

NAUTILUS MINERALS INC



MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE MONTH AND SIX MONTH PERIOD ENDED
JUNE 30, 2011**

AS AT AUGUST 15, 2011

Expressed in United States dollars unless otherwise stated



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 15, 2011 for the six months ended June 30, 2011. 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 Company's unaudited consolidated financial statements for the six months ended June 30, 2011, and related notes thereto (the "Second Quarter 2011 Financial Statements") which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2010, and the related notes thereto (the "2010 Financial Statements") which were prepared in accordance with Canadian generally accepted accounting principles as at December 31, 2010 ("Canadian GAAP") 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.

Amounts for the six and three month periods ended June 30, 2011 and 2010 have been presented in accordance with IFRS. Further, certain amounts for the six and three month period ended June 30, 2010 have been restated from prior publicly disclosed amounts due to the transition to IFRS. Unless otherwise indicated, all amounts in this MD&A are in accordance with IFRS.

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 within the meaning of securities legislation. These forward looking statements are made as of the date of this MD&A and are based on the beliefs as well as assumptions of its management and information currently available to the Company. The Company does not intend, and does not assume any obligation, to update these forward-looking statements unless required by applicable law.

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, the amount budgeted for exploration work in 2011 on the Solwara 1 Project and other regional exploration programs, the timing and amount of estimated future production, costs of production, costs and timing of the development of new deposits, success of exploration and development activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of exploration operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, the Company's financial position, business strategy, plans and objectives of management for future operations, the features and performance of the PSV, SPTs and RALS, the purchase of the PSV, the dates of delivery of the

PSV, the SPTs and the RALS, the average annual return paid by the Vessel JV, the completion of the pump design, the preparation of the Project Environmental Management Plans and limitations on insurance coverage. 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, risks related to joint venture operations; actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of copper, gold and other metals; possible variations in resources, grade or recovery rates; late delivery of the PSV, SPTs, RALS or other equipment; variations in the cost of the PSV, SPTs, RALS or other equipment; variations in exchange rates; the failure to obtain the required equity funding or to obtain the approval of the TSX; Harren or Nautilus failing to secure required debt funding; 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 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 factors or 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, the charter rate for the Company's vessels including the ore-transport barges, the proposed mine plan, the estimated cost and availability of funding for the continued exploration of the Company's tenements, continued productive relationships with the State of PNG and Harren & Partner and the good faith performance of the obligations of counterparties pursuant to contracts with the Company. In making the forward-looking statements in this MD&A, the Company has applied several material assumptions, including, but not limited to, the assumption that: (1) market fundamentals will result in sustained copper and gold demand and prices; (2) the proposed development of its mineral projects will be viable operationally and economically and proceed as expected; and (3) any additional financing needed will be available on reasonable terms. Other assumptions are discussed under "Risk Factors" in the Company's most recent Annual Information Form AIF.

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.

OUR BUSINESS

Overview

Nautilus is a seafloor resource exploration and development company and the first company to commercially explore the ocean floor for copper, gold, silver and zinc seafloor deposits. Nautilus holds mineral licences and has submitted exploration applications in various locations in the Pacific Ocean and is establishing a pipeline of prospects for development. The Company's main focus is on developing a seafloor production system that can be used to extract resources from its seafloor prospects. The system will be applied to its first development, the Solwara 1 Project, located in the Bismarck Sea in the exclusive economic zone of Papua New Guinea ("PNG").

Nautilus' seafloor production system has the potential to open a new frontier of resource development as land-based mineral deposits continue to be depleted. With the Solwara 1 Project, Nautilus plans to become the world's first seafloor producer of copper and gold.

