

NAUTILUS MINERALS INC.

ANNUAL INFORMATION FORM FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

March 25, 2013

Suite 1400, 400 Burrard Street
Vancouver, British Columbia
V6C 3A6

NAUTILUS MINERALS INC.

**ANNUAL INFORMATION FORM FOR THE
FISCAL YEAR ENDED DECEMBER 31, 2012**

PAGE

CONTENTS

INTRODUCTORY NOTES	4
NOMENCLATURE.....	4
TECHNICAL AND SCIENTIFIC INFORMATION.....	4
CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS	4
CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION.....	5
CAUTIONARY NOTE TO UNITED STATES INVESTORS	7
DOCUMENTS INCORPORATED BY REFERENCE	7
CORPORATE STRUCTURE	11
NAME, ADDRESS AND INCORPORATION	11
INTERCORPORATE RELATIONSHIPS.....	11
GENERAL DEVELOPMENT OF THE BUSINESS OF THE COMPANY.....	13
THREE YEAR HISTORY	13
2010	13
2011	14
2012	17
OVERVIEW OF BUSINESS.....	22
General	22
Summary	22
Specialized Skill and Knowledge	24
Competitive Conditions.....	24
New Products	26
Products, Services and Components	26
Intangible Properties	32
Cycles.....	32
Economic Dependence.....	33
Changes to Contracts.....	33
Environmental Protection	33
Employees	34
Foreign Operations.....	34
Social and Environmental Policies	34
MINERAL PROJECTS.....	38
Solwara Project.....	38
Summary of the Solwara 1 and 12 Report.....	38
Clarion-Clipperton Zone Project.....	45
Summary of the Updated CCZ Report.....	45
RISK FACTORS.....	50
Exploration, Development and Operating Risks.....	50
Risks Relating to the Mining Industry	57
Risks Relating To Our Common Shares and The Trading Market.....	60

DESCRIPTION OF CAPITAL STRUCTURE.....	63
MARKET FOR SECURITIES.....	64
ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER.....	65
DIRECTORS AND OFFICERS.....	66
CONFLICTS OF INTEREST	71
LEGAL PROCEEDINGS AND REGULATORY ACTIONS.....	72
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	73
TRANSFER AGENTS AND REGISTRARS.....	74
MATERIAL CONTRACTS	75
INTERESTS OF EXPERTS	76
AUDIT COMMITTEE.....	77
ADDITIONAL INFORMATION.....	79
SCHEDULE A	I

INTRODUCTORY NOTES

NOMENCLATURE

In this Annual Information Form, unless the context otherwise dictates, “we”, “Nautilus”, “Nautilus Minerals” or the “Company” refers to Nautilus Minerals Inc. and its subsidiaries.

TECHNICAL AND SCIENTIFIC INFORMATION

All information of a scientific or technical nature in this AIF has been reviewed and approved by Michael David Johnston, President & CEO of the Company and a qualified person under NI 43-101.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This document includes “forward-looking statements” or “forward looking information” (hereinafter referred to together as “forward-looking statements”) under applicable securities laws, 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; 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; the risk that material assumptions listed in the paragraph below will not be borne out; 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. Other risks are discussed in this document under "Risk Factors".

Such forward-looking statements are current only as at the date of this AIF and are based on numerous material assumptions (that management believes were reasonable at the time they are made) regarding the Company's present and future business strategies and the environment in which the Company will operate in the future, including the Company's continued compliance with regulatory requirements, the charter rate for the Company's vessels including the ore-transport barges, the proposed mine plan, the estimated cost and availability of funding for the continued exploration of the Company's tenements, the resolution of the dispute with the State of PNG relating to the State Equity Option Agreement, and the ability of the Company to identify an alternative arrangement with respect to the vessel build. The Company has also assumed that market fundamentals will result in sustained copper and gold demand and prices; that the proposed development of its mineral projects will be viable operationally and economically and proceed as expected; and that any additional financing needed will be available on reasonable terms.

Although the Company has attempted to identify important factors that could cause actual results to differ materially, the assumptions made may not prove to be correct or there may be unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Except as may be required by applicable laws, the Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based.

The reader is cautioned not to place undue reliance on forward-looking statements.

CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

This Annual Information Form contains references to United States dollars, Canadian dollars, Euro, Great Britain pounds and Australian dollars. All dollar amounts referenced, unless otherwise indicated, are expressed in US dollars which are referred to as "US\$", with Canadian dollars referred to as "C\$" or "Cdn\$", Euro referred to as EUR, Great Britain pounds referred to as "GBP" and Australian dollars referred to as "A\$".

The closing, high, low and average exchange rates for the US dollar in terms of Canadian dollars for the three years ended December 31, 2012, 2011 and 2010, as reported by the Bank of Canada, were as follows:

	Year Ended December 31		
	2012 Cdn\$	2011 Cdn\$	2010 Cdn\$
Closing	0.9949	1.0170	0.9946
High	1.0397	1.0583	1.0778
Low	0.9683	0.9430	0.9946
Average ⁽¹⁾	0.9996	1.0111	1.0299

(1) Calculated as an average of the daily noon rates for the period.

On March 22, 2013, the Bank of Canada noon rate of exchange was Cdn\$1.00 = US\$0.9780 or US\$1.00 = Cdn\$1.0225.

The closing, high, low and average exchange rates for the US dollar in terms of Great Britain pounds for the three years ended December 31, 2012, 2011 and 2010 as reported by the Bank of Canada, were as follows:

	Year Ended December 31		
	2012 GBP	2011 GBP	2010 GBP
Closing	0.6150	0.6330	0.6446
High	0.6536	0.6537	0.6722
Low	0.6147	0.6123	0.5791
Average ⁽¹⁾	0.6311	0.6305	0.6283

(1) Calculated as an average of the daily noon rates for the period.

On March 22, 2013, the Bank of Canada noon rate of exchange was US\$1.00 = GBP0.6562 or GBP1.00 = US\$1.5238.

The closing, high, low and average exchange rates for the US dollar in terms of Euro for the three years ended December 31, 2012, 2011 and 2010 as reported by the Bank of Canada, were as follows:

	Year Ended December 31		
	2012 EUR	2011 EUR	2010 EUR
Closing	0.7584	0.7580	0.7508
High	0.8291	0.7784	0.8014
Low	0.7428	0.6991	0.6637
Average ⁽¹⁾	0.7783	0.7264	0.7320

(1) Calculated as an average of the daily noon rates for the period.

On March 22, 2013, the Bank of Canada noon rate of exchange was US\$1.00 = EUR0.7695 or EUR1.00 = US\$1.2996.

The closing, high, low and average exchange rates for the US dollar in terms of Australian dollar for the three years ended December 31, 2012, 2011 and 2010, as reported by the Bank of Canada, were as follows:

	Year Ended December 31		
	2012 A\$	2011 A\$	2010 A\$
Closing	0.9623	0.9593	0.9823
High	1.0321	1.0300	1.1583
Low	0.9255	0.9381	0.9823
Average ⁽¹⁾	0.9658	0.9798	1.0559

(1) Calculated as an average of the daily noon rates for the period.

On March 22, 2013, the Bank of Canada noon rate of exchange was US\$1.00 = A\$0.9572 or A\$1.00 = US\$1.0447.

CAUTIONARY NOTE TO UNITED STATES INVESTORS

NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Unless otherwise indicated, all resource estimates contained in or incorporated by reference in this AIF have been prepared in accordance with NI 43-101 and the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "**CIM**") Standards on Mineral Resource and Mineral Reserves, adopted by the CIM Council on December 11, 2005 (the "**CIM Standards**") as they may be amended from time to time.

