

Nautilus Minerals Inc.

(an exploration stage company)

Consolidated Financial Statements

For the quarter ended June 30, 2018 and

June 30, 2017

(Expressed in US Dollars)

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING AND NOTICE OF NO AUDITOR REVIEW

The preparation and presentation of the accompanying consolidated financial statements, Management Discussion and Analysis (“MD&A”) are the responsibility of management and have been approved by the Board of Directors.

Under section 4.3(3)(a) of National Instrument 51-102 *Continuous Disclosure Standards*, if an auditor has not performed a review of the interim financial statements, the statements must be accompanied by a notice indicating that the interim financial statements have not been reviewed by the auditor.

The Company's independent auditor has not performed a review of the accompanying interim financial statements.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Financial statements, by nature, are not precise since they include certain amounts based upon estimates and judgements. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances.

Management, under the supervision of and the participation of the President and Chief Financial Officer, have a process in place to evaluate disclosure controls and procedures and internal control over financial reporting as required by Canadian securities regulations. We, as President and Chief Financial Officer, will certify our annual filings with the CSA as required in Canada by National Instrument 52-109.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee which is independent from management.

The Audit Committee is appointed by the Board of Directors and reviews the consolidated financial statements and MD&A; considers the report of the external auditors; examines the fees and expense for audit services; and recommends to the Board the independent auditors for appointment by the shareholders. The independent auditors have full and free access to the Audit Committee and meet with the Audit Committee to discuss their audit work, the Company’s internal control over financial reporting and financial reporting matters. The Audit Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders.

Signed: “John McCoach”

Interim Chief Executive Officer

Signed: “Glenn Withers”

Chief Financial Officer

Nautilus Minerals Inc.

Consolidated Statements of Financial Position

(expressed in US Dollars)

	June 30, 2018 \$	December 31, 2017 \$
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	385,702	240,636
Prepaid expenses and advances	357,419	610,342
	743,121	850,978
Non-current assets		
Restricted cash (Note 9)	682,813	716,625
Prepaid expenses and advances (Note 12)	3,942,448	8,500,000
Property, plant and equipment (Note 11)	264,920,987	252,653,567
Exploration and evaluation assets (Note 10)	55,874,503	54,502,840
	325,420,751	316,373,032
TOTAL ASSETS	326,163,872	317,224,010
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	27,268,449	19,830,646
Loans payable (Note 6)	6,352,387	-
Warrant derivative (Note 7)	5,651,382	-
Project partner contribution (Note 8)	9,404,315	15,630,061
Provision for employee entitlements	653,294	735,954
	49,329,827	36,196,661
Non-current liabilities		
Accounts payable and accrued liabilities (Note 5)	645,190	645,190
Project partner contribution (Note 8)	41,547,941	37,818,403
Provision for employee entitlements	206,473	226,396
	42,399,604	38,689,989
TOTAL LIABILITIES	91,729,431	74,886,650
Equity (Note 13)		
Share Capital	547,642,121	547,642,121
Contributed Surplus	51,477,152	50,632,591
Deficit	(364,684,831)	(355,937,352)
Total Equity	234,434,442	242,337,360
TOTAL LIABILITIES AND EQUITY	326,163,872	317,224,010

Going Concern (Note 2)

Commitments (Note 17)

Subsequent Events (Note 19)

Approved by the Board of Directors

Signed: "Tariq Al Barwani"

Signed: "John McCoach"

Tariq Al Barwani

John McCoach

The accompanying notes are an integral part of these consolidated financial statements

Nautilus Minerals Inc.

Consolidated Statements of Loss and Comprehensive Loss For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