SECOND QUARTER 2011 HIGHLIGHTS

- Vessel Joint Venture formed
- Nautilus awarded exploration tenements in the Eastern Pacific
- Nautilus awarded exploration tenements in Fiji
- Solwara 1 project development progressing
- Bismarck Sea exploration program achieves encouraging results
- \$112 million (equivalent) in cash and cash equivalents as at June 30, 2011

Vessel Joint Venture Formed

On April 13, 2011 the Company announced the formation of a strategic partnership with German shipping company, Harren & Partner ("Harren") to form a joint venture company ("Vessel JV"). The Vessel JV is to be formed to own and operate a production support vessel ("PSV"), which will serve as the operational base for Nautilus to extract high grade copper and gold at its first development, the Solwara 1 Project, in the Bismarck Sea of PNG.

Under the terms of the strategic partnership, Harren will design and construct the PSV at a cost of approximately €127 million, with delivery to an integration site in Singapore, to install seafloor production equipment scheduled for the first half of 2013. On delivery, the PSV will be sold to the Vessel JV in which Harren will hold a 50.01% interest. The remaining 49.99% will be controlled by Nautilus through a holding company in which the State of PNG will own a 5% stake through its wholly-owned company Petromin and Nautilus the remaining 95%. The State of PNG has a right to increase its interest to up to 50%. The purchase price to acquire this incremental interest would be calculated based on the sum of the: i) cumulative project expenditures of the holding company (where project expenditures are defined as all cash receipts or payments) plus, ii) a calculated rate of return on those project expenditures. The rate of return is based on the lesser of the holding company's actual cost of capital or 15% per annum, and is compounded monthly from the 15th day of the month in which each individual project expenditure is incurred until the time the purchase is complete.

The Vessel JV will charter the PSV to the Mining JV, to be formed between Nautilus and Petromin, to carry out its seafloor production operations for a period of eight years at an average daily rate of \$70,000. Harren will provide crewing, logistics and ship management services to the Vessel JV at a daily rate of \$10,000 paid by the Mining JV. The Mining JV will provide a charterer's guarantee to the Vessel JV, for an initial value of \$10 million reducing over a five year period to \$2.5 million, which will remain in place for the duration of the eight year charter.

Funding for the Vessel JV will include approximately €75 million in bank debt to be procured by Harren, which also will contribute approximately €16 million in equity and loans. Nautilus will contribute approximately €15 million in equity and Petromin will contribute equity of approximately €1 million. The agreed target average dividend payment for the joint venture partners in the Vessel JV is approximately 9.5% of their equity contributions during the eight year charter. Based on this, Nautilus anticipates an average annual return of approximately \$3.4 million which equates to \$9,300 per day. In addition, Nautilus will subscribe for convertible notes in the Vessel JV in the amount of approximately €9.5 million and Petromin will subscribe for convertible notes in the Vessel JV to the value of approximately €0.5 million. The convertible notes are convertible

to equity at any time at Nautilus' request (subject to approval by the debt provider) and will earn interest at 6% per annum. In addition, the Mining JV will provide a charterer's loan to the Vessel JV, with Nautilus providing approximately €6.8 million and Petromin providing approximately €2.9 million. The charterer's loan is repayable over eight years and will earn interest at approximately 6% per annum.

Completion of the Harren transaction is conditional upon Harren securing bank debt of at least €75 million for the Vessel JV, project sanction by the Nautilus Board and Nautilus obtaining any necessary approval from all applicable stock exchanges and regulatory authorities. It is anticipated that all the conditions above will be satisfied before the end of 2011.

Initial project capital and operating cost estimates for the Solwara 1 Project were provided in the System Definition and Cost Study, released in June 2010. The total capital cost estimate to complete the offshore production system for the Solwara 1 Project has been reviewed in light of the Harren transaction; however, the costs have not otherwise been adjusted for inflationary trends in respect of certain cost estimates. The total capital cost to complete the offshore production system, which will extract material from the seafloor and deliver that material to the Port of Rabaul, is estimated to be approximately \$407 million. The €127 million cost of the PSV is not included as part of the capital cost of the Solwara 1 Project, as it is a capital cost of the Vessel JV.

In conjunction with entering into the Harren transaction, Nautilus has decided to charter, rather than purchase, transport barges, resulting in an associated reduction of capital costs for these items from the project capital cost estimate and an associated addition to project operating costs of barge charter costs.