United States investors are cautioned that the requirements and terminology of NI 43- 101 and the CIM Standards differ significantly from the requirements of the SEC, including Industry Guide 7 under the US Securities Act of 1933. Accordingly, the Issuer's disclosures regarding mineralization may not be comparable to similar information disclosed by companies subject to the SEC's Industry Guide 7. Without limiting the foregoing, while the terms "indicated resources" and "inferred resources" are recognized and required by Canadian securities laws, they are not recognized by the SEC and are not permitted to be used in documents filed with the SEC by companies subject to Industry Guide 7. Under U.S. standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. Mineral resources which are not mineral reserves do not have demonstrated economic viability and U.S. investors are cautioned not to assume that all or any part of a mineral resource will ever be converted into reserves.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents of Nautilus are specifically incorporated by reference into, and form an integral part of, this Annual Information Form:

1. the technical report dated March 23, 2012 entitled "Mineral Resource Estimate, Solwara Project, Bismarck Sea, PNG" (the "**Solwara 1 and 12 Report**") prepared for the Company by Ian Lipton of Golder, along with the accompanying certificates of Qualified Persons (as defined in NI 43-101); and
2. the technical report dated March 20, 2013 entitled "Updated NI 43-101 Technical Report, Clarion-Clipperton Zone Project, Pacific Ocean", (the "**Updated CCZ Report**") prepared for the Company by Matthew Nimmo of Golder, Davey Banning, an independent consulting geologist and Charles Morgan of Planning Solutions Inc., along with the accompanying certificates of Qualified Persons (as defined in NI 43-101).

DEFINITIONS

“Ag”	Silver
“AIM”	the Alternative Investment Market of the London Stock Exchange
“Anglo American”	Anglo American plc
“Au”	Gold
“A\$” or “AUD”	Australian dollars, the lawful currency of Australia
“AC”	auxiliary cutter
“Board” or “Directors”	the directors of the Company as at the date of this document
“BC”	bulk cutter
“C\$” or “CDN\$”	Canadian dollars, the lawful currency of Canada
“CM”	collecting machine
“Common Shares”	the common shares without par value in the capital of Nautilus
“Cost Study”	The independent definition and cost study concerning the Company's Solwara 1 project prepared in accordance with NI 43-101 entitled "Offshore Production System Definition and Cost Study", dated June 21, 2010 and prepared by John Blackburn, Erich Heymann and Phil Jankowski of SRK; Peter Chwastiak formerly of Clough Limited; Andrew See of Ausenco Services Pty Ltd; Peter Munro of Mineralurgy Pty Ltd; and Ian Lipton of Golder Associates Pty Ltd, which cost study was filed on SEDAR on June 23, 2010 and is summarized in the Technical Report and referenced under the heading "Risk Factors – Cost Study"
“Cu”	Copper
“CCZ”	Clarion Clipperton Zone
“DEC”	Department of Environment and Conservation of Papua New Guinea
“DWP”	Dewatering plant
“EEZ”	Exclusive Economic Zone
“EIS”	Environmental Impact Statement
“EL”	Exploration Licences
“EPCM”	engineering, procurement, construction management
“Fijian Tenements”	the tenements in the North Fiji Basin granted to Nautilus Minerals Fiji Pty Limited
“GE Hydril”	Hydril USA Distribution LLC
“GMC”	General Marine Contractors LLC
“Golder”	Golder Associates Pty Ltd
“Harren”	Harren & Partner Reederei GmbH & Co KG Holding and its affiliates
“ISA”	International Seabed Authority
“Metalloinvest”	Metalloinvest Holding (Cyprus) Limited

"MB Holding"	MB Holding Company LLC, an oil and gas, mineral mining and processing group based in Muscat, Oman
"Mining JV"	The joint venture to be formed between the Company, as to 70%, and the State of PNG, as to 30%, for the development of the Solwara 1 Project in the Bismarck Sea
"Mining Lease" or "ML 154"	The mining lease granted to the Company by the State of PNG in January 2011 in regards to the Solwara 1 Project for a period of 20 years
"ML"	Mining Lease
"MLA"	Mining Lease Application
"MRA"	Minerals Resource Authority
"Nautilus" or "Company"	Nautilus Minerals Inc., a company existing under the <i>Business Corporations Act</i> (British Columbia) and incorporated in British Columbia, Canada; references to "we", "our" and similar expressions are to Nautilus Minerals Inc.
"NI 43-101"	National Instrument 43-101 <i>Standards of Disclosure for Mineral Projects</i> of the Canadian Securities Administrators
"NMN"	Nautilus Minerals Niugini Limited (formerly Nautilus Minerals Corporation Limited)
"NMO"	Nautilus Minerals Oceania Limited
"Offshore Production System"	the system for production of minerals as proposed in the Cost Study
"Petromin"	Petromin PNG Holdings Limited, a wholly owned company of the State, and which holds the State's mining and petroleum assets
"Placer Dome"	Placer Dome Exploration Inc. and Placer Dome Oceania Limited (each being subsidiaries of Barrick Gold Corporation)
"PNG" or "the State of PNG"	Independent State of Papua New Guinea
"PNG Licences" or "PNG Tenements"	the exploration licences and ML granted in the PNG Territory and (as the context may require) the further exploration licences applied for in the PNG Territory
"PNG Territory"	means sub-sea, seafloor and sub-seafloor within the coast waters, territorial waters, exclusive economic zone and continental shelf of PNG
"Projects" or "Tenements"	collectively, the tenements described in the Technical Report, the Solwara 1 and 12 Report and the Updated CCZ Report
"PSV"	Production Support Vessel
"RALS"	riser and lifting system
"Reverse Takeover" or "RTO"	the series of transactions undertaken by the Company in May 2006 whereby it disposed of substantially all of its oil and gas business and assets and acquired NMN and NMO.
"ROV"	remotely operated vehicle
"SMD"	Soil Machine Dynamics Ltd of Newcastle upon Tyne, UK
"SMS"	seafloor massive sulphide
"Solomon Island Tenements"	exploration licences granted in the Solomon Island territorial waters

"Solwara 1" or "Solwara 1 Project"	a prospect within the Mining Lease, as described in this AIF and in the Solwara 1 and 12 Report
"Solwara 12"	a prospect within the exploration licence (EL1374) granted to NMN in the PNG Territory
"Solwara 1 and 12 Report"	the technical report dated March 23, 2012 entitled "Mineral Resource Estimate, Solwara Project, Bismarck Sea, PNG" prepared for the Company by Ian Lipton of Golder, along with the accompanying certificates of Qualified Persons (as defined in NI 43-101)
"SPT"	seafloor production tool
"SRK"	SRK Consulting (Australasia) Pty Ltd
"SSLP"	subsea slurry lift pump
"Technical Report"	the technical report dated March 23, 2012 entitled "NI 43-101 Technical Report 2011, PNG, Tonga, Fiji, Solomon Islands, New Zealand, Vanuatu and the ISA" prepared for the Company by Phil Jankowski of SRK, along with the accompanying certificate of Qualified Person (as defined in NI 43-101)
"Technip Oceania"	Technip Oceania Pty Ltd
"Technip USA"	Technip USA Inc.
"Teck"	Teck Resources Limited
"TOML"	Tonga Offshore Mining Limited, a wholly-owned subsidiary of the Company
"Tongan Tenements"	the exploration licences or applications, as the context requires, in the 1887 Proclamation Area of the Kingdom of Tonga
"Tongling"	Tongling Nonferrous Metals Group Co. Ltd
"TSX"	the Toronto Stock Exchange
"UK"	the United Kingdom of Great Britain and Northern Ireland
"Updated CCZ Report"	the technical report dated March 20, 2013 entitled "Updated NI 43-101 Technical Report, Clarion-Clipperton Zone Project, Pacific Ocean" prepared for the Company by Matthew Nimmo of Golder, Davey Banning, an independent consulting geologist and Charles Morgan of Planning Solutions Inc., along with the accompanying certificates of Qualified Persons (as defined in NI 43-101).
"US" or "USA"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.
"US\$" or "USD"	US dollars, the lawful currency of the US
"Vessel JV"	The joint venture to be formed between the Company and Harren to own and operate a PSV
"VHMS"	volcanic hosted massive sulphide