	Three months ended June 30, 2018 \$	Three months ended June 30, 2017 \$	Six months ended June 30, 2018 \$	Six months ended June 30, 2017 \$
Operating expenses				
Exploration (Note 15)	205,697	354,217	516,475	1,268,605
General and administration (Note 16)	2,866,790	1,630,293	4,770,963	2,683,622
Corporate social responsibility	80,483	495,677	238,529	1,064,171
Technology	63,082	43,282	81,567	97,886
Development – PSV management	17,617	29,736	42,004	53,458
Foreign exchange loss / (gain)	(345,842)	252,432	(174,316)	58,338
Operating loss	2,887,827	2,805,637	5,475,222	5,226,080
Interest income	-	(1,965)	-	(4,612)
Rent and other income	(93,828)	(55,207)	(184,982)	(101,958)
Fair value adjustment – Derivatives	(485,209)	-	(485,209)	-
Loss allowance – financial assets	3,942,448	-	3,942,448	-
Loss and comprehensive loss for the year	6,251,238	2,748,465	8,747,479	5,119,510
Weighted average number of shares outstanding, basic and diluted	693,706,658	677,918,937	698,080,901	662,400,426
Loss per share				
Basic and diluted	0.01	0.01	0.01	0.01

The accompanying notes are an integral part of these consolidated financial statements.

Nautilus Minerals Inc.

Consolidated Statements of Cash Flows

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

	Six months ended June 30, 2018 \$	Six months ended June 30, 2017 \$
Operating activities		
Loss for the year	(8,747,479)	(5,119,510)
Adjustments for:		
Depreciation and amortization	103,313	137,132
Unrealized foreign exchange (gain) loss	(193,512)	45,271
Share-based payments	844,563	87,096
Fair value adjustments - Derivatives	(485,209)	-
Credit loss allowance	3,942,448	-
Changes in non-cash working capital:		
Prepaid expenses and advances	600,492	415,327
Accounts payable and accrued liabilities	415,741	(334,526)
Net cash used in operating activities	(3,519,643)	(4,769,210)
Investing activities		
Restricted cash	33,812	(47,137)
Purchase of plant and equipment	(7,131,817)	(14,704,475)
Exploration and evaluation assets	(1,608,522)	(1,262,925)
Net cash used in investing activities	(8,706,527)	(16,014,507)
Financing activities		
Issuance of shares for cash – net of issue costs	-	8,010,250
Proceeds from loans – net of transaction costs	12,177,724	-
Net cash generated from financing activities	12,177,724	8,010,250
Effect of exchange rate changes on cash and cash equivalents	193,512	(45,271)
Increase / (Decrease) in cash and cash equivalents	145,066	(12,818,738)
Cash and cash equivalents - Beginning of year	240,636	26,843,958
Cash and cash equivalents - End of year (Note 4)	385,702	14,025,220

The accompanying notes are an integral part of these consolidated financial statements.

Nautilus Minerals Inc.

Consolidated Statements of Changes in Equity

(expressed in US Dollars)

	Share capital		Contributed Surplus	Deficit	Total equity
	Number of shares	Amount			
		\$	\$	\$	\$
Balance January 1, 2018	701,770,858	547,642,121	50,632,591	(355,937,352)	242,337,360
Shares returned to the company	(25,984,863)				
Issue of shares in share loan plan	8,245,000	-	-	-	-
Expiration of loan shares	(1,000,000)				
Share-based payments	-	-	844,562	-	844,562
Loss for the period	-	-	-	(8,747,479)	(8,747,479)
Balance June 30, 2018	683,030,995	547,642,121	51,477,153	(364,684,831)	234,434,442
Balance January 1, 2017	644,432,476	537,626,519	50,525,078	(346,432,114)	241,719,483
Shares issued through private placement	50,946,700	8,000,000	-	-	8,000,000
Expiration of loan shares	(3,100,000)	-	-	-	-
Exercise of share options	80,000	10,250	-	-	10,250
Transfer of value on exercise of share options		5,352	(5,352)	-	-
Share-based payments	-	-	87,096	-	87,096
Loss for the period	-	-	-	(5,119,510)	(5,119,510)
Balance June 30, 2017	692,359,176	545,642,121	50,606,822	(351,551,624)	244,697,319

The accompanying notes are an integral part of these consolidated financial statements.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

1 Corporate Information

Nature of Operations

Nautilus Minerals Inc. (the “Company”, “Nautilus” or “NMI”) is a company whose common shares are listed on the Toronto Stock Exchange and is also a member of the Nasdaq International Designation program.