This has resulted in Nautilus' estimated vessel charter costs (including both the support vessel and the barges) increasing by 33% above the respective cost estimates used in the System Definition and Cost Study. Charter costs represented 34% of the total estimated operating costs per tonne under the System Definition and Cost Study. (See "Risk Factors" in the Company's Annual Information Form regarding risks associated with the information in the System Definition and Cost Study.) Nautilus will indirectly recover certain of these costs in the form of charterparty fees through its interest in the Vessel JV. There have been no changes to the basic equipment configurations outlined in the System Definition and Cost Study and the anticipated daily production rate remains at an average 3,710 tonnes (equating to 1.3 million tonnes per annum) excluding site initiation and shutdown.

These changes to costs were compiled under the supervision of Nautilus Project Manager - Offshore, Michael Howitt. Mr. Howitt is a qualified Chartered Engineer and a Member of the Institute of Marine Engineering, Science and Technology. Mr. Howitt has reviewed and approved the disclosure regarding costs contained in this MD&A.

Nautilus awarded exploration tenements in Eastern Pacific

On July 22, 2011 Nautilus Minerals' Tongan subsidiary, Tonga Offshore Mining Ltd. ("TOML"), became one of the first private sector organizations to be granted exploration licences in the highly prospective Clarion Clipperton Zone ("CCZ") of the Eastern Pacific.

Sponsored by the Tongan Government, TOML has been granted approximately 75,000 km² of prime exploration territory in the CCZ, which lies in international waters between Hawaii and Mexico.

As a result of exploration conducted in the 1980s, the CCZ is known to host significant deposits of polymetallic nodules, which are golf ball sized nuggets, rich in copper, nickel, manganese and cobalt, lying on the seafloor in water depths starting at 4,500 metres.

The International Seabed Authority, which is the organization responsible for administering activity on the seafloor in international territory, made the historic decision to grant the TOML licence at its annual meeting in Jamaica this week. The licence is for an initial period of 15 years.

Nautilus awarded exploration tenements in Fijian waters

On August 11, 2011, Nautilus announced it had become the first private sector organisation to be granted offshore exploration licences in Fiji.

The Fijian Government granted the company 14 special prospecting licences, covering a total of approximately 60,000 km². The territory is considered highly prospective, having been the subject of marine research by Japanese, French and other scientific cruises in the late 1980s and early 1990s. The licences each have an initial term of two years.

Under the terms of a regional area of interest agreement signed with Teck Resources in 2007, Teck holds the right to earn an interest in the Fijian tenements by contributing to exploration spending. Teck has not yet indicated whether it intends to exercise that right.

Project Development update

Progress continues with the Solwara 1 Project Development through Q2 2011.

Soil Machine Dynamics continues to progress the development of the Seafloor Production Tools ("SPTs"). Detailed design has advanced and procurement of key component sub assemblies continues. Factory acceptance tests have been completed for subsea motors, variable speed drives and the cutter drums for the Auxiliary cutter. Prototype testing of an umbilical section has been completed. The subcontract for the provision of tracks for the SPTs with Caterpillar continues, and simulation engineering is now complete. Tender packages for vehicle chassis are nearing completion.

Technip USA is progressing with development of the Riser and Lift System. Bid packages for most of the riser subcomponents have been issued to market. Evaluation of critical components is underway with orders placed with Clyde Union for the surface pump systems. Full scale loop testing of the subsea pump and control valves is continuing.

The strategic alliance with Harren & Partner has been formalised and the associated agreements prepared for execution.

Technip Oceania Perth Limited continues to focus on development of the detailed plan to integrate the mining equipment onto the vessel. The vessel integration yard will be selected over the coming months.

DRA Pacific Pty Ltd. has completed phase 1 of the Owners Engineers scope of supply which completes the concept, process optimisation and preliminary engineering. DRA have formally commenced the detailed design phase including the preparation of tender packages for construction of the Dewatering plant module.