CORPORATE STRUCTURE

NAME, ADDRESS AND INCORPORATION

Nautilus Minerals Inc. was incorporated under the laws of the Province of British Columbia, Canada, on January 26, 1987 under the name “Premier Gold Resources Inc.” On April 8, 1991, the Company changed its name to “Cryptic Ventures Inc.” The Company continued into the Yukon on November 21, 1996 under “Zen International Resources Ltd.”, continued to Alberta on March 27, 2002 under “Orca Petroleum Inc.” and then continued to British Columbia on April 27, 2006 under “Nautilus Minerals Inc.” where the Company continued under the provisions of the *Business Corporations Act* (British Columbia).

The Common Shares commenced trading on the TSX Venture Exchange (formerly the Vancouver Stock Exchange) on March 6, 1989 and on August 24, 2007 the Common Shares were listed on the Toronto Stock Exchange. The Common Shares commenced trading on AIM on February 2, 2007 and on OTCQX International on April 27, 2012.

The Company, as it is currently structured, was formed on May 8, 2006 when the Company completed the RTO. The Company’s principal business prior to the RTO was oil and gas exploration in Bolivia, which business was done through its wholly owned subsidiaries: Zen International Resources Limited, Orca Energy Corp., Orca International Corp., Compania Petrolera Orca S.A and Orca Petroleo S.A.

The Company is a seafloor resource exploration company and the first company to commercially explore the ocean floor for copper, gold, silver and zinc SMS deposits. The Company conducts its operations primarily through its direct and indirect wholly-owned subsidiaries. The Company’s registered and records office is located at 10th Floor, 595 Howe Street, Vancouver, British Columbia, V6C 2T5 Canada.

INTERCORPORATE RELATIONSHIPS

NMN was organised under the laws of PNG on October 9, 1995. NMN has been reviewing research data on SMS deposits in PNG since 1997, and during 2005/2006 with Placer Dome conducted sampling work on the seafloor of the Bismarck Sea. All activities undertaken to date by the Company in PNG have been undertaken by NMN or other subsidiaries domiciled in PNG. Each of the PNG Licences are held by NMN or other subsidiaries domiciled in PNG and the applications for further exploration licences in PNG have been made in the name of NMN and the other subsidiaries domiciled in PNG.

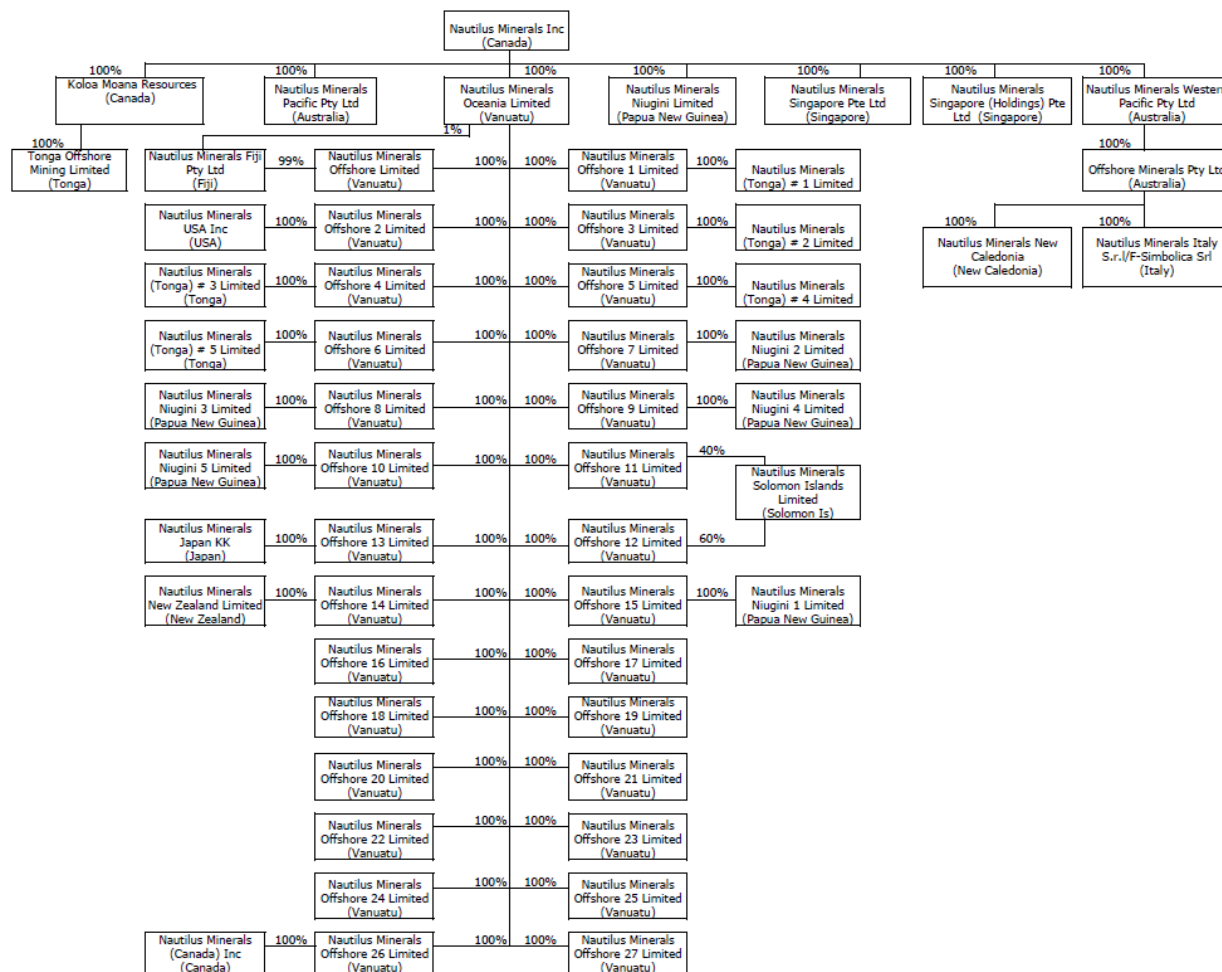
NMO was incorporated under the laws of Vanuatu on June 17, 2002. NMO currently acts as a holding company for the various subsidiaries shown in the Company’s structure below. These various subsidiaries have made applications and in some instances been granted prospecting licences within the 1887 Proclamation Area of the Kingdom of Tonga, Solomon Islands, Fiji, Vanuatu and New Zealand.

Nautilus Minerals Pacific Pty Ltd was incorporated in Australia on April 18, 2006 and provides various administrative services to the Company.

Tonga Offshore Mining Limited was incorporated under the laws of Tonga on March 7, 2008 and holds the Company’s exploration licences granted by the ISA in the CCZ.

The following chart illustrates the Company's corporate structure, as at the date of this Annual Information Form, listing each of its subsidiaries, together with the jurisdiction of incorporation of each subsidiary and the percentage of voting securities beneficially owned or over which control or direction is exercised by the Company.