Nautilus is engaged in the exploration and development of the ocean floor for copper and gold rich seafloor massive sulphide deposits and for manganese, nickel, copper and cobalt nodule deposits. To date the Company has not earned any revenues from operations and is considered to be in the exploration stage. The Company has one segment being mineral property exploration in Australasia. The exploration activity involves the search for deepwater copper and gold rich seafloor massive sulphides in the western Pacific Ocean and nodule deposits in the eastern Pacific Ocean. The Company’s main focus is to create shareholder value by demonstrating the seafloor production system and establishing a pipeline of development projects to maximize the value of mineral licenses and exploration applications that Nautilus holds in various locations in the Pacific Ocean. The Company's principal project is the Solwara 1 Project in Papua New Guinea (PNG) in the Bismarck Sea. The proposed principal operations of the Company subject to permitting and funding requirements will be the extraction of copper, zinc, gold and silver deposits where there are economically viable discoveries.

The Company’s consolidated financial statements and those of its controlled subsidiaries (“consolidated financial statements”) are presented in US Dollars.

Nautilus is a company incorporated in British Columbia, Canada. The registered office, head office and principal offices of the Company are located at:

Registered Office (Vancouver, Canada)

Nautilus Minerals Inc.
Floor 10
595 Howe St
Vancouver, BC, V6C 2T5
Canada

Head Office (Vancouver, Canada)

Nautilus Minerals Inc.
Suite 1400
400 Burrard Street
Vancouver, BC, V6C 3A6
Canada

Operations (Brisbane, Australia)

Nautilus Minerals Inc.
Level 3, 33 Park Road
Milton Queensland, Australia 4064

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

2 Going Concern

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

The Company has no source of revenue and will require significant additional funding to be able to complete the build and deployment of the seafloor production system. This production system is to be utilized on the Solwara 1 Project by the Company and its joint venture partner (as to 15%), the Independent State of Papua New Guinea's nominee. As at 30 June 2018, the Company has a working capital deficiency, excluding the project partner forecast allocation, of \$39,182,391 and an accumulated deficit of \$364,684,832.

In view of the Company's funding requirements, the Company is exploring alternatives for securing immediate bridge financing to allow the Company the time required to secure the significant additional project funding that is needed and also to explore alternative transactions aimed at maximizing shareholder value.

In early January 2018, the Company commenced receiving secured bridge loans from Deep Sea Mining Finance Ltd. ("DSMF"), a private entity controlled by the Company's two largest shareholders. The bridge loans are intended to form part of a larger secured structured credit facility in the amount of up to \$34 million to be provided by DSMF to the Company (the "Facility"). The structured facility was formalised on June 11, 2018.

As at August 10, 2018 an amount of \$13.55 million in bridge loans has been advanced to the Company by DSMF. Further details of the loans are set out in note 6.

The Company has reviewed all aspects of its business during this process and as result, has implemented certain measures aimed at preserving the Company's capital position. These measures include reducing the Company's workforce, terminating contracts for the construction of any seafloor production equipment that was in the early stages of development and not entering into any new construction contracts until further additional funding required is secured. Failure to secure project financing may result in the Company taking further steps aimed at maximizing shareholder value, including suspending or terminating the development of the seafloor production system and the Solwara 1 Project, and engaging in various transactions including, without limitation, asset sales, joint ventures and capital restructurings.

There can be no assurances that any transaction will result from these matters and any transaction will be subject to all necessary stock exchange and, if applicable, shareholder approvals as well as compliance with all other regulatory requirements.

The Company had previously disclosed that the Company was planning to commence initial production activities at the Solwara 1 Project during the third quarter of 2019, subject to securing project financing, finalizing the ship build contract delivery date between the shipyard and MAC Goliath Pte. Ltd. ("MAC") and finalizing the vessel equipment integration methodology (due in Q2 2018). As a result of the delays in securing the remaining project financing and the fact the Mawei shipyard have rescinded the ship building contract with MAC, the timing for initial production at the Solwara 1 Project is expected to be delayed past Q3 2019.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

While the Company has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future. Nautilus' opinion concerning liquidity and its ability to avail itself in the future of the financing options mentioned above are based on currently available information. To the extent that this information proves to be inaccurate, future availability of financing may be adversely affected.