Exploration and Drilling Update

In May, Nautilus completed its 2010/11 seafloor drilling program, with the vessel, REM Etive, having demobilized in Singapore on May 16, 2011.

During the drilling program in the Bismarck Sea, Nautilus completed a 99 hole diamond drilling project, for a total of 1,475 metres.

Drilling was focused within the area of the Mining Lease (“ML154”) recently granted to Nautilus, which contains the Solwara 1 deposit and the Solwara 5 seafloor massive sulphide (SMS) discovery. A total of 71 holes were drilled in ML154, for 1,147 metres. The remainder of the drilling was conducted in Exploration Lease 1374, which hosts Nautilus’ Solwara 12 SMS discovery.

The highlight of the campaign was the identification of mineralization at depth at Solwara 12 and the improved knowledge gained at Solwara 1.

The company continues to evaluate the drill data gathered in the campaign. All QA/QC was completed and 3D geological modelling has commenced. Golder and Associates remain on track to complete the resource estimate in early Q4.

\$112 Million (equivalent) in Cash and Cash Equivalents

Nautilus is in a strong financial position with \$112 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, 2011.

On May 24, 2011, Nautilus launched a marketed public offering of common shares. The Company received a positive response from investors during marketing of the proposed transaction but adverse market conditions meant that it was not in the interests of shareholders for the transaction to proceed and on June 10, 2011, the offering was withdrawn. The Company continues to evaluate a range of alternative options available to it to access capital in the future.

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, the need to raise capital, resource shortages and lack of revenues. Factors that influence the Company’s ability to succeed are more fully described in the Company’s 2010 Annual Information Form available on www.sedar.com under the heading “Risk Factors”.

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 and are expressed in US dollars.

		2009 Cdn GAAP		2010 IFRS				2011 IFRS	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	\$'M	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Loss for the period	\$'M	(7.4)	(14.4)	(7.5)	(11.3)	(3.7)	(20.5)	(3.1)	(4.8)
Basic Loss per share	\$/share	(0.05)	(0.09)	(0.05)	(0.07)	(0.02)	(0.13)	(0.02)	(0.03)
Diluted Loss per share	\$/share	(0.05)	(0.09)	(0.05)	(0.07)	(0.02)	(0.13)	(0.02)	(0.03)

RESULTS OF OPERATIONS

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

For the three months ended June 30, 2011

Income for the period

Net income

For the three months ended June 30, 2011, the Company recorded a loss of \$4.8million (\$0.03 loss per share) compared to a loss of \$11.3 million (\$0.07 loss per share) for the same period in 2010.

Exploration expense

Exploration expense decreased to \$1.5 million (2010 - \$2.4 million) due to exploration costs associated with Solwara 1 being capitalised as Mineral Properties. During the same period in 2010 all exploration costs were expensed.

General & Administration expense

General & Administration expense decreased to \$3.0 million (2010 - \$3.2 million) due to the timing of professional services expenses incurred during the current period.

Technology expense

Technology expense increased to \$0.2 million (2010 - \$0.1 million) due to an increase in studies undertaken during the current period. In the prior period technology related expenses were focused on the development of Solwara 1 and were included in development expense.

Development expense

Development expense relates to the Solwara 1 project and has decreased to \$0.2 million (2010 - \$2.8 million) due to development expenses being capitalised following the grant of the mining lease for Solwara 1 (ML 154). Following the grant of ML 154 in January 2011, Management concluded that an economic benefit is more likely than not to be realized from Solwara 1 and therefore costs directly associated with the development of Solwara 1 are now being capitalised. Costs incurred in relation to the acquisition and maintenance of land at Lassual Bay, PNG, the potential site for onshore treatment, continues to be expensed as incurred.

Foreign exchange gains and losses

A foreign exchange gain of \$0.1 million was recorded during the period (2010 – foreign exchange loss of \$2.8 million). The foreign exchange gain and loss consists of realised gains and losses on actual cash transactions during the period and unrealised gains and losses of cash denominated in different currencies at the period end. The Company holds a “basket of currencies” to act as a natural hedge against its expected cash outflows.