Nautilus Group Structure



GENERAL DEVELOPMENT OF THE BUSINESS OF THE COMPANY

THREE YEAR HISTORY

2010

Reactivation of Soil Machine Dynamics Contract

During the first quarter the Company reactivated the contract with SMD for the design and build of the seafloor production tools.

Offshore Production System Definition and Cost Study

On June 23, 2010, Nautilus released the Cost Study for its proposed offshore production system to be deployed in the territorial waters of PNG, requiring the build of three subsea deepwater machines for cutting and gathering, being the Auxiliary Cutter, Bulk Cutter and Collection Machine.

Issue of Variation Order

Nautilus also finalised and issued a variation order to SMD to modify the existing design-build contract for the provision of two integrated machines and one handling system to three specialist machines and the associated launch and recovery systems.

The variation order, valued at approximately GBP19 million was incorporated in the Cost Study.

Exploration Campaign

On November 1, 2010 the Company commenced its fourth exploration drilling program, with the departure of the vessel *REM Etive* from Singapore, bound for the Company's Solwara 1 Project in the territorial waters of Papua New Guinea.

The 2010 drilling program focused on improving the resource and geotechnical understanding at Solwara 1, as well as scout drilling at other prospects on the Company's 100% owned tenements in the Bismarck Sea, Papua New Guinea.

The drilling campaign was completed in May 2011.

Project Development

The Company made good progress with the development of the Solwara 1 Project during 2010.

Soil Machine Dynamics progressed with the development of the SPTs after the contract suspension was lifted in the first quarter of 2010. Detailed design advanced and procurement of key component subassemblies commenced. The contract for the cutter drum assemblies was awarded in the final quarter of 2010. The contracts for the launch and recovery systems and crawler tracks were awarded in 2011.

Technip USA progressed with development of the RALS. Subcomponent bid packages were prepared so that tenders could be launched once project sanction was announced.

Technip Oceania was retained to develop the planning for the equipment integration into the selected PSV. Work focused on refining the equipment control system integration, electrical system integration and detailed review of deck layouts and vessel architecture.

Cynthia Thomas appointed to Board

At the Company's AGM on June 23, 2010, Ms Cynthia Patricia Thomas was appointed to the Nautilus Board. Ms Thomas's background and experience are described under the heading "Directors and Officers".

2011

Mining Lease Granted

On January 17, 2011, the State of PNG granted the Mining Lease to Nautilus for the development of the Solwara 1 Project. The Mining Lease covers an area of approximately 59km² and is located north of Rabaul, PNG. The Mining Lease has an initial 20 year term.

Agreement to form Mining JV

On March 29, 2011, the Company announced that the State of PNG had signed an 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 State's interest in the Mining JV will be held through Petromin PNG Holdings, a wholly owned company of the State, and which holds the State's mining and petroleum assets.

The State of PNG (through Petromin) also exercised its option to take a 5% interest in a holding company with Nautilus, which is to control 49.99% of the Vessel JV described below. Petromin made an initial payment to Nautilus of approximately US\$1.8 million on March 30, 2011 as part payment for that interest.

Agreement to form Vessel JV

On April 13, 2011 the Company announced the agreement to form a strategic partnership with German shipping company, Harren, to own and operate a PSV, which would serve as the operational base for Nautilus to extract high grade copper and gold at its first development, the Solwara 1 Project, in the Bismarck Sea of PNG.

The Vessel JV is to charter the PSV to the Mining JV to carry out its seafloor production operations with Harren to provide crewing, logistics and ship management services to the Vessel JV.

Completion of the Harren transaction is conditional upon, among other things, Harren securing bank debt of at least EUR75 million for the Vessel JV. The final debt package for the vessel may result in changes to the joint venture structure.

Initial project capital and operating cost estimates for the Solwara 1 Project were provided in the Cost Study. The total capital cost estimate to complete the offshore production system for the Solwara 1 Project were reviewed in light of the Harren transaction; however, the costs have not otherwise been adjusted for inflationary trends in respect of certain cost estimates.

Exploration tenements in the Eastern Pacific and Fiji awarded

On July 22, 2011 Nautilus Minerals' wholly owned Tongan subsidiary, TOML, became one of the first private sector organizations to be granted exploration licences in the highly prospective CCZ of the Eastern Pacific.

Sponsored by the Tongan Government, TOML was granted approximately 75,000 km² of prime exploration territory in the CCZ, which lies in international waters between Hawaii and Mexico. As a result of exploration conducted in the 1980s, the CCZ is known to host significant deposits of polymetallic nodules, which are rich in copper, nickel, manganese and cobalt, lying on the seafloor in water depths starting at 4,500 metres.

The International Seabed Authority, which is the organization responsible for administering activity on the seafloor in international territory, notified the Company of its intention to grant the TOML licence at its annual meeting in Jamaica in July. The licence is for an initial period of 15 years.

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

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

On February 22, 2012 Nautilus announced that it had received formal notification from Teck Resources Limited that it had elected not to participate in exploration activities in Fijian waters under a regional area of interest agreement signed in December 2007.

C\$98.1 Million Raised in Private Placement of Common Shares

On August 31, 2011, Nautilus announced a private placement of Common Shares for C\$98.1 million to fund the development of its first project, Solwara 1, in the Bismarck Sea of Papua New Guinea. The placement involved the issue of approximately 39 million shares in two tranches to a number of investors at a price of C\$2.52 per share.

Investors who participated in the financing included Mawarid Offshore Mining Ltd., a subsidiary of MB Holding. It acquired a 9.98% stake in the expanded share capital of the Company.

Nautilus granted an anti-dilution right to the investors in this placement that enables them to maintain their percentage ownership in the shares of Nautilus, as and when and at the price at which any Common Shares, or securities convertible into or exercisable for Common Shares, are issued by Nautilus until the earlier of the date of commencement of first production and February 28, 2014.

Nautilus paid a finder's fee of US\$1 million in cash to arm's length parties relating to the placement. As a result of the financing, the Board of Nautilus formally sanctioned the development of Solwara 1, on October 6, 2011.

Increased Mineral Resources

A successful exploration drilling campaign conducted at Nautilus' tenements in the Bismarck Sea of Papua New Guinea enabled the Company to increase the resource estimate at its Solwara 1 project, and to declare a maiden Inferred Resource at the nearby Solwara 12 deposit.

The key features of the resource update, prepared by Golder in accordance with NI 43-101, and stated at a copper equivalent cut-off grade of 2.6%, are as follows:

- The company's total Indicated Resources increased 18% to 1.03 million tonnes.
- Total Inferred Resources rose 36% to 1.8 million tonnes.

- Contained copper in Indicated Resource at Solwara 1 increased 25% to approximately 74,000 tonnes.
- Contained copper in Inferred Resource at Solwara 1 increased 28% to approximately 125,000 tonnes.
- Contained gold in Indicated Resource at Solwara 1 increased 23% to approximately 166,000 ounces.
- Contained gold in Inferred Resource at Solwara 1 increased 5% to approximately 317,000 ounces.
- A maiden Inferred Resource was declared at Solwara 12, 25 km to the north-west of Solwara 1, of 230,000 tonnes, grading 7.3% copper and 3.6 g/t gold.

Full details of the mineral resource calculations are contained in the Solwara 1 and 12 Report.

The increases in contained metal within the resource are a result of additional tonnes, and importantly, higher grades, due to successful resource drilling which identified further high grade mineralized zones. The increase in tonnes was also partly due to a reduction in the cut-off grade from 4% copper, used in the prior 2008 resource statement, to a copper equivalent cut-off grade of 2.6% in the 2011 resource, following refinements in the Solwara 1 Project design.

