

Nautilus Minerals Inc.

(an exploration stage company)

Consolidated Financial Statements

**For the years ended December 31, 2012 and
December 31, 2011**

(Expressed in US Dollars)

MANAGEMENT’S RESPONSIBILTY FOR FINANCIAL REPORTING

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). 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: “Michael Johnston”

President and Chief Executive Officer

Signed: “Shontel Norgate”

Chief Financial Officer



March 15, 2013

Independent Auditor's Report

To the Shareholders of Nautilus Minerals Inc.

We have audited the accompanying consolidated financial statements of Nautilus Minerals Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform our audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nautilus Minerals Inc. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flow for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Nautilus Minerals Inc.

Consolidated Statements of Financial Position

(expressed in US Dollars)

	December 31, 2012 \$	December 31, 2011 \$
ASSETS		
Current assets		
Cash and cash equivalents (Note 5)	57,806,465	149,447,794
Prepaid expenses and advances (Note 6)	675,991	764,060
	58,482,456	150,211,854
Non-current assets		
Restricted Cash (Note 8)	2,319,663	2,270,955
Prepaid expenses and advances (Note 2 and 6)	-	12,933,620
Property, plant and equipment (Note 10)	170,166,331	86,230,435
Mineral properties (Note 9)	40,778,662	30,906,586
	213,264,656	132,341,596
TOTAL ASSETS	271,747,112	282,553,450
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	11,677,480	19,315,000
Non-current liabilities		
Accounts payable and accrued liabilities	5,747,090	3,358,584
Joint venture contribution (Note 2)	1,797,081	1,797,081
	7,544,171	5,155,665
TOTAL LIABILITIES	19,221,651	24,470,665
Equity		
Share Capital	477,413,919	442,832,443
Contributed Surplus	46,537,794	45,694,452
Deficit	(271,426,252)	(230,444,110)
Total Equity	252,525,461	258,082,785
TOTAL LIABILITIES AND EQUITY	271,747,112	282,553,450

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

Signed: "Russell Debney"
Approved by the Board of Directors

Russell Debney

Signed: "Cynthia Thomas"

Cynthia Thomas

Nautilus Minerals Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

	December 31, 2012 \$	December 31, 2011 \$
Operating expenses		
Exploration costs (Note 13)	6,821,848	14,212,789
General and Administration (Note 14)	18,021,262	17,213,495
Environment	927,887	393,099
Technology	2,734,041	1,486,792
Development	1,096,862	381,527
Foreign exchange	(608,530)	1,386,338
Operating loss	28,993,370	35,074,040
Impairment of vessel prepayment	12,933,620	-
Interest Income	(918,858)	(827,080)
Rent and other income	(25,990)	(201,637)
Loss and comprehensive loss for the year	40,982,142	34,045,323
Weighted average number of shares outstanding, basic and diluted	210,312,649	167,334,354
Loss per share		
Basic and diluted	0.19	0.20

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

Nautilus Minerals Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

	December 31, 2012 \$	December 31, 2011 \$
Operating activities		
Loss for the year	(40,982,142)	(34,045,323)
Reconciling Adjustments:		
Depreciation and amortization	899,552	511,538
Impairment of vessel prepayment	12,933,620	-
Unrealized foreign exchange losses/(gains)	(941,939)	1,469,593
Share-based payments	973,946	1,131,956
Changes in non-cash working capital		
Prepaid expenses and advances	88,069	(207,560)
Accounts payable and accrued liabilities	(2,774,010)	(6,767,075)
Net cash used in operating activities	(29,802,904)	(37,906,871)
Investing activities		
Restricted cash	(48,708)	(1,525,162)
Joint venture contribution	-	1,797,081
Prepaid expenses and advances	-	(12,933,620)
Purchase of plant and equipment	(86,496,110)	(44,339,068)
Mineral property costs	(10,686,418)	(17,710,624)
Net cash used in investing activities	(97,231,236)	(74,711,393)
Financing activities		
Issuance of shares for cash - net of issue costs	34,450,872	98,402,716
Net cash generated from financing activities	34,450,872	98,402,716
Effect of exchange rate changes on cash and cash equivalents	941,939	(1,469,593)
Decrease in cash and cash equivalents	(91,641,329)	(15,685,141)
Cash and cash equivalents - Beginning of year	149,447,794	165,132,935
Cash and cash equivalents - End of year (Note 5)	57,806,465	149,447,794