Factors that could affect the availability of funding include Nautilus' performance (as measured by various factors including the progress and results of its exploration work), the state of international debt and equity markets, investor perceptions and expectations of past and future performance, the global financial climate, metal and commodity prices, political events in the south Pacific, obtaining operating approvals from the PNG government for the Solwara 1 Project, drilling and metallurgical testing results on the Company's tenements, ongoing results from environmental studies, engineering studies and detailed design and delivery of equipment. Current market conditions, the Company's history, current financial position of the Company, combined with the Company's contractual obligations as stated in the Note 16 give rise to a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and, therefore, its ability to realize its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements do not reflect the adjustments to the carrying values of the assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumptions deemed to be inappropriate. These adjustments could be material.

3 Summary of significant accounting policies

a) Basis of presentation

These condensed interim consolidated financial statements should be read in conjunction with our audited consolidated annual financial statements for the year ended December 31, 2017.

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The comparative information has also been prepared on this basis.

These condensed interim consolidated financial statements were approved on August 15, 2018 by the Board of Directors.

b) Changes in accounting policies

The accounting policies applied in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2017, except for the adoption of IFRS 9, Financial Instruments which is effective and has been applied from January 1, 2018. The impact of adoption and the accounting policies applied with regards to IFRS 9 are discussed in Note 3 (b) (i). These amendments were applied retroactively and no adjustments were required from the adoption of these standards.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

(i) Financial instruments under IFRS 9

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39, Financial Instruments: Recognition and Measurement. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial asset.

The Company's financial assets previously classified as loans and receivables and measured at amortized cost continue to be classified at amortized cost.

Financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through profit or loss (such as instruments held for trading or derivatives) or where the Company has opted to measure at fair value through profit or loss.

The impact on the balance sheet from the change relating to IFRS 9 has been summarised below.

We have assessed the classification and measurement of our financial assets and liabilities under IFRS 9 as follows:

	IAS 39	IFRS 9
Financial Assets		
Cash and cash equivalents	Amortised cost	Amortised cost
Prepayments	Cost	Amortised cost
Financial Liabilities		
Accounts Payable, accrued liabilities	Amortised cost	Amortised cost
Debt – Loans payable	Amortised cost	Amortised cost
Warrant derivative	Fair value through profit and loss	Fair value through profit and loss

4 Cash and cash equivalents

	June 30, 2018 \$	December 31, 2017 \$
Cash	385,702	240,636
	<u>385,702</u>	<u>240,636</u>

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

5 Accounts payable and accrued liabilities

	June 30, 2018	December 31, 2017
	\$	\$
<i>Current</i>		
Accounts Payable	10,889,329	7,465,600
Accrued Liabilities	11,602,864	7,565,520
Retention Payable	4,776,256	4,799,526
	<u>27,268,449</u>	<u>19,830,646</u>

	June 30, 2018	December 31, 2017
	\$	\$
<i>Non-current</i>		
Accounts payable	<u>645,190</u>	<u>645,190</u>
	<u>645,190</u>	<u>645,190</u>

The current Retention Payable represents the contractual retention from payments to Soil Machine Dynamics and Tree C Technology to be paid on completion of the contract for the construction of the Seafloor Production Tools and related control systems.

6 Loans payable

	June 30, 2018	December 31, 2017
	\$	\$
<i>Current</i>		
Balance, beginning of the year	-	-
Loans received – Deep Sea Mining Finance Ltd	12,550,000	-
Transaction costs (i)	(6,136,592)	-
Finance fees	(372,276)	-
Accrued interest payable	311,255	-
	<u>6,352,387</u>	<u>-</u>

(i) – Transactions costs relate to the fair value of warrants issued with the loans from Deep Sea Mining Finance. The fair value of all the warrants issued as at 30 June 2018 is \$6,136,592 (note 7)

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

The loans from DSMF form part of a larger secured structured credit facility of up to \$34,000,000. The loans bear interest at 8% per annum, payable bi annually in arrears with a one year maturity date. The above loans are secured by way of a General Security Agreement providing a first floating charge over all present and after-acquired assets of the Company.