Importantly, the declaration of a maiden resource at Solwara 12 began the process of building a pipeline of projects for Nautilus in the region, and confirms the prospectivity of the Bismarck Sea, where the Company has identified another 16 prospects for further evaluation.

The updated resource estimate was prepared following a 1,475 metre, 99 hole diamond drilling campaign conducted in the Bismarck Sea from November 2010 until May 2011.

Drilling was focused within the area of the ML154 granted to Nautilus earlier in 2011, which contains the Solwara 1 deposit. A total of 71 holes were drilled in ML154, for 1147 metres. The remainder of the drilling was conducted in Exploration Lease 1374, which hosts Solwara 12.

Project Development

Progress continued throughout 2011 on works related to the Solwara 1 Project Development.

Soil Machine Dynamics continued to progress the development of the SPTs. Detailed design advanced and procurement of key component sub assemblies continued. Design reviews were held with SMD on the AC and CM. The design specifications for these machines were submitted to Nautilus and approved. Factory acceptance testing on the BC boom assembly (including cutter drum and gearboxes) was completed in the fourth quarter and was delivered to SMD along with the AC cutting heads and gearboxes. Commencement of manufacturing of the umbilical was deferred and subsequently commenced. Following receipt of track simulation details and finalisation of the track chassis interface, SMD was able to progress chassis engineering and let contracts for fabrication. The CM boom and yoke fabrication continued throughout the period and the CM chassis and AC chassis have since been placed at the same facility.

Technip USA progressed with development of the RALS. Engineering continued on the riser package, subsea connectors, the surface pump systems and for the main SSLP. The contract for the riser lift and hoisting system (derrick and draw-works, plus riser storage and handling systems) was also let and engineering advanced. The major items of the RALS were let. The initial stage of full scale loop testing of the subsea pump and control valves was completed.

The shipyard commenced engineering of long lead components and issued enquiry packages for engines, dynamic positioning and electrical systems. Contracts for engines and thrusters were awarded.

Work continued on the development of the detailed plan to integrate the mining equipment onto the vessel.

2012

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 and 12 3D Seismic Survey, are anticipated in 2013.

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.

Quoted on OTCQX

In April 2012, the Company began trading on OTCQX International. The quotation is expected to 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.

Dispute Process and Arbitration with the State of PNG

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 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 at this time. In order to continue the construction of the Seafloor Production System, Nautilus was forced to carry the State's share of Project development costs, which continues 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.

Delay to Vessel Build

On June 1, 2012 Nautilus announced that there may be a delay in the finalisation of funding for the PSV 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.

Subsequently, in late August 2012, the shipyard proposed by Harren under the Vessel JV made an application for insolvency and is currently in an administration process. The shipyard had been advanced US\$12.9 million for the placement of orders for long lead items. The Company has registered a claim with the administrator that has been accepted in full, however early indications from the process are that unsecured creditors will likely receive a quota of between 1-3% of their claim. While the quota percentages have not been finalised, the Company has recognised an impairment charge of \$12.5 million with respect to the amount prepaid to the shipyard, in line with the preliminary quota percentages.

On November 13, Nautilus announced that it would discontinue discussions regarding an alternate vessel and funding solutions following the decision to terminate the construction of its Seafloor Production System. See "Update on Equipment Build for Solwara 1 Project" below.

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".

NI 43-101 Resource Report for Polymetallic Nodules released

Tonga Offshore Mining Limited, a 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 approximately 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. Full details of the mineral resource calculations are disclosed in the Updated CCZ Report.

Project Update

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

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.

GMC progressed the procurement of the rigid riser system with the 8" and 12" riser pipes now 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.

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% zinc, 28.6 g/t gold and 673g/t silver, as further described in a news release dated November 1, 2012.

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.

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.

Update on Status of Equipment Build for Solwara 1 Project

On November 13, 2012 the Company decided to preserve its cash position by terminating the construction of the equipment for its Seafloor Production System.

By November, 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. In order to preserve capital, Management and the Board of Directors of Nautilus decided to terminate construction of its Seafloor Production System. The Company has since terminated a number of contracts relevant thereto but discussions continue with the suppliers of the critical equipment items including the SPTs, the RALs and the SSLP. 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.

Terminating the equipment build for the Seafloor Production System included discontinuing discussions regarding an alternative vessel and associated funding solution. This means there will be a considerable delay in any commencement of production operations and it may also result in an increase in the Solwara 1 Project cost.

The Company will need to source sufficient funds in order to recommence the build of the seafloor production system.

Recent Developments in 2013

Cancellation of Admission of Common Shares to Trading on AIM

On February 1, 2013 the Company announced that the admission of its Common Shares to trading on AIM will be cancelled with effect from 7:00 a.m. on March 8, 2013 (GMT). The last trading day on AIM was March 7, 2013. The Company continues to maintain its listing on the TSX.

This decision to cancel was made following a careful review of Nautilus' listing on AIM by the Board. The principal reasons for the Board's decision related to the lack of liquidity in the Company's shares on AIM and the cost of maintaining the listing on AIM. The Board considered that the costs incurred to maintain the listing of the Company's shares on AIM exceeded current and potential future benefits the Company could obtain from the listing.

Update to CCZ Report

On March 21, 2013, the Company filed the Updated CCZ Report, which provides further information on methodology, data verification and mineralisation, as well as several additional maps and figures. The resource estimate remains unchanged from the original report which was released on September 24, 2012. The Updated CCZ Report is available on the Company's profile page on SEDAR and on its website.

During 2013, the Company expects to focus on:

- Resolution of the dispute with the State of PNG
- Maintenance of existing licences and permits
- Finalising discussions with contractors regarding critical path equipment including the SPTs, the RALS and the SSLP
- The development of additional assets (likely through JV/partnerships)
- Continuing to rebuild the Nautilus share price
- Sourcing sufficient funding to recommence the build of the Seafloor Production System

DESCRIPTION OF THE BUSINESS

OVERVIEW OF BUSINESS

General

Nautilus, as it is currently structured, was formed on May 8, 2006 when the Company acquired all of the issued and outstanding shares of NMN (formerly Nautilus Minerals Corporation) and NMO, by issuing 30,519,541 Common Shares to the shareholders of NMN and NMO. Since the shareholders of NMN and NMO acquired in excess of 90% of the outstanding Common Shares, the transaction was accounted for as a reverse takeover.

The Company's main geographic focus is the western Pacific Ocean where it has been granted or made application for Exploration Licences in PNG, the Solomon Islands, Tonga, Vanuatu, New Zealand and Fiji.

Summary

Nautilus is a seafloor resource exploration and development company and the first company to commercially explore the ocean floor for copper, gold, silver and zinc rich seafloor massive sulphide deposits. Nautilus holds tenement licences and exploration applications in various locations in the western and central Pacific Ocean and is establishing a pipeline of prospects for development. The Company's goal is to develop a seafloor production system that can be used to extract resources from its seafloor prospects.

Nautilus' seafloor production system, once developed, has the potential to open a new frontier of resource development as land-based mineral deposits continue to be depleted and the cost of development and extraction continue to rise and grades continue to fall.

Nautilus has completed both an independent NI 43-101 resource estimate for its Solwara 1 Project and an independent NI 43-101 system definition and cost study for its seafloor production system (see "Risk Factors – No pre-feasibility study or feasibility study" and "Risk Factors – Cost Study"). The Company has received both the mining lease and environmental permit for its Solwara 1 Project from the State of PNG.