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	Non-controlling interest	Total equity
	Number of shares	Amount					
		\$	\$	\$	\$	\$	\$
Balance January 1, 2011	155,578,884	343,635,585	45,356,638	(196,523,642)	192,468,581	124,855	192,593,436
Exercise of share options	1,475,000	1,954,920	-	-	1,954,920	-	1,954,920
Issue of shares in Share Loan Plan	200,000	-	-	-	-	-	-
Issue of shares in private placement	38,927,857	96,447,796	-	-	96,447,796	-	96,447,796
Share-based payments	-	-	1,131,956	-	1,131,956	-	1,131,956
Transfer of value on exercise of share options	-	794,142	(794,142)	-	-	-	-
Acquisition of NCI	-	-	-	124,855	124,855	(124,855)	-
Loss for the year	-	-	-	(34,045,323)	(34,045,323)	-	(34,045,323)
Balance December 31, 2011	196,181,741	442,832,443	45,694,452	(230,444,110)	258,082,785	-	258,082,785
Exercise of share options	243,000	302,844	-	-	302,844	-	302,844
Issue of shares in Share Loan Plan	2,850,000	-	-	-	-	-	-
Issue of shares in private placement	37,673,124	34,148,028	-	-	34,148,028	-	34,148,028
Share-based payments	-	-	973,946	-	973,946	-	973,946
Transfer of value on exercise of share options	-	130,604	(130,604)	-	-	-	-
Loss for the year	-	-	-	(40,982,142)	(40,982,142)	-	(40,982,142)
Balance December 31, 2012	236,947,865	477,413,919	46,537,794	(271,426,252)	252,525,461	-	252,525,461

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

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(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 quoted on OTCQX International.

Nautilus is engaged in the exploration and development of the ocean floor for copper and gold rich seafloor massive sulphide 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. The Company's main focus for 2012 was the Solwara 1 Project in Papua New Guinea (PNG) in the western Pacific Ocean. The proposed principal operations of the Company subject to permitting 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

Corporate Office (Toronto, Canada)

Nautilus Minerals Inc.
Suite 1702, 141 Adelaide Street West
Toronto, Ontario M5H 3L5
Canada

Operations (Brisbane, Australia)

Nautilus Minerals Inc.
Level 7, 303 Coronation Drive
Milton Queensland, Australia 4064

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

2 Status of joint venture agreements, construction contracts and liquidity risk

Solwara 1 Project

On March 29, 2011, the Company announced that the State of PNG had signed the State Equity Option Agreement (the "Agreement") and exercised its option to acquire a 30% stake in Nautilus' Solwara 1 Project in the Bismarck Sea.

The agreement contemplates the formation of an unincorporated joint venture to hold the mining assets of the Solwara 1 Project, with Nautilus to retain a 70% holding and the State of PNG to acquire a 30% share (the "Mining JV"). The State's interest in the Mining JV will be held through Petromin PNG Holdings Limited ("Petromin"), a wholly owned company of the State, which holds the State's mining and petroleum assets.

On June 1, 2012 Nautilus announced that it was in dispute with the State of PNG as to the parties' obligations to complete the State Equity Option Agreement entered into on 29 March, 2011 and that it had initiated the dispute resolution process provided for in such agreement. Subsequently Nautilus announced that the State had issued Nautilus with a Notice of Arbitration in relation to the dispute. Nautilus continues to engage with the State in an effort to resolve matters amicably.

Nautilus considers that, upon the formation of the Mining JV, the State will have a contractual obligation to pay an amount of approximately US\$23.5 million in respect of costs incurred in the development of the Solwara 1 Project up to January 2011, and to make pro-rata capital contributions in respect of subsequent Project development costs which, at the end of December 2012 totaled approximately US\$61.2 million (excluding interest). No amounts have been recorded in the books of Nautilus in respect of these contributions. The State disputes that it is required to meet such obligations as it believes that Nautilus has not fulfilled its obligations under the Agreement. In order to continue the construction of the Seafloor Production System, Nautilus has been forced to carry the State's share of Project development costs to date.

It has been Nautilus' preference to resolve the dispute with the State by agreement and with that aim Nautilus has taken steps to meet with senior representatives of the State, including discussions with National Executive Council Ministers.

Vessel Joint Venture

On April 13, 2011, the Company announced the formation of a strategic partnership with German shipping company Harren & Partner ("Harren").