Interest income

Interest income earned on cash and cash equivalents held during the period was \$0.2 million (2010 - \$0.3 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.

Operating Loss

Overall, Nautilus' operating loss decreased to \$5.0 million for the period ended June 30, 2011, down from \$11.3 million for the same period in 2010 due to exploration and development work directly associated with the Solwara 1 deposit being capitalised from January 2011 following the grant of ML154 and an increase in foreign exchange gains of \$2.9 million from the previous period. Engineering work directly related to the purchase of equipment has been included as “assets under construction” and is detailed below under Investing activities.

For the six months ended June 30, 2011

Income for the period

Net income

For the six months ended June 30, 2011, the Company recorded a loss of \$8.0 million (\$0.05 loss per share) compared to a loss of \$18.7 million (\$0.12 loss per share) for the same period in 2010.

Exploration expense

Exploration expense increased to \$4.2 million (2010 - \$3.2 million) due to the ocean based exploration program being undertaken during the first half of 2011 in the Bismarck Sea, PNG. During the same period in 2010 there was no ocean based exploration program undertaken.

General & Administration expense

General & Administration expense decreased to \$5.9 million (2010 - \$6.5 million) due to the timing of professional services expenses incurred during the current period.

Technology expense

Technology expense increased to \$0.4 million (2010 - \$0.1 million) due to an increase in studies undertaken during the current period. In the prior period technology related expenses were focused on the development of Solwara 1 and were included in development expense.

Development expense

Development expense relates to the Solwara 1 project and has decreased to \$0.2 million (2010 - \$4.0 million) due to development expenses being capitalised following the grant of the mining lease for Solwara 1 (ML 154). Costs incurred in relation to the acquisition and maintenance of land at Lassual Bay, PNG, the potential site for onshore treatment, continues to be expensed as incurred.

Foreign exchange gains and losses

A foreign exchange gain of \$2.6 million was recorded during the period (2010 – foreign exchange loss of \$5.2 million). The foreign exchange gain and loss consists of realised gains and losses on actual cash transactions during the period and unrealised gains and losses of cash denominated in different currencies at the period end. The Company holds a “basket of currencies” to act as a natural hedge against its expected cash outflows.

Interest income

Interest income earned on cash and cash equivalents held during the period was \$0.5 million (2010 - \$0.8 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.

Operating Loss

Overall, Nautilus' operating loss decreased to \$8.5 million for the period ended June 30, 2011, down from \$19.5 million for the same period in 2010 largely due to exploration and development work directly associated with the Solwara 1 deposit being capitalised from January 2011 following the grant of ML154 and an increase in foreign exchange gains of \$7.8 million. 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, 2011 was \$20.3 million. compared to \$16.0 million for the period ended June 30, 2010. The increase in cash used in operating activities is attributable to the greater reduction in accounts payable settled during the period compared to the prior year.

Investing activities

Cash used in investing activities for the six month period ended June 30, 2011 was \$36.4 million as compared to \$3.5 million for the six month period ended June 30, 2010. The increase is due to the capitalisation of mineral property costs related to exploration and development of the Solwara 1 project following the grant of ML 154 which totalled \$23.0 million and the payment of milestone payments in relation to the build of subsea production equipment which totalled \$15.1 million. In addition, the Company received an advance payment of \$1.8 million from Petromin relating to the acquisition of their 5% interest in the Vessel Joint Venture.

Financing activities

Cash from financing activities for the six month period ended June 30, 2011 was \$0.5 million received in relation to the exercise of stock options. There was no cash generated from financing activities during the six months ended June 30, 2010.