Nautilus has also released, through one of its 100% owned subsidiaries, an independent NI 43-101 resource estimate in respect of its Clarion-Clipperton Fracture Zone polymetallic nodule project, located within the Central Pacific Ocean.

Nautilus' Strategy

Nautilus' business model is based on the concept of ongoing resource accumulation from its prospective tenements and aggregation of numerous high grade SMS systems for sequential development using a vessel-based floating production system. The concept is in keeping with land-based VHMS systems that occur in camps and has been supported by Nautilus' strong record of discovery of new SMS systems in the Bismarck Sea and the waters of Tonga.

The Company has four key elements to its strategy:

- 1) Identify prospective exploration territory and secure licences;
- 2) Bring the Solwara 1 deposit into production, demonstrating that seafloor resource development is commercially viable and environmentally sustainable subject to the risks as described under "Risk Factors";
- 3) Undertake further exploration to identify additional mineral resources and create a project pipeline; and
- 4) Add value for shareholders by expanding operations and bringing on stream duplicated seafloor production systems.

Development Plan for Bismarck Sea Prospects

Nautilus intends to develop its Bismarck Sea prospects, which includes the Solwara 1 Project, as follows:

Firstly, by developing a seafloor production system that can be used for the Solwara 1 Project and can be relocated for production at other SMS systems. To achieve this, Nautilus intends to maximize the use of existing technology and leverage the expertise of contractors with market experience in the sector. Nautilus will prioritize work and cash spend on the development of the seafloor production system which involves the design, build, integration, commission and operation of the seafloor production system comprising the PSV, SPTs, RALS including a SSLP, and a dewatering plant.

Nautilus intends to extract mineralized material from the seafloor by using three remotely operated SPTs operating on the seafloor to cut rock, produce and pump a slurry. Mineralized material gathered by the SPTs is pumped to the PSV as slurry via the RALS. At the surface, the high grade slurry material will be dewatered on the PSV and shipped for final processing.

At steady state operations, Nautilus plans to produce mineralized material from the seafloor at an average annual rate of approximately 1.3 million tonnes (excluding ramp up and ramp downs).

In April 2011 the Company signed a binding heads of agreement with Tongling for the sale of the product extracted from the Solwara 1 deposit. 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, in accordance with a notification mechanism and includes an option to agree an extension of the arrangement.

Design and construction of the SPTs is at an advanced stage; 55% complete as at December 31, 2012. The SSLP fabrication had commenced and design and construction of the rigid riser system had also progressed. Once complete, the seafloor production equipment will be integrated onto the PSV.

To continue the development of the Solwara 1 Project the Company will need to source sufficient funds to recommence the build of the seafloor production system.

Solwara 1 Project

The Solwara 1 deposit is situated in the Bismarck Sea within the New Ireland Province of PNG at latitude 3.789° S, longitude 152.094° E. The site is approximately 50 km north of the deepwater port of Rabaul

(East New Britain Province), approximately 40 km west of the town of Namatanai (New Ireland Province), and approximately 30 km from the nearest coast at a water depth of approximately 1,600 m. The proposed project does not require large-scale site preparation or construction of complex support facilities on land, and there are no issues with respect to the surface rights of individual landowners or occupants. The area proposed for extraction operations is relatively small, approximately 0.112 km² and the mineralized material sits exposed or under minimal cover on the seafloor. The Solwara 1 Project's footprint at the sea surface will be limited to the presence of the PSV and attendant support vessels.

The Company received the Environmental Permit for the development of the Solwara 1 Project from the DEC in December 2009. The Environmental Permit was followed by the grant of the Mining Lease (ML 154), within which the Solwara 1 Project is located, by the State of PNG to the Company in January 2011.

Nautilus has agreed to form an unincorporated mining joint venture (see "Three Year History – 2011 – Agreement to Form Mining Joint Venture" and "Three Year History – 2012 – Dispute Process and Arbitration with the State of PNG") with the State of PNG through its nominee, Petromin. Petromin is the wholly-owned PNG State entity specifically established to hold the State's assets in mineral resource and oil and gas projects on behalf of the State of PNG. The State of PNG has exercised its option to take a 30% stake in the Solwara 1 Project and other assets within the Mining Lease area. The Mining JV was intended to develop the seafloor production system and deploy it initially at the Solwara 1 Project.

SPECIALIZED SKILL AND KNOWLEDGE

The Company is intent on applying the most current technical knowledge to the Solwara 1 Project, while ensuring that best practice is followed throughout the proposed mining method.

Our in-house technical team is highly motivated, forward-thinking and adds significant value to our operations. In addition, firms such as Technip, Soil Machine Dynamics and Ocean Floor Geophysics Inc. are able to provide the Company with the expertise that the Company needs to remain at the forefront of seafloor exploration and production. Equity investors in Nautilus include Metalloinvest, Anglo American and MB Holding, who provide strong financial and technical support to complement that of our team and contractors.

COMPETITIVE CONDITIONS

The Company has undertaken studies including mine planning, materials handling, transportation, metallurgical testing and processing studies. These studies will assist the Company in finalising its capital and operating expenditure estimates and thereby assessing its competitive position in the marketplace.

Business Strengths and Competitive Advantages

First Mover Advantage

Nautilus is the first company to commercially explore the ocean floor for copper, gold, silver and zinc rich SMS deposits. Management believes that it has a time and knowledge advantage over both current and future competitors. This advantage will exist in researching and identifying potential high grade resource targets, establishing relationships with key corporate and political partners that are necessary to explore and develop the seafloor properties, obtaining key permits and licences, and developing technologies, knowhow and experience in this emerging new industry.

Use of Existing Technologies

The design of the seafloor production system is based on the adaption of technologies that exist in the offshore (deepwater) oil and gas, telecommunications, trenching, marine dredging and mining and land based mining industries. While equipment will need to be customized, key elements of the equipment have an existing analogue within the above industries. Based on engineering work completed to date for the Company, and recent advances in subsea engineering, largely driven by the petroleum and telecommunications industries, Nautilus believes that it has, or can further develop over the course of time with adequate financing, the necessary equipment and technology to explore for, develop and extract SMS material economically.

Key Licences and Permits Secured

The Company has been successful in obtaining the key licences and permits required to commence production at the Solwara 1 Project. In 2009, Nautilus received the Environmental Permit for the development of the Solwara 1 Project from the DEC of PNG for a term of 25 years. In January 2011, Nautilus received the Mining Lease which covers the Solwara 1 Project area and has an initial term of 20 years.

Commitment to Responsible Development

The Company is committed to responsible development and to continual improvement in its performance and efficient use of natural resources. The Company has developed and will continue to implement and maintain management systems for health, safety and environment that are consistent with internationally recognized standards. Nautilus believes that seafloor resource production offers advantages over typical land-based mining from health, safety, environmental and social points of view. Nautilus believes the benefits of seafloor resource production include but are not limited to:

- **Limited social disturbance:** seafloor operations do not require the social dislocation common to land-based operations with the resulting impact on culture or disturbance of traditional lands
- **Reusable infrastructure:** Operations will be limited to a PSV and SPTs which can be re-used for future projects unlike many aspects of land-based operations
- **Minimal overburden or stripping:** the mineralization generally occurs directly on the seafloor and will not require large pre-strips or overburden removal common to many land based mining operations where commonly up to 75% of the material moved is waste
- **Minimal waste:** the high-grade of material that will be extracted, along with the minimal amount of overburden, is expected to result in a small physical footprint
- **Increased worker safety:** the operation is controlled remotely from the PSV, not requiring operators to be exposed at the cutting face

Opportunities to Grow Resources and Increase Value

Management believes that it will have opportunities through further exploration to expand its mineral resource base both at the Solwara 1 Project and on other properties where research and exploration support the presence of seafloor massive sulphides.

