NAUTILUS MINERALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(US dollars, in accordance with International Financial Reporting Standards)

The following Management Discussion and Analysis ("MD&A") has been prepared as at March 15, 2013 for the period ended December 31, 2012. It includes references to United States dollars, Canadian dollars, Papua New Guinea kina, United Kingdom pounds sterling and euros. All dollar amounts referenced, unless otherwise indicated, are expressed in United States dollars and the Canadian dollars are referred to as C$, Papua New Guinea kina are referred to as PGK, United Kingdom pounds sterling are referred to as £ and euros are referred to as €.

The MD&A of Nautilus Minerals Inc. (the "Company", "NMI" or "Nautilus") should be read in conjunction with the Company's audited consolidated financial statements for the full year ended December 31, 2012, and related notes thereto (the "2012 Financial Statements") which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Amounts for the full year and three month periods ended December 31, 2012 and 2011 have been presented in accordance with IFRS. Unless otherwise indicated, all amounts in this MD&A are in accordance with IFRS.

This section contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including, but not limited to those described under "Forward-Looking Information."

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This document includes "forward-looking statements" which include all statements other than statements of historical fact.
Forward-looking statements include, but are not limited to, statements with respect to the future price of copper, gold and other metals, the estimation of mineral resources, the realization of mineral resource estimates, the timing and amount of estimated future production, the resolution of the dispute with PNG, the resolution of the change in funding requirements from Harren & Partner, the fulfillment of the obligations under the Tongling sales agreement and the timing and sustainability of such arrangements, costs of production, capital expenditures, costs and timing of the development of the seafloor production system including its re-commencement, the Bismarck Sea prospects (including Solwara 1) and new deposits, success of exploration and development activities, permitting time lines, currency fluctuations, requirements for additional capital (including financing to support the production of the PSV), government regulation of exploration operations, completion of acquisitions, the Company's financial position, business strategy, plans and objectives of management for future operations, the design and performance of the PSV, SPTs and RALS, the purchase of the PSV and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be

taken", "occur" or "be achieved". Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to joint venture operations; the risk that the arbitration with the State of PNG will result in a significant further delay in commencing production at Solwara 1; risks related to the identification of an alternative vessel arrangement; changes in project parameters as plans continue to be refined; future prices of copper, gold and other metals being lower than expected; the over-arching risk that the Company will not commence production of mineralized material; and possible variations in resources, grade or recovery rates; late delivery of the PSV, SPTs, RALS or other equipment, assuming the full development of the seafloor production system is re-commenced; variations in the cost of the PSV, SPTs, RALS or other equipment; variations in exchange rates; the failure to obtain the required equity funding or to obtain the approval of the TSX; State of PNG, Petromin or Nautilus failing to secure required debt or equity funding; payment default by JV partners or Tongling; adverse finding at arbitration; changes in the cost of fuel and other inflationary factors; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities.

OUR BUSINESS

Overview

Nautilus is a seafloor resource exploration company and the first company to commercially explore the ocean floor for copper, gold, silver and zinc deposits. 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.

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

2012 SIGNIFICANT EVENTS

- Dispute and arbitration with the State of PNG and impact on build program
- Vessel program on hold
- Solwara 1advanced
- Opportunities outside of PNG progressed
- Board strengthened following private placement

Dispute Process and Arbitration with the State of PNG and impact on build program

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 considers that the State has 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). The State disputes that it is required to meet such obligations. 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.

By November 2012, an agreed commercial resolution with the State had not been achieved and Nautilus concluded that the avenues for achieving such a resolution within the timeframe that Nautilus could reasonably continue to carry the total development costs for the Solwara 1 Project had been exhausted. On November 13, 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 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.

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.

Nautilus continues to engage with the State in an effort to resolve matters amicably.

Vessel Program on Hold

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.

In 2011, the Company advanced $12.9 million to the shipyard proposed by Harren under the Vessel JV to enter into contracts for long lead items. This shipyard made an application for insolvency on August 29, 2012 and is currently in an administration process.

The Company has 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 relatively low quota percentage.

