the light of developments in the extractive industries project that is currently ongoing.

Other IFRS

There are other IFRS that apply to the Company's operations, but they are not expected to have a significant effect on 2010 financial results based on the Company's current and expected activities. The Company is still considering the impact that the adoption of IFRS will have on its financial statements.

OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as of August 10, 2010.

Common shares

A total of 155,558,884 common shares are outstanding.

Convertible securities

The Company now has 12,903,500 options outstanding.

Stock Options

A total of 12,903,500 stock options are issued and outstanding, with expiry dates ranging from July 27, 2010 through to June 30, 2013. The weighted average exercise price for all stock options is C\$2.87. All stock options entitle the holders to purchase common shares of the Company.

INTERNAL CONTROLS

Internal control over financial reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

There have been no changes in the Company's internal control over financial reporting during the period ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ADDITIONAL SOURCES OF INFORMATION

Additional sources of information regarding Nautilus Minerals Inc. are on SEDAR at www.sedar.com and is on the Company's website www.nautilusminerals.com.