Experienced Management Team and Board

The Company has an experienced management team and Board with knowledge in areas that are relevant to the development of the world's first seafloor resource production project. See a description of the directors and executive officers below under "Directors and Officers".

For further detail relating to competitive conditions, refer to "Risk Factors – Competition".

NEW PRODUCTS

No new products have been publicly announced.

PRODUCTS, SERVICES AND COMPONENTS

Seafloor Production System

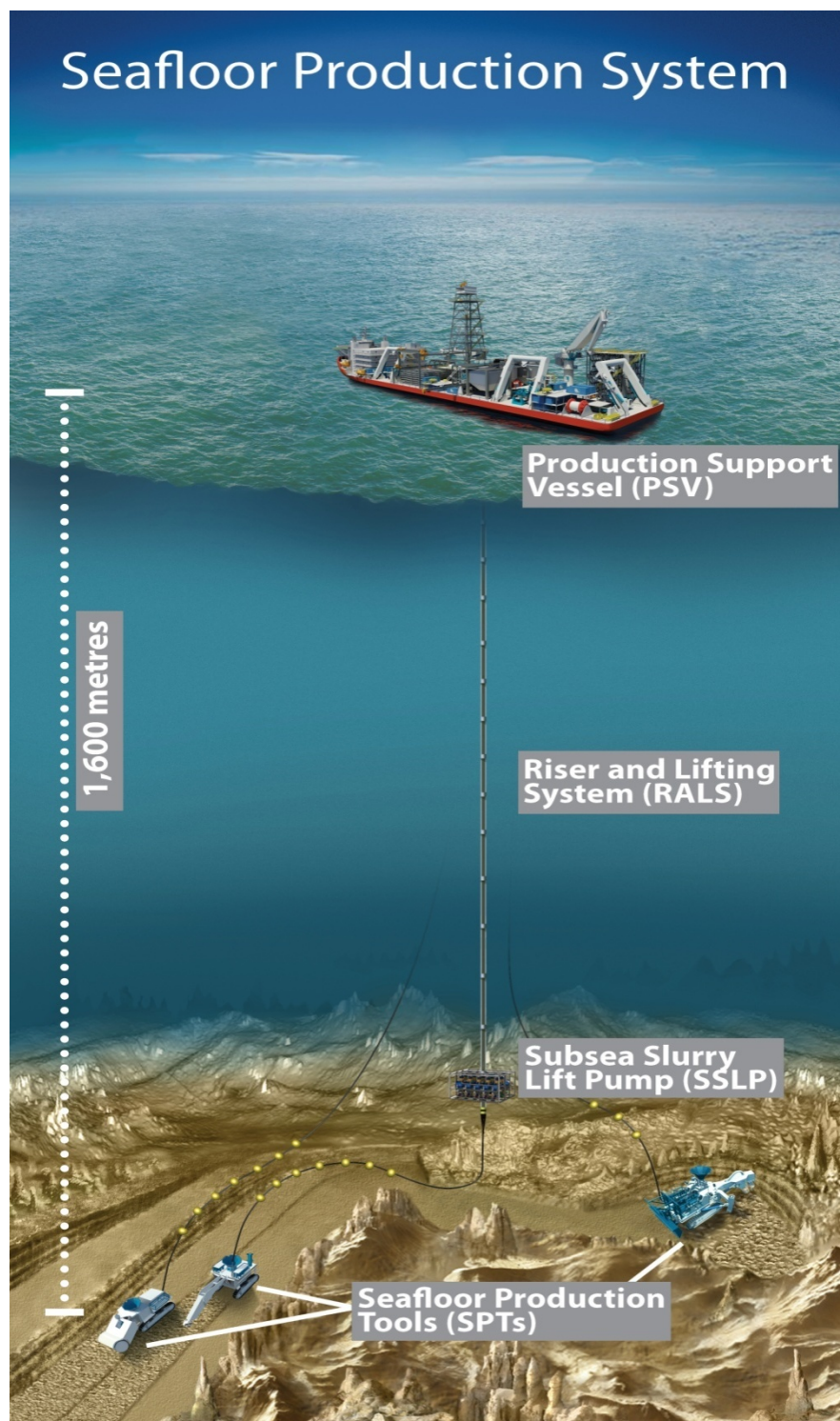
Nautilus' business model is based on the concept of ongoing resource accumulation from its prospective tenements and aggregation of numerous high grade SMS systems for sequential development using a vessel-based floating seafloor production system. The concept is in keeping with land-based VHMS systems occurring in "camps" and has been supported by Nautilus' strong record of discovery of new SMS systems in the Bismarck Sea and Tonga.

When Nautilus' seafloor production system is ultimately developed, the Company intends to deploy it first at the Solwara 1 Project. The seafloor production system will comprise the following elements:

- Seafloor Production Tools (SPTs)
- Riser and Lifting System (RALS), including the Subsea Slurry Lift Pump (SSLP)
- Production Support Vessel (PSV) with Dewatering Plant (DWP)
- Load-out and transportation to a third party processing facility for toll treatment or direct ore sales

SPTs will be used to excavate the massive sulphide material from the seafloor. The excavated material will be pumped as slurry to the PSV via the RALS. The pumped slurry will be dewatered at surface and the solid material eventually offloaded into bulk carriers for transportation to a concentrator treatment plant for subsequent processing and/or direct ore sales. The following diagram provides a graphic of Nautilus' intended seafloor production system.

Seafloor Production System



Source: Nautilus Minerals

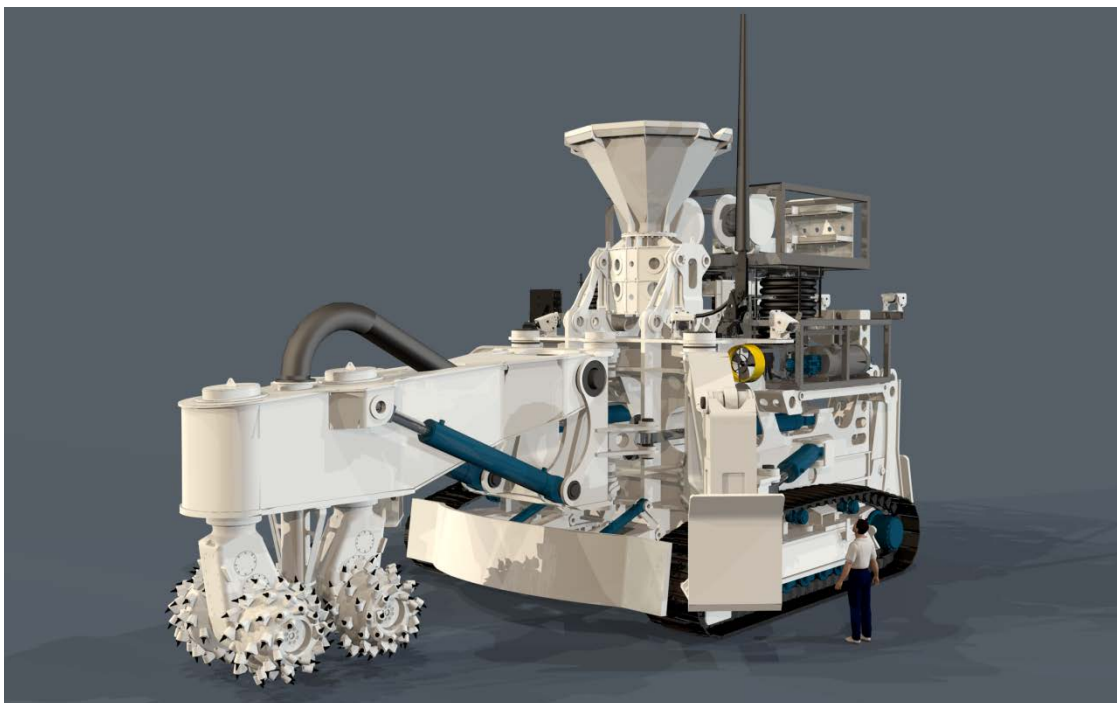
Seafloor Production Tools

The development of the SPTs is based on the consolidation of technologies that exist in the offshore (deepwater) oil and gas, telecommunications, trenching, marine dredging and mining industries. While the precise design of this equipment will be bespoke, each element of the equipment has an existing analogue within the above industries.