The Company took the opportunity to review the proposed vessel design to enhance and define a vessel more suited to operations in locations and environments outside of PNG. The basic design of the revised vessel has been completed and submitted to ABS for Class approval. The vessel is a Multi Purpose Vessel with a length of 227m, beam of 40m a deadweight capacity of 67,000 tonnes and a transit speed of 12 knots. Power generation remains at 30MW and accommodation for 180 people is included. Model testing and dynamic analysis simulations have been completed which confirm the enhanced station keeping and performance characteristics.

Discussions took place with a number of shipyards for the procurement and build of the enhanced vessel and the integration of the Subsea Production Equipment. However, discussions regarding the build and associated funding solution are currently on hold following the termination/suspension of the equipment build for the Seafloor Production System.

Solwara 1 advanced

Despite some of the setbacks in 2012, the Company has continued to advance Solwara 1.

Offtake Agreement for Solwara 1

In April 2012 Nautilus signed a binding heads of agreement with Tongling for the sale of product intended to be extracted from Solwara 1.

The agreement provides for the purchase by Tongling of 1.1 million tonnes per annum (subject to +/- 20% variation) of Solwara 1 material for a period of three years on a take or pay basis, commencing upon the first delivery of product from Solwara 1, with an option to agree an extension of the arrangement.

The agreement contemplates that material will be imported into China by Tongling and then processed through its facilities in the city of Tongling alongside the Yangtze River. The purchase price to be paid by Tongling will be based on the quality of the copper concentrate produced.
The agreement includes a mechanism for an early payment of 90% of the price upon loading of the export vessel in PNG. Final payment is based on the recovery of copper, gold and silver reporting to the copper concentrate with deductions for capped logistics and processing costs, smelter treatment and refining charges (TC/RCs), allowances for plant fixed capital recoveries and Tongling's tolling fee on concentrator plant processing costs. TC/RCs are based on Asian International benchmarks with a premium payable for the achievement of target metal recoveries.
The price payable for all metals will be set by the London Metal Exchange for copper and London Bullion Market Association for silver and gold with the initial payment for all metals based on the average of the month preceding the shipment and final payment on a four month quotational period.

Value may also be realised through a 50%/50% profit sharing scheme based on incremental by-product revenue realised in China, including gold bearing pyrite. Material from the process can be roasted in China to produce gold and sulphuric acid and the remaining calcine may be sold to cement manufacturers or as iron ore fines. With minimal waste Tongling's process brings significant benefits consistent with Nautilus' commitment to minimise environmental impacts.

The Company will issue a bank guarantee to Tongling in three stages over nine months, which will not exceed approximately US$11.5 million, as a security for 50% of Tongling's concentrator investment costs commencing at the first order of major equipment.

Project Build Progressed

Progress continued throughout 2012 on works related to the Solwara 1 Project, however progress was impacted by the decision on November 13, 2012 to terminate the construction of the equipment for the Seafloor Production System to preserve the Company's cash position.

Progress on the development of the SPTs advanced throughout the year. Fabrication progressed with some key sub-assemblies and associated components already delivered. A significant amount of externally sourced components have been delivered to SMD including switchboards, transformers, variable frequency drives, submersible electric motors, dredge pumps and suction cutter head.

The LARS lift winches and A-frames are complete and in storage, along with the SPT umbilicals and lift wires completed earlier in the year.

Technip USA Inc. progressed development of the RALS until November 13, 2012. The subsea connectors are complete and in storage ready for incorporation in the pull-in skids. The surface pump systems were essentially complete when the contract was terminated.

The 8" and 12" riser pipes have been delivered to the fabrication yard in Louisiana and the connector forgings are largely complete and ready for machining. Buoyancy manufacture in the UK is complete and the buoyancy and clamps are in storage.

Bismarck Exploration Program completed

During Q1 and Q2 of 2012 Nautilus undertook a program of multibeam echo sounding ("MBES"), sub bottom profiling and seismic surveys over the Company's extensive Bismarck Sea tenement package. The program was undertaken using the vessel MV Duke, and was designed to map and test prospective sites within the Company's large tenement package.

