

# **Nautilus Minerals Inc.**

(an exploration stage company)

## **Interim Consolidated Financial Statements**

**March 31, 2010 and 2009**

(expressed in U.S. dollars)

(unaudited)

**Nautilus Minerals Inc.**  
(an exploration stage company)

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

	March 31 2010 \$	December 31 2009 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	195,995,192	209,339,066
Prepaid expenses and advances	327,032	415,383
	196,322,224	209,754,449
<b>Non current assets</b>		
Restricted cash (note 6)	349,060	342,308
Property, plant and equipment (note 7)	19,696,395	19,556,423
Mineral properties (note 8)	12,213,367	12,213,367
	32,258,822	32,112,098
	228,581,046	241,866,547
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,814,885	8,113,708
<b>Non current liabilities</b>		
Accounts payable and accrued liabilities	150,978	216,141
<b>Non-controlling interest (note 10)</b>	200,764	209,972
<b>Shareholders' Equity</b>		
Share capital (note 9a)	343,598,701	343,598,701
Contributed surplus (note 9b)	41,788,402	40,730,323
Deficit	(158,972,684)	(151,002,298)
	226,542,327	233,326,726
	228,581,046	241,866,547

**Commitments and contingencies (note 12)**

**On behalf of the Board:**

Signed: "Stephen Rogers" - Director

Signed: "Russell Debney" - Director

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

**Nautilus Minerals Inc.**  
(an exploration stage company)

**Consolidated Statements of Loss and Comprehensive Loss and Deficit**  
(expressed in U.S. dollars)  
(unaudited)

	Three months ended March 31 2010 \$	Three months ended March 31 2009 \$
<b>Expenses</b>		
Exploration costs <i>(note 8)</i>	2,141,844	1,604,770
Wages and salaries	1,207,612	802,008
Stock-based compensation	1,058,079	1,028,703
General administrative	475,862	303,486
Professional fees	237,441	97,298
Depreciation	183,256	251,521
Travel	165,033	57,568
Listing and filing fees	71,916	79,763
Shareholder information	58,515	25,317
Management fees and salaries	445,262	340,466
Foreign exchange loss	2,389,101	4,036,857
	<u>8,433,921</u>	<u>8,627,757</u>
<b>Other Income</b>		
Interest income	454,327	573,986
Rent and other income	-	7,604
	<u>454,327</u>	<u>581,590</u>
<b>Loss and comprehensive loss before non-controlling interest</b>	7,979,594	8,046,167
Non-controlling interest	9,208	20,273
	<u>7,970,386</u>	<u>8,025,894</u>
<b>Loss and comprehensive loss</b>	7,970,386	8,025,894
<b>Deficit - Beginning of period</b>	151,002,298	123,894,254
	<u>158,972,684</u>	<u>131,920,148</u>
<b>Deficit - End of period</b>	158,972,684	131,920,148
<b>Loss per share – basic and diluted</b>	<u>0.05</u>	<u>0.05</u>
<b>Weighted average number of shares outstanding – basic and diluted</b>	<u>155,558,884</u>	<u>155,558,884</u>

ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

**Nautilus Minerals Inc.**  
(an exploration stage company)

**Interim Consolidated Statements of Cash Flows**  
(expressed in U.S. dollars)  
(unaudited)

	<b>Three months ended March 31 2010 \$</b>	<b>Three months ended March 31 2009 \$</b>
<b>Cash flows from (used in) operating activities</b>		
Income/(Loss) for the period	(7,970,386)	(8,025,894)
Items not affecting cash		
Stock-based compensation	1,058,079	1,028,703
Non-controlling interest	(9,208)	(20,273)
Depreciation	183,256	251,521
Unrealised foreign exchange loss/(gain)	2,344,550	4,046,958
Restricted cash	(6,752)	(4,190)
Change in non-cash working capital items		
Prepaid expenses and advances	88,351	708,735
Accounts payable and accrued liabilities	(6,060,846)	(9,276,411)
	<u>(10,372,956)</u>	<u>(11,286,661)</u>
<b>Cash flows from (used in) investing activities</b>		
Purchase of equipment	(626,368)	(491,088)
	<u>(626,368)</u>	<u>(495,278)</u>
<b>Effect of exchange rate changes on cash</b>	(2,344,550)	(4,046,958)
<b>Increase (decrease) in cash and cash equivalents</b>	(13,343,874)	(15,828,897)
<b>Cash and cash equivalents - Beginning of period</b>	<u>209,339,066</u>	<u>231,143,802</u>
<b>Cash and cash equivalents - End of period</b>	<u>195,995,192</u>	<u>215,314,905</u>
Cash	4,206,946	5,955,042
Cash equivalents	191,788,256	209,359,863
<b>Cash and cash equivalents – End of year</b>	<u>195,995,192</u>	<u>215,314,905</u>
<b>Supplemental Schedule of Non-Cash Financing Transactions</b>		
Stock-based compensation	<u>1,058,079</u>	<u>1,028,703</u>