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 2011	December 31 2010
Current Ratio	13.0 to 1	11.8 to 1
Working Capital	\$104.0 million	\$151.1 million
Cash and Cash Equivalents	\$112.0 million	\$165.1 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, 2011, are quantified in the table below:

	June 30 2011 \$
Non-cancellable operating leases	
Not later than 1 year	1,140,536
Later than 1 year and not later than 2 years	1,032,831
Later than 2 years and not later than 3 years	1,020,253
Later than 3 years and not later than 4 years	1,020,253
Later than 4 years and not later than 5 years	16,786
	<u>4,230,659</u>
Non-cancellable development agreements	
Not later than 1 year	380,604
	<u>380,604</u>
Total Commitments	<u>4,611,263</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 2011 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 if the Company forms joint ventures in the future.

Cancellable commitments

The Company has contracted with Soil Machine Dynamics ("SMD") of Newcastle upon Tyne, UK for the design and build of the seafloor production tools. As at June 30, 2011, the remaining value of the contract is US\$68.5 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.

On May 6, 2011 Nautilus lifted the suspension on the order for the Subsea Slurry Lift Pump (SSLP) with GE Oil & Gas. The current remaining authorised value of the contract as at June 30, 2011 is \$27.1 million. The contract with GE Oil and Gas is cancellable by the Company at any time, however, in the event of cancellation, the Company would be liable for any costs incurred by GE Oil & Gas up to that point in time. No other penalties or cancellation fees are payable under this contract.

The Company has entered into a contract for the detailed design and management of construction for the dewatering plant to DRA Pacific Pty Ltd, the Australian subsidiary of a South African materials handling specialist with experience in the offshore diamond mining industry. As at June 30, 2011 the remaining value of the contract is \$2.6 million (equivalent). The contract with DRA is cancellable by the Company at any time, however, in the event of cancellation, the Company would be liable for any costs incurred by DRA up to that point in time. No other penalties or cancellation fees are payable under this contract.

The Technip USA EPCM contract for the Riser and Lifting system is the only contract that remains suspended without penalty. The contract will not incur any additional costs, unless instructed by the Company to continue with engineering studies, until those contracts are reactivated. As at June 30, 2011, the remaining value of the suspended contract was \$13.8 million. The suspended contract 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 or alternate financing 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, approved capital expenditure and general and administrative costs of the Solwara 1 Project for 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 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 operating 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, 2011 the Company held its cash in the following currencies:

Currency Denomination	% of total cash in US\$ terms held
USD	53
GBP	30
AUD	0
EUR	12
CAD	5
	100

Interest rate risk

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

As at June 30, 2011, with other variables unchanged, a 1% increase (decrease) in the interest rate would have changed our net loss by approximately \$0.6 million for the six month period. 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 ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing these financial statements, the Company makes estimates and assumptions concerning the future. The resulting accounting estimates may differ from the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Stock based compensation

The estimated fair value of stock options is based on subjective assumptions that are input into an option pricing model. The assumptions include an estimate of the average future hold period of issued stock options before exercise; future volatility of the Company's share price in the expected hold period; historical forfeiture rate; dividend yield; and the appropriate risk-free rate of interest. The resulting fair value calculated is not necessarily the value that the holder of the options could receive in an arm's length transaction, because there is no market for the options.

FUTURE ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standard 9, Financial Instruments ("IFRS")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortised cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognised at fair value through profit or loss or at fair value through other comprehensive income. IFRS 9 has also been updated to include guidance on financial liabilities and derecognition of financial instruments.

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10, IFRS 11, IFRS 12, IAS 27 IFRS 13, IAS 19 and IAS 28

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, *Consolidated Financial Statements* (IFRS 10), IFRS 11, *Joint Arrangements* (IFRS 11), IFRS 12, *Disclosure of Interests in Other Entities* (IFRS 12), IAS 27, *Separate Financial Statements* (IAS 27), IFRS 13, *Fair Value measurement* (IFRS 13), IAS 19, *Employee Benefits* and amended IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

International Financial Reporting Standard 10, Consolidation (“IFRS 10”)

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation – Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

International Financial Reporting Standard 11, Joint Arrangements (“IFRS 11”)

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionally consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Controlled Entities – Non-monetary Contributions by Venturers.