The processing of the MBES, profiling and survey data was ongoing throughout quarter two. These results, including that for the Solwara 1 3D Seismic Survey, are anticipated in 2013.

Opportunities outside of PNG progressed

The Company continues to progress its vast ground positions in jurisdictions outside of PNG.

NI 43-101 Resource Report for Polymetallic Nodules released

Tonga Offshore Mining Limited, 100% owned subsidiary of Nautilus Minerals Inc., completed a maiden mineral resource estimate for its Clarion-Clipperton Fracture Zone polymetallic nodule project, located within the Central Pacific Ocean.

An independent Technical Report was prepared by Golder Associates Pty Ltd in accordance with National Instrument 43-101 which included inferred mineral resources of around 410 million wet tonnes at 1.2% Ni, 1.1% Cu, 0.24% Co and 26.9% Mn at an average surface abundance of 9.4 wet kg/m2.

Discovery of 2 high grade systems in Tonga

During September, Nautilus staff participated in an 18 day marine scientific research cruise where samples were collected as part of a broader research effort in the NE Lau Basin, which included wholly owned exploration tenements in the territorial waters of the Kingdom of Tonga.

Grab samples obtained from these discoveries assayed up to 11.9% copper, 59.8% zing, 28.6 g/t gold and 673g/t silver.

These discoveries will be added to the 17 SMS systems, as previously reported on our Tongan prospecting licenses, which are being considered for further evaluation.

Board strengthened following private placement

37.7 Million Shares Issued in Private Placement

Nautilus raised approximately C$34 million through a private placement of Common Shares to assist with the continued funding of its Seafloor Production System.

The placement involved the issue of approximately 37.7 million shares to a number of investors at a price of C$0.90 (US$0.91) per share.

Existing Nautilus strategic shareholders, MB Holding, Metalloinvest and Anglo American participated in the private placement. MB Holding, through its subsidiary Mawarid Offshore Mining Ltd., subscribed for 20.0 million shares, increasing its stake to 16.9%, Metalloinvest subscribed for approximately 8.3 million shares to maintain its interest in Nautilus at 21% and Anglo American subscribed for approximately 4.4 million shares on the basis that its stake be maintained at 11.1%. Other large investors subscribed for the remaining 5 million shares issued.

Mohammed Al Barwani appointed director

As part of the private placement, MB Holding was granted the right to nominate a director of the Company for as long as it owns 15% or more of the Company's outstanding shares. Their nominee, Dr. Mohammed Al Barwani was appointed as a director following closing of the private placement on September 11, 2012. Dr. Al Barwani's background and experience are described under the heading "Directors and Officers".

Other corporate activities

Quoted on OTCQX

In April 2012, the Company began trading on OTCQX International. The quotation will provide greater visibility and superior access to U.S. capital markets, and allow closer engagement with our U.S. investors who will be able to take advantage of the timely financial and trading information provided there.

Change of CEO

On October 31, 2012 the Company announced that Mr Mike Johnston, Nautilus' Vice President for Strategic Development and Exploration had accepted the position of interim President and CEO. After more than four years as President and CEO, Mr Rogers decided to return interstate to be with his family; but remains a non-executive director of Nautilus.

With Mr Johnston's appointment on an interim basis, the Nautilus Board intends to undertake a formal recruitment process in order to appoint a permanent President and CEO for Nautilus going forward. Mr Johnston will be considered for this permanent position together with other candidates.

With more than 25 years of experience in the mining industry, 11 of which were with Placer Dome, and a further 6 years with Nautilus, Mr Johnston, brings to Nautilus a strong knowledge of the mining industry, people, decision makers, and laws throughout PNG and the Asia-Pacific region. He also has extensive ore reserve and project evaluation experience, a track record of finding ore bodies, and a strong understanding of all aspects of deep sea mining, through his management of Placer Dome's involvement in the Solwara 1 Project.