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

## **Notes to Interim Consolidated Financial Statements**

March 31, 2010 and 2009  
(expressed in U.S. dollars)  
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### **1. Basis of Presentation, Operations and Subsidiaries**

#### *Basis of Presentation*

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

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

#### *Nature of Operations*

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

#### *Subsidiaries*

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

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

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

### **2. Significant Accounting Policies**

#### *Basis of Presentation*

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

## Notes to Interim Consolidated Financial Statements

March 31, 2010 and 2009  
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### 3. Future Accounting Pronouncements

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

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

### 4. Capital Disclosures

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

Currently the Company has no external debt, and under the Company's Investment Policy, cash cannot be invested for more than 90 days and must be held on deposit with banks with an S&P credit rating of A+ or better.

### 5. Financial Instruments - Disclosures

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

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at March 31, 2010:

	Financial assets at fair value as at March 31, 2010			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash and cash equivalents	195,995,192	-	-	195,995,192
	195,995,192	-	-	195,995,192

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

#### *Interest rate risk*

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

## Notes to Interim Consolidated Financial Statements

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### 5. Financial Instruments – Disclosures (continued)

#### *Foreign exchange risk*

For the period ending March 31, 2010, with other variables unchanged, a 1% increase (decrease) in the interest rate would have increased (decreased) our net earnings by approximately \$505,521. There would be no significant effect on other comprehensive income.

The Company's activities are located in several different countries, including Canada, Australia, Papua New Guinea, Tonga and Singapore and requires equipment to be purchased from several different countries and currencies. Nautilus has entered into key contracts in United States dollars, British Pounds sterling and Euros. Future profitability could be affected by fluctuations in foreign currencies. The Company has not entered into any foreign currency contracts or other derivatives to establish a foreign currency protection program.

Foreign exchange risk is mitigated by the Company maintaining its cash in a "basket" of currencies that reflect its current and expected cash outflows. As at March 31, 2010 the Company held its cash in the following currencies:

<b>Currency Denomination</b>	<b>% of total cash in US\$ terms held</b>
USD	59
GBP	20
AUD	9
EUR	8
CAD	3
PGK	1
	<hr/>
	100
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#### *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.

### 6. Restricted Cash

\$349,060 (December 31, 2009 - \$342,308) has been provided as security for leases, tenements held in Papua New Guinea, superannuation bank accounts held on behalf of employees, and electricity and information technology deposits.

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(an exploration stage company)

**Notes to Interim Consolidated Financial Statements**

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**7. Property, Plant and Equipment**

Details are as follows:

	March 31, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$	\$	\$	\$
Leasehold improvements	609,977	544,430	65,547	604,677	530,397	74,280
Plant and equipment	661,569	151,225	510,344	661,569	132,760	528,809
Office equipment	306,950	70,522	236,428	301,765	61,921	239,844
Computer hardware	767,442	537,846	229,596	729,905	484,741	245,164
Computer software	1,029,833	742,270	287,563	1,029,275	656,528	372,747
Tradeshaw display equipment	3,876	3,676	200	3,876	3,676	200
Motor vehicles	125,054	17,976	107,078	90,391	14,667	75,724
Land	30,101	-	30,101	30,101	-	30,101
Subsea equipment under construction	18,229,538	-	18,229,538	17,989,554	-	17,989,554
	<u>21,764,340</u>	<u>2,067,945</u>	<u>19,696,395</u>	<u>21,441,113</u>	<u>1,884,690</u>	<u>19,556,423</u>