A joint venture company (the "Vessel JV") was intended to be formed to own and operate a production support vessel which will serve as the operational base for Nautilus to produce high grade copper and gold ore at its first development project, Solwara 1, in the Bismarck Sea of Papua New Guinea ("PNG").

Under the terms of the strategic partnership, Harren was to procure the design and construction of the vessel at an estimated cost of approximately €127 million.

On delivery, the vessel was to be sold to the Vessel JV and it was intended that Harren would hold a 50.01% interest. The remaining 49.99% of the Vessel JV was to be controlled by Nautilus through a holding company in which the PNG government would own a 5% stake through its wholly owned company, Petromin. Petromin made an initial deposit to Nautilus of approximately \$1.8 million as part payment for that interest. Nautilus prepaid \$12.9 million to

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

the shipyard Harren contracted with for the vessel construction, which was to be converted to equity on the formation of the Vessel JV.

On June 1, 2012 Nautilus announced that there may be a delay in the finalisation of funding for the vessel to be used in connection with its Solwara 1 Project and a potential consequential delay to the program for the vessel build. In turn, this may result in a delay to the commencement of operations at Solwara 1.

Nautilus and Harren had been negotiating the terms of third party financing related to the PSV. Harren advised Nautilus that it would no longer be able to contribute the full amount of the equity to the Vessel JV contemplated by the Agreement signed by the parties in April 2011. Nautilus indicated at that time that the change to Harren's position may delay the finalisation of the terms of the third party funding and result in a consequential delay to the program for the vessel build.

Deposit made to shipyard

The above issues with respect to the vessel construction result in a risk of impairment in respect of an amount of \$12.9 million which was advanced to the shipyard proposed by Harren under the Vessel JV. The shipyard made an application for insolvency on August 29, 2012 and is currently in an administration process. The Company has since registered a claim with the administrator that has been accepted in full, however early indications from the process indicate that unsecured creditors will likely receive a quota or between 1-3% of their claim. While the quota percentages have not been finalised the Company has recognised an impairment charge of the full carrying amount of \$12.9 million given the very low quota percentage.

Status of Construction contracts

On November 13, 2012, in order to preserve capital, Management and the Board of Directors of Nautilus decided to terminate/suspend the construction of its Seafloor Production System and the Company therefore terminated a number of contracts relevant thereto. All of the relevant supplier agreements contain provisions for termination without penalty. The Company was also forced to reduce staff numbers with approximately 60 positions made redundant. As at the end of December all contracts except for the three key contracts for the Seafloor Production Tools, the Subsea Slurry Lift Pump and the Riser have been terminated. The Company remains in discussions with its three key contractors on how best to manage these contracts during this interim period.

Liquidity and continuing operations

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

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 resume the construction contracts and advance the development of its mineral property interests, the Company will be required to raise additional financing. Until that time, certain discretionary expenditures may be deferred and measures to reduce operating costs will be taken in order to preserve working capital.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

3.1 Basis of measurement

The consolidated financial statements of Nautilus Minerals Inc. have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements have been prepared under the historical cost convention, as modified by the financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.15.

3.2 Consolidation

The financial statements of the Company consolidate the accounts of Nautilus Minerals Inc and its subsidiaries. All intercompany transactions, balances and any unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities which Nautilus Minerals Inc controls by having the power to govern their financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Nautilus Minerals Inc controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Nautilus Minerals Inc and are de-consolidated from the date that control ceases.

These consolidated financial statements include the accounts of the Company which is incorporated in Canada and all of its subsidiaries. The Company's significant subsidiaries include Nautilus Minerals Niugini Limited (Papua New Guinea), Nautilus Minerals Pacific Proprietary Limited (Australia), Nautilus Minerals (Tonga) #1 Limited, Tonga Offshore Mining Limited (Tonga), Nautilus Minerals Singapore Limited and Koloa Moana Resources Inc (Canada).

3.3 Foreign currency translation

(a) Functional and presentational currency

The consolidated financial statements are presented in United States Dollars, which is the functional and presentational currency of Nautilus Minerals Inc. Items included in the financial statements of each consolidated entity in the Nautilus Minerals group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency for all significant entities within the consolidated group is United States Dollars.