7 Derivative liability

As at June 30, 2018 the Company has issued to DSMF a total of 53,908,932 share warrants. The exercise price of the warrants is denominated in Canadian dollars; however, Nautilus's functional currency is the US dollar. Due to this difference in currencies, the proceeds from any warrants exercised will vary based on foreign exchange rates. In accordance with IFRS 9, the company has treated the warrants as a derivative liability, with any changes in the fair value of the warrants from period to period recorded as a gain or loss in the consolidated statement of net loss and comprehensive loss. A reconciliation of the change in fair values of the derivatives is below:

	Fair Value warrant Derivative US\$
Balance, December 31, 2017	Nil
Fair value of warrants issued	6,136,592
Change in fair value of warrant derivative	(485,209)
Balance, June 30, 2018	5,651,382

Information relating to warrants outstanding at June 30, 2018 is as follows:

	Outstanding share warrants	Weighted average exercise price of outstanding warrants	Weighted average remaining life of outstanding warrants
	Price C\$	C\$	C\$
0.15 – 0.20	28,565,291	0.17	55.27
0.20 – 0.25	25,343,641	0.22	58.09
	53,908,932	0.19	56.50

The fair value of the share purchase warrants is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

	Warrants granted in 2018	Warrants granted in 2017
Expected dividend yield	Nil	N/A
Expected stock price volatility	83%-86%	N/A
Risk-free interest rate	1.98%-2.11%	N/A
Expected life of options in years	5.00	N/A

The Black-Scholes pricing models used to price options and loan shares require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate

8 Project Partner Contribution

Following the signing of the PNG Equity Agreement between the Company and the State on April 24, 2014, the Company received cash proceeds of \$120,000,000 in relation to the agreement to form the joint venture with the State Nominee (see Note 12).

The project partner contribution liability is the unearned portion of the purchase price of the State's initial 15% interest of the Solwara 1 JV recorded as a current liability, being 15% of the approved project budget for the next 12 months, with the balance recorded as non-current.

	June 30, 2018 \$	December 31, 2017 \$
Opening Balance	53,448,464	58,734,081
Subsea equipment under construction	(2,181,444)	(4,715,968)
Exploration and evaluation asset	(242,058)	(415,700)
Management Fee	(72,705)	(153,949)
Total project partner contribution	50,952,256	53,448,464
Current project partner contribution	9,404,315	15,630,061
Non current project partner contribution	41,547,941	37,818,403

The current project partner contribution liability as at June 30, 2018 has decreased due to a decrease in forecasted Solwara 1 project expenditure for the twelve months ending June 30, 2019.

9 Restricted cash

An amount of \$682,813 (December 31, 2017 - \$716,625) has been provided as security for leases and tenements held in Papua New Guinea.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

10 Exploration and evaluation assets

In 2006, the Company through its 100% owned subsidiary Nautilus Minerals Niugini Ltd acquired a 100% interest in certain PNG subsea exploration licenses by issuing common shares with an estimated fair value of \$12,213,367 to Barrick Gold Inc.

Following the grant of the mining lease (ML154) for the Solwara 1 deposit on January 13, 2011 the Company determined that an economic benefit is more likely than not to be recovered from the Solwara 1 deposit and, accordingly, commenced capitalizing exploration and evaluation costs associated with the Solwara 1 deposit.

With the formation of the joint venture (Note 12) between the Company and the State Nominee on December 11, 2014, the Company commenced recording its 85% share of the related joint venture expenditure on the Solwara 1 exploration and evaluation assets.

	June 30, 2018	December 31, 2017
	\$	\$
Opening balance	54,502,840	52,147,208
Geological services	12,157	-
Engineering services	305,656	512,396
Environmental consulting	52,341	115,883
Project management and oversight	952,651	1,630,415
General and administration	3,106	77,746
Mineral property fees	45,752	19,192
	<u>1,371,663</u>	<u>2,355,632</u>
Closing balance	55,874,503	54,502,840

Although the Company has taken steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee a clear title. Property title may be subject to unregistered prior agreements and regulatory requirements. The Company is not aware of any disputed claim of title.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

11 Property, plant and equipment

Period ended June 30, 2018

	Opening Cost Balance	Additions	Disposals	Closing Cost Balance	Accum Dep'n	Closing Carrying Value
	\$	\$	\$	\$	\$	\$
Leasehold improvements	96,825	-	-	96,825	(72,989)	23,836
Plant and equipment	1,655,195	47,855	(73,867)	1,629,183	(861,177)	768,006
Office equipment	3,117,106	-	-	3,117,106	(3,003,604)	113,502
Motor vehicles	307,035	-	-	307,035	(232,705)	74,330
Land	466,969	-	-	466,969	-	466,969
Subsea equipment under construction (Note 11)	251,112,827	12,361,517	-	263,474,344	-	263,474,344
Total property, plant & equipment	256,755,957	12,679,372	(73,867)	269,091,462	(4,170,475)	264,920,987

All property and equipment are pledged as part of a general security agreement to secure the credit facility described in Note 6.