RISK FACTORS

Nautilus' ability to generate revenues and achieve a return on shareholders' investment must be considered in light of the early stage nature of the Solwara 1 deposit and seafloor resource production in general. The Company is subject to many of the risks common to early stage enterprises, including personnel limitations, financial risks, metals prices, permitting, the need to raise capital, resource shortages and lack of revenues. Substantial expenditures are required to discover and establish sufficient resources and to develop the mining and processing facilities and infrastructure at any site chosen for mining. There can be no assurance that the Company will be able to raise sufficient financing to facilitate this development. The Company's existing funds may not be sufficient to bring the Solwara 1 Project into production and there can be no assurance that additional sources of finance will be available to the Company. Other factors that influence the Company's ability to succeed are more fully described in the Company's 2012 Annual Information Form available on www.sedar.com under the heading "Risk Factors".

SUMMARY OF QUARTERLY RESULTS (unaudited)

The following table sets out selected unaudited quarterly financial information of Nautilus and is derived from unaudited quarterly condensed consolidated interim financial statements prepared by management and expressed in US dollars.

		2011				2012			
		Q1[(1)]	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	$'M	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Loss for the period	$'M	(8.6)	(4.8)	(11.4)	(9.2)	(3.4)	(11.6)	(4.4)	(21.5)
Basic and diluted loss per share	$/share	(0.05)	(0.03)	(0.07)	(0.05)	(0.02)	(0.06)	(0.02)	(0.09)

As Nautilus is currently a pre-production entity engaging in exploration activities there is an amount of variability in the quarterly expenditure of the Company depending on the timing of exploration campaigns. The granting of the mining lease ML 154 on January 13, 2011 has also impacted the spend profile with further expenditure within the mining lease area now capitalized to mineral properties, whereas it was previously expensed to the Statement of Loss.

(1) Quarter 1, 2011 comparatives have been restated with a reclassification between 'Mineral Properties' and 'Exploration costs' resulting from a cut-off issue identified subsequent to the lodgement of the quarter 1, 2011 'Condensed Consolidated Interim Financial Statements'.

RESULTS OF OPERATIONS

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

For the three months ended December 31, 2012

Loss for the period

For the three months ended December 31, 2012, the Company recorded a loss of $21.5 million ($0.09 loss per share) compared to a loss of $9.2 million ($0.05 loss per share) for the same period in 2011. The current quarter result was impacted by an impairment charge of $12.9 million for amounts prepaid for the vessel build, and redundancy costs of $1.5 million.

Exploration expense
Exploration expense decreased to $1.5 million (2011 - $2.9 million) as the company looked to preserve cash, with the current quarter also including $0.4m of redundancy costs.

General & Administration expense
General & Administration expense decreased to $4.8 million (2011 - $6.1 million) after including $0.5 million for redundancy costs in November and December, with the full effect of the reduction in salaries and wages to be seen in Q1 2013. There was also a reduction in travel expenditure during the quarter.

Environment expense
Environment expense increased to $0.4 million (2011 - $0.2 million) with current year salaries and wages expensed, including $0.1 million of redundancy costs, while prior year costs were capitalised to the Solwara 1 project.

Technology expense
Technology expense increased to $1.1 million (2011 - $0.7 million) with the current year impacted by $0.4 million of redundancy costs paid in the current quarter.

Development expense
Development expenses increased to $0.7 million (2011 - $0.1 million) due to redundancy expenses of $0.3 million and maintenance expense related to upkeep of Lassul Bay site in PNG.

Foreign exchange loss
A foreign exchange loss of $0.5 million was recorded during the period (2011 – foreign exchange gain of $0.6 million). The foreign exchange loss consists of realized gains and losses on actual cash transactions during the period and unrealized gains and losses of cash denominated in different currencies at the period end. The Company holds a "basket of currencies" to act as a

natural hedge against its expected cash outflows and can therefore experience unrealized fluctuations at period end when cash balances are converted to US dollars for reporting purposes, as experienced during the current quarter.

Interest income
Interest income earned on cash and cash equivalents held during the period was $0.3 million (2011 - $0.2 million). The increase was attributable to increased average interest rate achieved on funds invested. The Company maintains its cash and cash equivalents with banks with an S&P rating of A+ or better.