(b) Transactions and balances

Foreign currency transactions are accounted for at the rates of exchange at the date of the transaction. Monetary assets and liabilities are translated at year-end exchange rates. Gains and losses arising on settlement of such transactions and from the translation of foreign currency monetary assets and liabilities are recognized in the statement of loss.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

3.4 Cash and cash equivalents

The Company considers cash and cash equivalents to comprise amounts held in banks and highly liquid investments with maturities at time of purchase of 90 days or less.

3.5 Financial assets

(a) Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. All of the Company's financial assets are currently classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise restricted cash and cash and cash equivalents in the balance sheet.

(b) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(c) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognises an impairment loss as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

3.6 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

3.7 Property, plant and equipment

Equipment is recorded at cost less accumulated depreciation. The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Depreciation is calculated over the estimated useful life of the assets on a straight-line basis as follows:

	Estimated useful life (in years)
Leasehold improvements	3
Plant and equipment	3 – 15
Office equipment	1 – 20
Motor vehicles	6 - 8

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

3.8 Mineral Properties

All costs directly related to the acquisition of rights to explore for minerals are capitalized.

Once the right to explore has been obtained, the Company will incur exploration and evaluation expenditures to advance an area of interest. Such expenditures include:

- Exploratory drilling;
- Geological, geochemical and geophysical studies;
- Trenching and sampling;
- The depreciation of equipment used in the above activities, and
- Activities involved in evaluating the technical feasibility and commercial viability of extracting mineral resources.

The Company expenses all exploration and evaluation expenditures until management conclude that a future economic benefit is more likely than not to be realized. In evaluating if expenditures meet this criterion to be capitalized, management considers the following:

- The extent to which reserves or resources, as defined in National Instrument 43-101 have been identified in relation to the project in question;
- The status of cost assessments or scoping studies;
- The status of environmental permits, and
- The status of mining leases or permits.

Once the Company considers that a future economic benefit is more likely than not to be realized from an area of interest, all subsequent costs directly relating to the advancement of the related area of interest are capitalized.

Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves and resources, whereas costs relating to abandoned prospects are written off.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves and resources, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

3.9 Impairment of non-financial assets

Property, plant and equipment, mineral properties and are considered for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If an indicator is identified, the asset's recoverable amount is calculated and compared to the carrying amount. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

3.10 Share based payments

The cost of equity-settled and cash settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the relevant vesting period.

The company grants either stock options or loan shares as remuneration for directors and as a part of a long term incentive plan for certain employees. Where the shared based payment is for remuneration they generally vest over 2.5 years (20% every six months) and expire after three years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Where the share based payment is as part of a long term incentive plan they generally vest in a single tranche 2.5 years from issue and expire after 3.5 years. In both instances the fair value of each tranche is measured at the date of grant using the Black-Scholes options pricing model.

At each balance sheet date, before vesting, the cumulative expense is calculated based on management's best estimate of the number of equity instruments that will ultimately vest. The movement in this cumulative expense is recognised in the income statement, with a corresponding entry in equity.

The proceeds from the exercise of stock options and warrants, in addition to the carrying value attributable to those options and warrants exercised, are recorded as share capital.

3.11 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

3.12 Income tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured at tax rates that are expected to apply in periods in which the temporary differences reverse based on tax rates and law enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.13 Share capital

Incremental external costs directly attributable to the issue of new common shares are deducted from share capital.

3.14 Loss per share

Basic loss per share is computed by dividing loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion or exercise of securities only when such conversion or exercise would have a dilutive effect on earnings per share. The dilutive effect of outstanding stock options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method which assumes that any proceeds from the exercise of share options or warrants would be used to purchase common shares at the average market price during the period. During years when the Company has generated a loss, the potential shares to be issued from the assumed exercise of options and warrants are not included in the computation of diluted per share amounts because the result would be anti-dilutive.

3.15 Significant accounting judgements and estimates

The preparation of the financial statements in conformity of IFRS requires the use of judgements and estimates that affect the amount reported and disclosed in the consolidated financial statements and related notes. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ materially from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and notes to the financial statements, and the key areas are summarised below.

The areas of judgement that have the most significant effect on the amounts recognised in these consolidated financial statements are:

- Review of asset carrying values and impairment assessment; and
- The determination of functional currency.

In considering whether any impairment indicators occurred in respect of the Company's long lived assets as at December 31, 2012, management took into account a number of factors such as metal prices, projected costs to operate equipment, availability and costs of finance, cost and state of completion of subsea equipment construction, exploration successes in other areas, the existence and terms of binding off-take agreements and the Company's

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

market capitalization compared to its net asset value. Management has concluded, based on this analysis that no impairment indicators existed at December 31, 2012 in respect of the Solwara 1 project and the subsea equipment currently under construction.