Period ended December 31, 2017

	Opening Cost Balance	Additions	Disposals	Closing Cost Balance	Accum Dep'n	Closing Carrying Value
	\$	\$	\$	\$	\$	\$
Leasehold improvements	69,950	26,875	-	96,825	(67,000)	29,825
Plant and equipment	1,239,001	416,194	-	1,655,195	(856,893)	798,302
Office equipment	3,109,882	12,947	(5,723)	3,117,106	(2,963,146)	153,960
Motor vehicles	307,035	-	-	307,035	(215,351)	91,684
Land	466,969	-	-	466,969	-	466,969
Subsea equipment under construction (Note 10)	224,389,009	26,723,818	-	251,112,827	-	251,112,827
Total property, plant & equipment	229,581,846	27,179,834	(5,723)	256,755,957	(4,102,390)	252,653,567

12 Joint Arrangements

On December 11, 2014, the Company announced that all terms of the PNG Equity Agreement had been met and the unincorporated joint venture between Nautilus and the State Nominee in respect of the Solwara 1 Project was formed. The table below presents the carrying value of the project assets on this date that were transferred on formation of the joint venture.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

	100%	Nautilus 85%	State Nominee 15%
Subsea equipment under construction	205,419,165	174,606,290	30,812,875
Exploration and evaluation assets	33,067,447	28,107,330	4,960,117
	<u>238,486,612</u>	<u>202,713,620</u>	<u>35,772,992</u>

The table below presents the carrying value of the project assets as at June 30, 2018.

	100%	Nautilus 85%	State Nominee 15%
Prepaid Charterers Guarantee	9,276,348	7,884,896	1,391,452
- Loss allowance provision (i)	(4,638,174)	(3,942,448)	(695,726)
Subsea equipment under construction	309,969,817	263,474,344	46,495,473
Exploration and evaluation assets	50,023,918	42,520,330	7,503,588
	<u>364,631,909</u>	<u>309,937,122</u>	<u>54,694,787</u>

(i) – Due to ongoing discussions regarding the ship build contract, management made the decision to recognise a loss allowance provision for the prepaid charterer’s guarantee. The allowance will be reassessed at each reporting period based on the outcome of said discussions.

As at June 30, 2018 Nautilus Minerals Inc recognised its share of the joint venture assets as follows.

	June 30, 2018 \$	December 31, 2017 \$
Prepaid Charterers Guarantee	7,884,896	8,500,000
- Loss allowance provision	(3,942,448)	-
Subsea equipment under construction (Note 10)	263,474,344	251,112,827
Exploration and evaluation assets (Note 9)	42,520,330	41,148,667
	<u>309,937,122</u>	<u>300,761,494</u>

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

13 Related party transactions

For the period ended June 30, 2018 the Company incurred costs of \$0 (2017 – \$185,093) for services provided by United Engineering Services LLC (“UES”), a wholly owned subsidiary of MB Holding Company LLC (“MB Holding”).

On January 18, 2016, the Company announced that it had signed agreements with UES to provide support services associated with wet testing the Company's seafloor production equipment and storing the equipment as it is delivered from various suppliers prior to integration onto the Production Support Vessel.

In early January 2018, the Company commenced receiving secured bridge loans from Deep Sea Mining Finance Ltd. ("DSMF"), a private entity controlled by the Company's two largest shareholders, MB Holding and Metalloinvest Holding (Cyprus) Limited. The bridge loans are intended to form part of a larger secured structured credit facility in the amount of up to \$34 million to be provided by DSMF to the Company (the "Facility"). The Company and DSMF are currently in the process of negotiating the definitive agreements for the Facility. Upon the execution of such definitive agreements, all of the existing bridge loans provided by DSMF to the Company will become loans under the Facility. As at August 15, 2018, an amount of \$12.55 million in bridge loans has been advanced to the Company by DSMF, and a total of 53,908,932 share purchase warrants have been issued by the Company to DSMF as partial consideration for such bridge loans.