Operating Losses
Overall, Nautilus' operating loss decreased to $8.9 million for the three months ended December 31, 2012, compared to $9.4 million for the same period in 2011. When adjusting the current quarter operating loss for the $1.6 million of redundancy costs incurred the actual operating loss was $7.4 million reflecting the commitment to reducing expenditure in line with managements' decision taken in November to preserve cash while working to resolve the dispute with the PNG government.

SELECTED ANNUAL INFORMATION

The following table sets out selected annual financial information of Nautilus and is derived from the Company's audited consolidated financial statements for the years ended December 31, 2012, 2011 and 2010. The information set out below should be read in conjunction with the MD&A and consolidated financial statements and related notes prepared as of March 15, 2013 for the year ended December 31, 2012. Amounts are expressed in US dollars unless otherwise indicated.

	2012	2011	2010
Sales	$Nil	$Nil	$Nil
Loss for the year	$40,982,142	$34,045,323	$43,028,770
Loss per share (basic and diluted)	$0.19	$0.20	$0.28
Total assets	$271,747,112	$282,553,450	$207,090,779
Total long-term liabilities	$7,544,171	$5,155,666	$435,241
Dividends declared	$Nil	$Nil	$Nil

Loss for the year

There was an increase in the overall level of expenditure in 2012, although remaining below initial budget expectation as the Company looked to preserve cash towards the end of 2012 while working to resolve the dispute with the PNG government. While operating cash expenditure decreased from 2011 the loss for 2012 increased due to a non-cash impairment charge of $12.9 million. Expenditure on the project increased from 2011 with progress towards milestones related to the seafloor production system.

Total assets

Total assets for the year ended December 31, 2012 decreased to $271.7 million (2011 - $282.6 million) due primarily to the $12.9 million impairment of prepaid amounts.

RESULTS OF OPERATIONS – FOR THE YEAR ENDED DECEMBER 31, 2012

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

Loss for the year

For the full year ended December 31, 2012, the Company recorded a loss of $40.9 million ($0.19 loss per share) compared to a loss of $34.0 million ($0.20 loss per share) for 2011. The current year result was impacted by an impairment charge of $12.9 million for amounts prepaid for the vessel build and $1.6 million of redundancy costs incurred.

Exploration expense
Exploration expense decreased to $6.8 million (2011 - $14.2 million) with exploration costs associated with Solwara 1 being capitalized as Mineral Properties from January 13, 2011, and delays in the 2012 exploration program as the company looked to preserve cash and focus on delivering the Solwara 1 project pending the outcome of the dispute with the PNG government.

General & Administration expense
General & Administration expense increased to $18.0 million (2011 - $17.2 million) with increased salaries and wages associated with an increase in headcount prior to the redundancies in November 2012 for the comparative period, and an increase in office related expenditure including rent to support the increased headcount, and increase in insurance costs. There was also $0.5 million for redundancy costs in the last quarter of 2012.

Environment expense
Environment expense increased to $0.9 million (2011 - $0.4 million) with current year salaries and wages expensed, while prior year costs were capitalised to the Solwara 1 project and redundancy costs of $0.1 million.

Technology expense
Technology expense increased to $2.7 million (2011 - $1.5 million) due to an increase in drill rig development and drilling downhole tool studies undertaken during the current year and also includes $0.4 million for redundancy costs.

Development expense
Development expenses increased to $1.1 million (2011 - $0.4 million) due to increase in salary and wages expense, redundancy costs of $0.3 million and maintenance expense related to upkeep of Lassul Bay site in PNG.

Foreign exchange loss
A foreign exchange gain of $0.6 million was recorded for the year (2011 – foreign exchange loss of $1.4 million). The foreign exchange gain consists of realized gains and losses on actual cash transactions during the period and unrealized gains and losses of cash denominated in different currencies at the period end. The Company holds a "basket of currencies" to act as a natural hedge against its expected cash outflows and can therefore experience unrealized fluctuations at period end when cash balances are converted to US dollars for reporting purposes.