4 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Company.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company.

The following is a brief summary of the new standards:

IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

IFRS 11, 'Joint arrangements', 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.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

5 Cash and cash equivalents

	December 31, 2012 \$	December 31, 2011 \$
Cash	7,306,529	81,719,355
Term Deposits	50,499,936	67,728,439
	<u>57,806,465</u>	<u>149,447,794</u>

6 Prepayments

Current Prepayments

	December 31, 2012 \$	December 31 2011 \$
Insurance	540,213	494,486
Other prepayments	135,778	269,574
	<u>675,991</u>	<u>764,060</u>

Non-current Prepayments

	December 31, 2012 \$	December 31 2011 \$
Advance to Shipyard	12,933,620	12,933,620
Impairment charge	(12,933,620)	-
	<u>-</u>	<u>12,933,620</u>

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

7 Income Tax

a) A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	December 31, 2012 \$	December 31, 2011 \$
Loss before income taxes	(40,982,142)	(34,045,323)
Canadian statutory tax rate	25.00%	26.50%
Income tax recovery based on the above rates	(10,245,536)	(9,022,011)
Increase/(decrease) due to:		
Non-deductible expenses and other	2,310,196	401,286
Effect of change in Canadian and foreign future tax rates	(47,489)	(786,903)
Tax effect of tax losses and temporary differences not recognized	7,982,829	9,407,628
Income tax expense/(recovery)	-	-

b) The significant components of the Company's future income tax assets and liabilities are as follows:

	December 31, 2012 \$	December 31, 2011 \$
<i>Future income tax assets</i>		
Non-capital losses	30,365,106	23,522,091
Capital losses	3,202,641	3,254,448
Unamortized share issue costs	185,605	220,559
Unrealized foreign exchange losses and other	12,700,960	13,907,286
Mineral properties and property, plant and equipment	39,554,055	37,121,154
Total future income tax assets	86,008,367	78,025,538
Less: Tax benefits not utilised	(86,008,367)	(78,025,538)
Net future income tax assets/(liabilities)	-	-

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

7 Income Tax (continued)

- c) The Company has non-capital loss carry forwards of \$106,911,113 that may be available for tax purposes. The loss carry forwards expire as follows:

	Canada \$	Australia and Tonga \$	Papua New Guinea \$
2018	-	-	22,898
2019	-	-	6,092
2020	-	-	9,612
2021	-	-	12,454
2022	-	-	69,883
2023	238,811	-	54,543
2024	359,701	-	15,710
2025	204,287	-	154,309
2026	2,670,040	-	-
2027	5,146,422	-	-
2028	194,470	-	-
2029	6,065,374	-	-
2030	6,187,826	-	-
2031	5,680,443	-	-
2032	1,907,686	-	-
Not limited	-	77,910,552	-
Total non-capital losses	28,655,060	77,910,552	345,501

8 Restricted cash

\$2,319,663 (December 31, 2011 - \$2,270,955) has been provided as security for leases, letter of credit in favour of contractors, tenements held in Papua New Guinea and Fiji, superannuation bank accounts held on behalf of employees, and electricity and information technology deposits.

9 Mineral properties

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 its acquisition of Placer Dome.

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

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

	December 31, 2012 \$	December 31, 2011 \$
Opening balance	30,906,586	12,213,367
Boat charter and fuel	2,028,093	5,748,729
Drilling	-	6,293,450
Engineering services	1,417,987	2,073,013
Environmental consulting	304,394	86,925
Project management and oversight	5,672,004	3,683,943
Geological services and field expenses	431,677	750,796
Mineral property fees	17,921	56,363
	9,872,076	18,693,219
Closing balance	40,778,662	30,906,586

The Company has titles granted and applications lodged that provide the Company with rights to explore for minerals in offshore PNG, Tonga, Fiji, Vanuatu, the Solomon Islands, the Azores, Italy and the Clarion Clipperton zone in the “area beyond national jurisdiction” in the eastern Pacific Ocean. In addition, the Company has lodged exploration or prospecting applications in the exclusive economic zone of New Zealand.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration or development of such properties, 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.