The bridge loans will assist the Company's immediate working capital requirements and facilitate payments required to continue the development of the Company's seafloor production system to be first utilized at the Company's Solwara 1 Project. The loans bear interest at 8% per annum, payable bi-annually in arrears with a one year maturity date. The Company will be entitled to pre-pay each loan prior to maturity, by paying 108% of the outstanding principal of the loan plus accrued and unpaid interest. Each loan is represented by a promissory note and will initially be secured against the assets of the Company through a general security agreement. DSMF may subsequently require the loans to be guaranteed by the Company's material operating subsidiaries and secured against the assets of such subsidiaries.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

14 Equity

a) Share options

Outstanding share options

	Share options	Weighted average exercise price C\$
At January 1, 2017	3,650,000	0.39
Expired	(1,970,000)	0.46
Exercised	(80,000)	0.17
At December 31, 2017	1,600,000	0.31
Granted	6,632,000	0.23
At June 30, 2018	8,232,000	0.25

Information relating to share options outstanding at June 30, 2018 is as follows:

Price range C\$	Outstanding share options	Vested stock options	Weighted average exercise price of outstanding options C\$	Weighted average exercise price of vested options C\$	Weighted average remaining life of outstanding options (months)
0.01 – 0.99	8,232,000	2,938,000	0.25	0.28	46.9
	<u>8,232,000</u>	<u>2,938,000</u>	0.25	0.28	46.9

Nautilus Minerals Inc.

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(expressed in US Dollars)

b) Loan shares

Outstanding loan shares

	Loan shares	Weighted average exercise price C\$
At January 1, 2017	6,450,000	0.52
Expired	<u>(5,450,000)</u>	0.57
At December 31, 2017	<u>1,000,000</u>	0.28
Granted	8,245,000	0.23
Expired	<u>(1,000,000)</u>	0.28
At June 30, 2018	<u>8,245,000</u>	0.23

Information relating to loan shares outstanding at June 30, 2018 is as follows:

Price range C\$	Outstanding share loan shares	Vested loan shares	Weighted average exercise price of outstanding loan shares C\$	Weighted average exercise price of vested loan shares C\$	Weighted average remaining life of outstanding loan shares (months)
0.00 – 0.99	<u>8,245,000</u>	<u>2,061,250</u>	0.23	0.23	50.6
	<u>8,245,000</u>	<u>2,061,250</u>	0.23	0.23	50.6

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

15 Exploration Expenditures

	Three months ended June 30 2018 \$	Three months ended June 30 2017 \$	Six months ended June 30 2018 \$	Six months ended June 30 2017 \$
General and administration	9,613	16,346	13,919	26,094
Geological services and field expenses	26,857	88,267	152,606	571,851
Mineral property fees	1,548	1,541	69,952	76,984
Professional services	28,550	25,983	53,200	73,940
Travel	12,736	11,351	22,955	60,699
Wages and salaries	126,393	210,729	203,843	459,037
Total Exploration Expenditures	205,697	354,217	516,475	1,268,605

In accordance with our policy on exploration and evaluation assets, all exploration expenditure incurred for the Solwara 1 project is capitalised to exploration and evaluation assets, with all other exploration expenditure expensed to the Statement of Loss.

16 General and Administration Expenditures

	Three months ended June 30 2018 \$	Three months ended June 30 2017 \$	Six months ended June 30 2018 \$	Six months ended June 30 2017 \$
Office and general	418,046	413,555	868,834	826,006
Professional services	434,773	444,626	706,486	463,275
Finance Charge	72,955	-	615,104	-
Interest expense	318,669	-	318,669	-
Salary and wages	1,395,640	652,673	1,854,269	1,116,837
Shareholder related costs	50,589	24,765	115,682	79,141
Travel	131,574	31,795	188,605	61,229
Depreciation	44,544	62,879	103,314	137,134
Total General & Administration Expenditures	2,866,790	1,630,293	4,770,963	2,683,622

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the three months ended June 30, 2018 and 2017

(expressed in US Dollars)