Interest income
Interest income earned on cash and cash equivalents held during the year was $0.9 million (2011 - $0.8 million). The increase was attributable to the increase in average levels of cash held during

the period as well as a marginal increase in average interest rate achieved on funds invested. The Company maintains its cash and cash equivalents with banks with an S&P rating of A+ or better.

Operating Losses
Overall, Nautilus' operating loss decreased to $29.0 million for the year ended December 31, 2012 down from $35.1 million for the year ended December 31, 2011. The delay of significant exploration campaigns, which individually can cost in excess of $5 million, in line with the strategy of conserving cash and focus on delivering Solwara 1 was the primary driver for the reduction in the operating loss for the year.

Cash flows

Operating activities
Cash used in operating activities was $29.8 million for the year ended December 31, 2012 compared to $37.9 million for the year ended December 31, 2011, with the current year being reflective of the operating result while the prior year was impacted by payments for exploration work completed in 2010.

Investing activities
Cash used in investing activities for the year ended December 31, 2012 was $97.2 million as compared to $74.7 million for the year ended December 31, 2011. Milestone payments for the construction of subsea production equipment were $94.9 million (2011 - $35.9 million) and capitalized exploration costs were $2.3 million (2011 - $26.1 million). The comparative period included the receipt of joint venture contribution of $1.8 million and prepaid expenditure relating to the vessel build of $12.3 million.

Financing activities
Cash from financing activities for the year ended December 31, 2012 was $34.5 million from the exercise of stock options and issuance of shares through private placement, compared to $98.4 million for the year ended December 31, 2011, when the company raised $96.4 million through a private placement and $2.0 million from the exercise of stock options.

Cash raised from financing activities have been applied to the build of the seafloor production equipment, exploration activities, general corporate expenditure and cash and cash equivalents on hand for the year ended December 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial objective is to ensure that it has sufficient liquidity in the form of cash and/or debt capacity to finance its ongoing requirements to support the Company's strategy of becoming the first company to commercially extract copper, gold, silver and zinc from the seafloor.

Key financial measures

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

	December 31 2012	**December 31 2011**
Working Capital	$46.8 million	$130.9 million
Cash and Cash Equivalents	$57.8 million	$149.4 million

Under the Company's Investment Policy, cash cannot be invested for more than 90 days and must be held on deposit with banks with an S&P credit rating of A+ or better.

Outlook and capital requirements

The Company's known contractual obligations at December 31, 2012, are quantified in the table below:

	December 31 2012 $
Non-cancellable operating leases	
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

The Company is involved in mineral exploration which is a high risk activity and relies on results from each exploration program to determine if areas justify any further exploration and the extent and method of appropriate exploration to be conducted.

Due to the decision to terminate certain equipment construction contracts, the Company may be required to make material payments to suppliers to settle their obligations in respect of these contracts in relation to costs incurred to date. As at December 31, 2012, the Company's working capital totalled in excess of $46 million. Payments for work completed up to the date of contract termination have not yet been agreed with suppliers. These amounts could be material.

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.

Following the termination of contracts and reduction in staff numbers Nautilus expects that cash and cash equivalents will be sufficient to pay for capital expenditure commitments and general and administrative costs for the next 12 months. Depending upon future events, the rate of expenditures and other general and administrative costs could increase or decrease. The Company continues to evaluate a range of alternative options available to it to access capital to fund future expenditures.

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

Foreign currency exchange rate risk

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

Foreign exchange risk is mitigated by the Company maintaining its cash in a "basket" of currencies that reflect its current and expected cash outflows. As at December 31, 2012 the Company held its cash in the following currencies:

Currency Denomination	**% of total cash in US$ terms held**
USD	38
GBP	14
AUD	14
EUR	1
CAD	33
	100

Interest rate risk

The Company holds cash and cash equivalents which earn interest at variable rates as determined by financial institutions. As at December 31, 2012, with other variables unchanged, a 0.1% increase (decrease) in the interest rate would have changed our net loss by approximately $0.1 million for the year. There would be no significant effect on other comprehensive income.