**8. Mineral Properties**

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

**Acquisition of Mineral Properties**

In 2006, the Company entered into an agreement with Barrick Gold Inc., following its acquisition of Placer Dome, to terminate the farm-in agreement and convert its joint venture interest into an equity interest in the Company. Pursuant to the terms of this termination agreement, Nautilus Minerals Niugini Ltd. acquired the remaining interest which Barrick held in the PNG Licences in return for Barrick being issued with Common Shares in the Company. The Company thereby secured a 100% interest in all the PNG Licences. The value of the shares issued to Barrick was \$12,213,367, which was capitalized as mineral property acquisition costs in 2006.

**Notes to Interim Consolidated Financial Statements**

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**8. Mineral Properties (continued)**

**Exploration Expenditures**

	<b>Three months ended March 31 2010 \$</b>	<b>Three months ended March 31 2009 \$</b>
Assaying and sampling	3,963	26,622
Boat charters and fuel	-	136,294
Engineering services	19,003	45,485
Environmental consulting	8,910	115,004
General	285,155	270,240
Geological and field expenses	182,416	44,013
Maps, reports and data	8,094	6,213
Mineral property fees	9,793	254,883
Supplies	3,842	21,688
Travel	125,393	103,734
Wages and salaries	1,495,275	580,594
	<u>2,141,844</u>	<u>1,604,770</u>

In order to maintain the exploration leases, licenses and permits in which the Company is involved, the Company is expected to fulfil the minimum annual expenditure conditions under which the tenements are granted. These obligations may be varied from time to time, subject to approval, and are expected to be fulfilled in the normal course of operations of the Company. The exploration commitments are based on those exploration tenements that have been granted and may increase or decrease depending on whether additional applications are granted, relinquished or form joint ventures in the future. Based on tenements granted at March 31, 2010, total rental commitments are \$3.0 million and total expenditure commitments are \$19.0 million over the life of the licenses which extend to a maximum of two years.

**9. Share Capital**

**a) Details of share capital**

Authorized:

Unlimited common shares without par value

	<b>Shares</b>	<b>Amount \$</b>
Balance – December 31, 2007	145,923,471	331,406,593
Shares issued for cash – private placement	8,933,702	10,475,460
Shares issued on exercise of options	653,100	945,934
Shares issued on exercise of warrants	48,611	72,644
Options exercised	-	698,389
Share issue costs		<u>8,681</u>
Balance – December 31, 2008 and 2009 and March 31, 2010	<u>155,558,884</u>	<u>343,598,701</u>

**Notes to Interim Consolidated Financial Statements**

March 31, 2010 and 2009  
(expressed in U.S. dollars)  
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**9. Share Capital (continued)**

**b) Details of contributed surplus**

	<b>Amount \$</b>
Balance – December 31, 2008	36,144,187
Stock-based compensation	4,586,136
Balance – December 31, 2009	40,730,323
Stock-based compensation	1,058,079
Balance – March 31, 2010	<u>41,788,402</u>

**c) Share purchase options**

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

The changes in share purchase options outstanding are as follows:

	<b>Number of options</b>	<b>Weighted average exercise price C\$</b>	<b>Contractual weighted average remaining life (years)</b>
Balance – December 31, 2008	14,012,306	3.92	2.2
Granted	6,101,000	1.30	
Exercised	-	-	
Expired/cancelled	(5,579,806)	3.25	
Balance – December 31, 2009	14,533,500	3.08	2.2
Expired	(850,000)	4.83	
Balance – March 31, 2010	<u>13,683,500</u>	<u>2.97</u>	<u>2.1</u>

**Notes to Interim Consolidated Financial Statements**

March 31, 2010 and 2009  
(expressed in U.S. dollars)  
(unaudited)

**9. Share Capital (continued)**

**c) Share purchase options (continued)**

The following table summarizes information about stock options as at March 31, 2010:

<b>Total options outstanding</b>				<b>Exercisable options</b>	
<b>Range of exercise price C\$</b>	<b>Shares</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price C\$</b>	<b>Shares</b>	<b>Weighted average exercise price C\$</b>
0.00 – 0.99	550,000	1.8	0.99	220,000	0.99
1.00 – 1.99	6,126,000	2.5	1.35	1,020,200	1.34
2.00 – 2.99	975,000	1.1	2.85	585,000	2.85
3.00 – 3.99	1,342,500	0.6	3.20	1,342,500	3.20
4.00 – 4.99	775,000	0.6	4.61	638,000	4.60
5.00 – 5.99	3,660,000	2.6	5.34	100,000	5.10
6.00 – 6.99	255,000	0.2	6.38	255,000	6.38
	<u>13,683,500</u>	2.1	2.97	<u>4,160,700</u>	3.04

**10. Non-controlling Interest**

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

**11. Segmented Information**

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

	<b>Australasia</b>	<b>North America</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>March 31, 2010</b>			
Total assets	221,290,569	7,290,477	228,581,046
Loss for the three months ended March 31, 2010	6,645,118	1,197,360	7,842,478
<b>March 31, 2009</b>			
Total assets	184,590,652	69,098,819	253,689,471
Loss for the three months ended March 31, 2009	6,146,645	1,879,249	8,025,894

**Notes to Interim Consolidated Financial Statements**

March 31, 2010 and 2009  
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(unaudited)

**12. Commitments and Contingencies**

	<b>March 31 2010 \$</b>	<b>March 31 2009 \$</b>
<b>a) Non-cancellable operating leases</b>		
Not later than 1 year	301,529	185,471
Later than 1 year and not later than 2 years	148,470	86,890
Later than 2 years and not later than 3 years	30,228	33,574
Later than 3 years and not later than 4 years	-	4,158
	<u>480,227</u>	<u>310,093</u>
<b>b) Non-cancellable consulting agreements</b>		
Not later than 1 year	-	31,203
	<u>-</u>	<u>31,203</u>
<b>c) Non-cancellable development agreements</b>		
Not later than 1 year	598,028	-
	<u>598,028</u>	<u>-</u>
 Total Commitments	 <u>1,078,255</u>	 <u>341,296</u>

In order to maintain the exploration leases, licenses and permits in which the Company is involved, the Company is committed to fulfil the minimum annual expenditure conditions under which the tenements are granted. These obligations may be varied from time to time, subject to approval, and are expected to be fulfilled in the normal course of operations of the Company. The exploration commitments are based on those exploration tenements that have been granted and may increase if applications are granted in the future.

On December 17, 2008 the Company announced it had decided to preserve its cash position by delaying the construction of the equipment for the Solwara 1 mining system. As a result all contracts relating to the Solwara 1 mining system were terminated or suspended, depending on their criticality to the revised development program. All of the supplier agreements contained provisions for termination 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\$49.0 million. The suspended contracts also contained provisions allowing the Company to cancel at any time.

All settlement amounts in relation to the terminated contracts have been finalised.

During the quarter the Company 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 reactivated contract is US\$46.9 million (equivalent). The contract with SMD is cancellable by the Company at any time, however, in the event of cancellation the Company would be liable for any costs incurred by SMD up to that point in time. No other penalties or cancellation fees are payable under this contract.

**Notes to Interim Consolidated Financial Statements**

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**12. Commitments and Contingencies (continued)**

**Contingencies**

**CSIRO**

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

**Milestone based shares**

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

- i) Signing of a project development agreement between Nautilus and the Government of PNG - 60,000 common shares;
- ii) Obtaining unencumbered title to the area of land where Nautilus decides to locate the processing plant - 60,000 common shares;
- iii) The required agencies of the government of PNG approve the Environmental Impact Statement for the Solwara 1 Project - 60,000 common shares;
- iv) The grant of a mining lease over the Solwara 1 resource within EL1196 on terms acceptable to Nautilus Minerals - 60,000 common shares; and
- v) Commercial Completion of the Solwara 1 Project which is defined as being the point at which commissioning is complete and the operation has been producing concentrate at a rate of at least 70% scheduled rate for a period of 3 months - 60,000 common shares.