International Financial Reporting Standard 12, Disclosure of Interests in Other Entities (“IFRS 12”)

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

International Financial Reporting Standard 13, Fair Value Measurement (“IFRS 13”)

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

International Accounting Standard 19, Employee benefits (“IAS 19”)

IAS 19 is amended to reflect (i) significant changes to recognition and measurement of defined benefit pension expense and termination benefits, and (ii) expanded disclosure requirements. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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, the Canadian Institute of Chartered Accountants (the CICA”) announced that GAAP for publicly accountable enterprises would be replaced by IFRS for interim and annual financial statements for fiscal beginning on or after January 1, 2011. The standard also requires that comparative figures for 2010 be based on IFRS. The CICA announcement also stated that the IFRS to be used for financial statement purposes should be those in effect as at December 31, 2011 and therefore the Company’s financial reporting for the first three quarters of 2011 and any public disclosures prior to December 31, 2011 will be based on the Company’s expectations of IFRS as at the subsequent date of December 31, 2011. While it is not expected that IFRS will change significantly prior to December 31, 2011, there is no assurance that IFRS will not change.

The Second Quarter 2011 Financial Statements have been prepared by the Company under IFRS. Please refer to the First Quarter 2011 Financial Statements which contain significant disclosure regarding the impact of the transition to IFRS from Cdn GAAP. Please refer to the First Quarter 2011 Financial Statements for details of the accounting policies being used under IFRS as well as reconciliations of certain prior period Cdn GAAP financial statements to IFRS.

IFRS 1 First-time Adoption of International Financial Reporting Standards (“IFRS 1”) sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. Based on current IFRS, the Company applied the following items to its opening balance sheet at January 1, 2010 and anticipates the following future impact of the transition to IFRS:

(a) Share Based Compensation

Under IFRS the calculation of fair value of stock options granted should incorporate the expected forfeiture rate relating to those options. Under Canadian GAAP, forfeitures could be accounted for as they occurred. Any expense recorded relating to forfeited stock options that do not vest is reversed such that the impact on income is the same under Canadian GAAP and IFRS. Based on historical forfeitures the forfeiture percentage associated with stock options is 10% over the life of the stock options. The Company has therefore adjusted the stock based compensation to reflect the historical forfeiture rate. Under Canadian GAAP stock based compensation was applied by the Company using the straight line method whereas under IFRS, the amortization of the expense is required to be based on graded vesting where applicable.

Contributed surplus was increased by \$2,492,574 on the adoption of IFRS. The loss for the three and six month periods ended June 30, 2010 was decreased by \$477,210 and \$949,314 respectively.

OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as of August 15, 2011.

Common shares

A total of 155,890,884 common shares are outstanding.

Convertible securities

The Company now has 9,209,000 options outstanding.

Stock Options

A total of 9,209,000 stock options are issued and outstanding, with expiry dates ranging from October 1, 2011 through to September 2, 2013. The weighted average exercise price for all stock options is C\$2.68. All stock options entitle the holders to purchase common shares of the Company.

INTERNAL CONTROLS

Internal control over financial reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Nautilus' disclosure controls and procedures. Based on the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as at June 30, 2011, the Company's disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed by the Company in reports it files are recorded, processed, summarized and reported within the appropriate time periods and forms.

The Company's management is responsible for establishing and maintaining adequate system of internal controls, including internal controls over financial reporting. Nautilus' internal controls include policies and procedures that (1) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions related to acquisition, maintenance and disposition of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and receipts are recorded and expenditures are incurred only in accordance with authorization of management and directors; and (3) provide reasonable (but not absolute) assurance of compliance with regulatory matters and to safeguard reliability of the financial reporting and its disclosures. Having assessed the effectiveness of the Company's internal controls over financial reporting, the Chief Executive Officer and Chief Financial Officer believe that: (1) the internal controls over financial reporting are effective and provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS; and (2) that no material failings in the reporting were discovered in the three months ended June 30, 2011.

There have been no material changes in the Company's internal control over financial reporting during the period ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitation in all control systems, they

cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of control also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatement due to error or fraud may occur and not be detected.

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.