10 Property, plant and equipment

Year ended December 31, 2012

	Opening Cost Balance \$	Additions \$	Disposals \$	Closing Cost Balance \$	Accum Dep'n \$	Closing Carrying Value \$
Leasehold improvements	813,415	2,468,024	(520,964)	2,760,475	(578,723)	2,181,752
Plant and equipment	767,484	3,323	-	770,807	(411,376)	359,431
Office equipment	2,758,787	439,056	-	3,197,843	(2,408,399)	789,444
Motor vehicles	165,562	-	-	165,562	(72,488)	93,074
Land	466,969	-	-	466,969	-	466,969
Subsea equipment under construction	84,350,615	81,925,046	-	166,275,661	-	166,275,661
Total property, plant & equipment	89,322,832	84,835,449	(520,964)	173,637,317	(3,470,986)	170,166,331

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

Year ended December 31, 2011

	Opening Cost Balance	Additions	Disposals	Closing Cost Balance	Accum Dep'n	Closing Carrying Value
	\$	\$	\$	\$	\$	\$
Leasehold improvements	627,325	186,090	-	813,415	(615,430)	197,985
Plant and equipment	771,151	2,574	(6,241)	767,484	(310,881)	456,603
Office equipment	2,367,404	391,383	-	2,758,787	(2,113,537)	645,250
Motor vehicles	162,794	2,768	-	165,562	(52,549)	113,013
Land	112,337	354,632	-	466,969	-	466,969
Subsea equipment under construction	26,984,140	57,366,475	-	84,350,615	-	84,350,615
Total property, plant & equipment	31,025,151	58,303,922	(6,241)	89,322,832	(3,092,397)	86,230,435

11 Compensation of Key Management

Key management includes the company's directors and members of the Executive Committee. Compensation awarded to key management included:

	December 31, 2012 \$	December 31, 2011 \$
Salaries and short-term employee benefits	4,159,319	3,390,052
Redundancy and annual leave paid on termination	915,949	-
Stock based compensation	858,161	805,323
Superannuation payments	230,619	253,008
	<u>6,164,048</u>	<u>4,448,383</u>

12 Equity

a) Common shares issued

During the year a total of 37,673,124 (2011 – 38,927,857) common shares were issued in two tranches of a private placement with an issue price of C\$0.90 (2011 – C\$2.52). Total net proceeds of \$34.1 million (2011 - \$96.4 million) were received.

b) Share options

1,125,000 share options were granted during the year ended December 31, 2012 and 900,000 during the year ended December 31, 2011.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

c) *Loan shares*

4,000,000 loan shares were issued during the year ended December 31, 2012 and 200,000 during the year ended December 31, 2011.

The Company's share loan plan (the "Loan Plan") was approved by the Company's shareholders at the Annual General Meeting in July 2011. The Loan Plan provides for security-based compensation in a manner similar to a stock option plan by enabling participants to acquire an equity interest in the Company using a limited recourse loan provided by a subsidiary of the Company.

The Loan Plan provides for loans to be made to eligible employees who will apply the proceeds toward a subscription for shares. The loans will be made by a subsidiary of the Company and the shares issued by Nautilus will be registered in the name of an administrative agent for the benefit of the applicable employee.

The loans will not bear interest, and the Lender's recourse will be limited to the value of the shares. If the employee elects to sell the shares, the proceeds will be used to repay the loan and any brokerage and other fees, and the employee will be entitled to any remaining balance.

Employees can only elect to sell the shares if the then-current market price is greater than the subscription price paid for those shares, such that the net proceeds of the sale will equal or exceed the outstanding loan balance in respect the shares being sold.

An employee may, during the term of the loan, elect to repay the loan and become the registered holder of the shares. If an employee ceases to be eligible to participate in the Loan Plan or if the term of the loan expires before the loan is repaid, the administrative agent will return the shares to the Company, and both the loan and the shares will be cancelled.