17 Commitments

a) *Non-cancellable commitments*

	June 30 2018 \$
<i>Non-cancellable operating leases</i>	
Not later than 1 year	575,889
Later than 1 year and not later than 2 years	547,265
Later than 2 years and not later than 3 years	48,127
Later than 3 years and not later than 4 years	-
Later than 4 years and not later than 5 years	-
Later than 5 years	-
Total Commitments	<u>1,171,281</u>

The Company previously disclosed the 5 year Vessel Charter commitment agreement with MAC. As the MAC contract has been rescinded by the shipyard, the commitment is no longer reflected in these accounts.

b) *Cancellable commitments*

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. Based on tenements granted at June 30, 2018, total variable expenditure commitments are estimated to be \$29.8 million, expected to be incurred over the next four years.

The Company has entered into various contracts for the design and build of the seafloor production system. As at June 30, 2018, the committed value of the contracts is \$18.4 million. The committed value of \$18.4 million reflects ongoing milestone payments for continuing contracts. The contracts are cancellable by the Company at any time, however, in the event of cancellation, the Company is liable for any costs incurred up to that point, with an estimate of costs for terminated contracts included in the accrued costs at period end. No other penalties or cancellation fees are payable under these contracts.

18 Financial risk management

The Company's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

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(expressed in US Dollars)

a) *Capital Management*

The Company's objectives in the managing of the liquidity and capital are to safeguard the Company's ability to continue as a going concern and provide financial capacity to meet its strategic objectives. The capital structure of the Company consists of equity attributable to common shareholders, comprising of issue share capital, contributed surplus and deficit.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets to facilitate the management of its capital requirements. The Company prepares annual expenditure budgets that are updated as necessary depending upon various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. As at June 30, 2018 the Company does not have any long-term debt and is not subject to any externally imposed capital requirements. The current bridge loan facility has allowed the Company to continue to seek further investment alternatives for funding from various parties to meet its current operating and exploration and development obligations, as outlined in note 2.

b) *Foreign exchange risk*

The Company's operations are located in several different countries, including Canada, Australia, PNG, Tonga and Solomon Islands and require equipment to be purchased from several different countries. Nautilus has entered into key contracts in United States dollars, 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.

At June 30, 2018 only USD currencies were held.

c) *Credit Risk*

The Company places its cash and cash equivalents 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.

d) *Liquidity Risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by the delivery of cash or another financial asset. 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 Company has no source of revenue and has significant cash requirements to be able to meet its administrative overhead and maintain its property interests. In order to be able to continue to advance the development of the Solwara 1 Project and its mineral property interests, the Company will need to secure additional equity, debt and/or joint venture partner funding. Until that time, certain discretionary expenditures may be deferred and measures to reduce operating costs may be taken in order to preserve working capital. See note 2, Going concern.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

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19 Subsequent Events

On July 4, 2018 the company announced that it had been notified by Fujian Mawei Shipbuilding Ltd (the “Shipyard”), the owner of the shipyard where Nautilus’ Production Support Vessel (the “PSV”) is being built, that the Shipyard had rescinded the shipbuilding contract between the Shipyard and MAC Goliath Pte Ltd (“MAC”), the contractor engaged by Nautilus to procure the construction of the PSV on behalf of Nautilus.

The Shipyard’s notice of rescission is in response to MAC’s failure to pay the third instalment of the contract price. Notwithstanding the rescission of the shipbuilding contract by the Shipyard, discussions are continuing and the Company will issue further updates as matters develop.

On July 12, 2018 the Company issued an additional 2,792,096 share purchase warrants in conjunction with bridge loans from DSMF of \$650,000. The share purchase warrants have an exercise price of C\$0.17 and have a life of 5 years. To date the Company has issued a total of 56,701,028 share purchase warrants to DSMF.

On July 17, 2018 the Company issued an additional 1,503,436 share purchase warrants in conjunction with bridge loans from DSMF of \$350,000. The share purchase warrants have an exercise price of C\$0.17 and have a life of 5 years. To date the Company has issued a total of 58,204,464 share purchase warrants to DSMF.

On August 7, 2018, the CEO Mr Michael Johnston was replaced by Mr John McCoach who will act as Interim CEO.