Credit risk

The Company places its cash only with banks with an S&P credit rating of A+ or better.

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents and other receivables.

Liquidity risk

The Company manages liquidity by maintaining adequate cash and short-term investment balances. In addition, the Company regularly monitors and reviews both actual and forecasted cash flows.

As a result of the decision to terminate certain equipment construction contracts, the Company may be required to make material payments to suppliers to settle their obligations in respect of these contracts in relation to costs incurred to date. As at December 31, 2012, the Company's working capital totalled in excess of $46 million. Payments relating to work completed up to the date of contract termination have not yet been agreed with suppliers. These amounts could be material.

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.

Given the measures being taken by the Company to terminate contracts and reduce employee numbers, the Company's exposure to liquidity risk is currently considered to be low.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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 summarized below.

The area of judgment that has the most significant effect on the amounts recognized in these consolidated financial statements is the:

- review of asset carrying values and impairment assessment

Key sources of estimation uncertainty that have the most significant effect on the amounts recognized in these consolidated financial statements are:

- Review of asset carrying values and impairment assessment; and
- Determination of the fair values of share-based compensation.

Each of these judgements and estimates is considered in more detail below.

Review of asset carrying values and impairment assessment
Property, plant and equipment and mineral properties 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.

The determination of fair value less costs to sell and value in use requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, mineral resources, operating costs and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these assumptions, which may impact the recoverable amount of the assets.

In Q2 of 2012, Harren advised the Company that they would not be contributing the amount of capital to the Vessel JV to the extent originally intended. As a result, the Company has taken the opportunity to consider alternative vessel options. Subsequently, the shipyard that received $12.9 million in prepayments from the Company to enter into contracts for long lead items has entered administration. As a result of this, the Company has written off the prepayments for the vessel, with a resultant impairment charge of $12.9 million recorded in the current year.

In considering whether any impairment indicators occurred in respect of the Company's other 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 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 costs and the subsea equipment currently under construction.

Determination of the fair value of share-based compensation
The fair value of share options and other forms of share-based compensation granted is computed to determine the relevant charge to the statement of Loss. In order to compute this fair value the Company uses option pricing models that require management to make various estimates and assumption in relation to the expected life of awards, volatility, risk-free interest rates, and forfeiture rates.

OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as of March 14, 2013.

Common shares

A total of 238,097,865 common shares are outstanding including 3,050,000 restricted shares.

Restricted shares

A total of 3,050,000 restricted shares are issued and outstanding under the Company's share loan plan, with loan expiry dates ranging from September, 2013 through to April, 2016. The weighted average issue price for the restricted shares is C$1.13.

Stock Options

A total of 4,200,000 stock options are issued and outstanding, with expiry dates ranging from April, 2013 through to April, 2016. The weighted average exercise price for all stock options is C$1.77. All stock options entitle the holders to purchase common shares of the Company.

INTERNAL CONTROLS

Internal control over financial reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Nautilus' disclosure controls and procedures. Based on the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as at December 31, 2012, the Company's disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed by the Company in reports it files are recorded, processed, summarized and reported within the appropriate time periods and forms.

The Company's management is responsible for establishing and maintaining an adequate system of internal controls, including internal controls over financial reporting. Nautilus' internal controls include policies and procedures that (1) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions related to acquisition, maintenance and disposition of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and receipts are recorded and expenditures are incurred only in accordance with authorization of management and directors; and (3) provide reasonable (but not absolute) assurance of compliance with regulatory matters and to safeguard reliability of the financial reporting and its disclosures. Having assessed the effectiveness of the Company's internal controls over financial reporting, the Chief Executive Officer and Chief Financial Officer believe that: (1) the internal controls over financial reporting are effective and provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS; and (2) that no material failings in the reporting were discovered in the period ended December 31, 2012.

There have been no material changes in the Company's internal control over financial reporting since the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitation in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of control also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatement due to error or fraud may occur and not be detected.

ADDITIONAL SOURCES OF INFORMATION

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