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

12 Equity (continued)

Outstanding share options

	Share options	Weighted average exercise price C\$
At January 1, 2011	10,996,000	2.67
Granted	900,000	2.91
Exercised	(1,475,000)	1.32
Forfeited	(809,000)	3.23
Expired	(978,000)	2.70
At December 31, 2011	8,634,000	2.87
Granted	1,125,000	0.93
Exercised	(243,000)	1.26
Forfeited	(621,000)	1.61
Expired	(4,695,000)	5.17
At December 31, 2012	4,200,000	1.77

Information relating to share options outstanding at December 31, 2012 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)
0.00 – 0.99	900,000	-	0.91	-	33.0
1.00 – 1.99	1,525,000	1,300,000	1.39	1.45	10.9
2.00 – 2.99	1,775,000	1,175,000	2.53	2.43	12.2
	4,200,000	2,475,000	1.77	1.92	16.2

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

12 Equity (continued)

Outstanding loan shares

	Loan shares	Weighted average exercise price C\$
At January 1, 2011	-	-
Granted	200,000	2.91
At December 31, 2011	200,000	2.91
Granted	4,000,000	1.00
Forfeited	(1,150,000)	1.01
At December 31, 2012	3,050,000	1.13

No loan shares were purchased during the year ended December 31, 2012 or for the year ended December 31, 2011.

Information relating to loan shares outstanding at December 31, 2012 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	200,000	-	0.91	-	33.0
1.00 – 1.99	2,650,000	-	1.01	-	39.3
2.00 – 2.99	200,000	80,000	2.91	2.91	20.0
	3,050,000	80,000	1.13	2.91	37.6

The fair value of the share options and loan shares granted 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 years ended December 31, 2012 and 2011

(expressed in US Dollars)

12 Equity (continued)

	Options granted in 2012	Options granted in 2011
Expected dividend yield	Nil	Nil
Expected stock price volatility	76.33%	71.44%
Risk-free interest rate	1.16%	1.20%
Expected life of options in years	3	3

The weighted average fair value of the options granted was C\$0.46 (2011 – C\$1.30).

	Loan shares granted in 2012	Loan shares granted in 2011
Expected dividend yield	Nil	Nil
Expected stock price volatility	74.17%	71.44%
Risk-free interest rate	1.22%	1.20%
Expected life of loan shares in years	3	3

The weighted average fair value of the loan shares granted was C\$0.46 (2011 – C\$1.30).

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.

13 Exploration Expenditures

	Year ended December 31,	
	2012	2011
	\$	\$
Boat charter and fuel	1,748,526	3,391,217
Drilling	-	6,767,491
Engineering services	-	50,880
General and administration	207,491	114,055
Geological services and field expenses	399,502	212,806
Mineral property fees	965,578	1,286,071
Professional services	82,354	59,641
Travel	310,278	208,340
Wages and salaries	3,108,119	2,122,288
Total operating expenses	6,821,848	14,212,789

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

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 December 31, 2012, total rental commitments are \$4.0 million and total expenditure commitments are \$51.6 million over the life of the licenses, which in the majority of cases extend to a maximum of two years, with the exception of the CCZ tenements that extend out 5 years.

14 General and Administration Expenditures

	Year ended December 31,	
	2012	2011
	\$	\$
Office and general	4,039,442	3,544,872
Professional services	2,684,032	3,504,540
Salary and wages	8,702,784	7,574,363
Shareholder related costs	587,676	709,058
Travel	1,107,773	1,369,124
Depreciation	899,555	511,538
Total general and administration expenses	18,021,262	17,213,495

15 Contingencies and Commitments

a) Commitments

Non-cancellable commitments

	December 31
	2012
	\$
<i>Non-cancellable operating leases</i>	
Not later than 1 year	1,021,467
Later than 1 year and not later than 2 years	1,018,891
Later than 2 years and not later than 3 years	527,716
Later than 3 years and not later than 4 years	36,541
Later than 4 years and not later than 5 years	21,459
Total Commitments	2,626,074

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

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.

The Company has entered into various contracts for the design and build of the seafloor production system. As at December 31, 2012, the committed value of the contracts is \$68.9 million (equivalent). During 2012, a number of contracts were terminated to allow the Company to preserve cash while the dispute with the PNG government is resolved, and contracts with SMD, GE Hydril and General Marine Corporation were continued at reduced rates of progress. The committed value of \$68.9 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 year end. No other penalties or cancellation fees are payable under these contracts.

16 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.

(i) 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 December 31, 2012 the Company does not have any long-term debt and is not subject to any externally imposed capital requirements. The Company has sufficient funds to meet its current operating and exploration and development obligations.

(ii) Foreign exchange 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

Nautilus Minerals Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(expressed in US Dollars)

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 December 31, 2012 the Company held its cash in the following currencies:

Currency Denomination	% of total cash in US\$ terms held
USD	33
GBP	15
AUD	14
EUR	1
CAD	37
	100

(iii) 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 reporting date is the carrying value of cash and cash equivalents and other receivables.

(iv) 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.