The current approach for SPTs is analogous to surface mining systems where it is common for a flexible and mobile machine to prepare the site which is usually followed by a separate dedicated bulk production system. Due to the topography of the site at the Solwara 1 Project and other typical terrain, three different SPTs are intended to be used, namely the auxiliary cutter, bulk cutter and collection machine.

Auxiliary Cutter

The auxiliary cutter is primarily designed to access and prepare level landing and work areas. It has a design length of 15.8 m, width of 6.0 m, a height of 7.6 m and a weight in air of 245 tons. The auxiliary cutter is designed to pump overburden away from the mine site and to pump cut materials to a central seabed location as required. An image of the auxiliary cutter, as it is designed, is shown below.



Source: Nautilus Minerals

Bulk Cutter

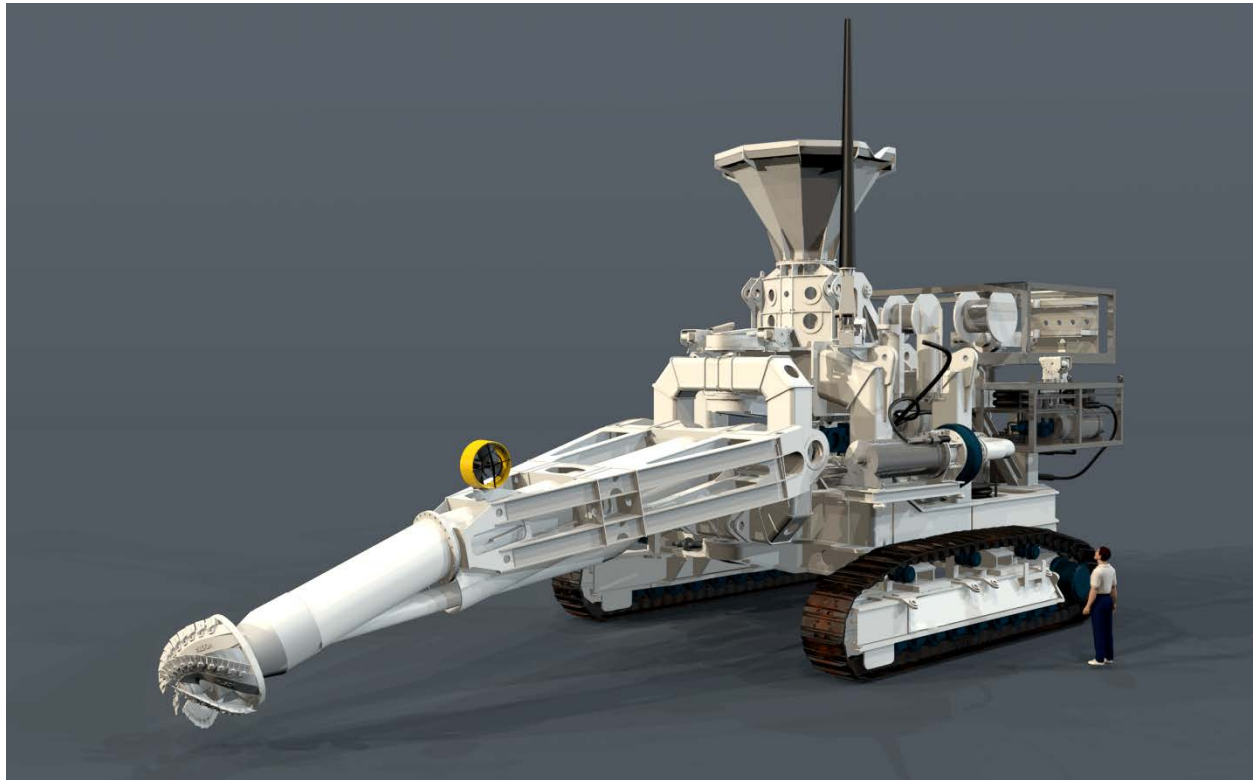
The bulk cutter is designed to cut at higher productivities in the prepared areas. It has a design length of 14.2 m, width of 4.2 m, a height of 6.8 m and a weight in air of 310 tons. The bulk cutter is also designed to pump cut materials to a central seabed location as required. An image of the bulk cutter, as it is designed, is shown below.



Source: Nautilus Minerals

Collection Machine

The collection machine is designed to gather the cut material from the seafloor and pump it to the RALS. It has a design length of 16.5 m, width of 6.0 m, a height of 7.6 m and a weight in air of 175 tons. An image, consistent with its design, is shown below.



Source: Nautilus Minerals

All of the equipment necessary to build each of the SPTs is now complete and available in SMD with the exception of the chassis fabrication. As far as practicable, flexibility and higher instantaneous production rates have been incorporated into the designs to optimise over-all production rates. An extensive period of trials and testing has been conducted during the design and early build stages of the Solwara 1 Project. Further proving trials will be carried out on completion of factory acceptance testing before on site commissioning commences.

Riser and Lifting System (RALS)

The RALS is a critical component to the Solwara 1 Project development plan. Components and technology of the system will be adapted from the well-established offshore oil and gas (drilling and production) industry. An EPCM contract with Technip USA Inc. was put in place for the over-all system design and a supply contract with GE Hydril was put in place for the design and build of an SSLP. Detailed design and equipment testwork is not yet complete. Fabrication of the SSLP and qualification testing are still to be completed.

Production Support Vessel (PSV)

The PSV will be the floating platform for the mobilization and remote operation of production machinery operating on the seafloor at water depths of approximately 1,600 meters. The PSV is similar to vessels that service the large markets of subsea construction, drilling and production for the offshore oil and gas industry.

An image of the PSV, as it is designed, is shown below.



Source: Nautilus Minerals

Dewatering Plant (DWP)

The DWP process design is based on well known and well established technology from the mineral processing industry. As the DWP is part of a single integrated production process design, it is a critical component of the development.

A design study for the DWP was performed originally by Parsons Brinkerhoff. A contract for the DWP detailed design and management of construction has been under execution by DRA Pacific, the Australian subsidiary of a South African materials handling specialist with experience in the offshore diamond mining industry. Design of the DWP is now complete and the DWP design is ready for fabrication.

Nautilus believes the development of a DWP onboard the PSV is technically feasible. The unit processes within the dewatering plant flow sheet and the equipment selected are generally consistent with normal design practice.

INTANGIBLE PROPERTIES

Nautilus has approximately 290,159km² of granted tenements, and approximately 247,135km² of applications for tenements in the territorial waters and EEZ of Papua New Guinea, Tonga, Solomon Islands, Fiji, New Zealand, Vanuatu and the CCZ.

As at December 31, 2012 Nautilus had 50 Exploration Licences and one Mining Lease granted in Papua New Guinea, totaling 33,030km². The prospects named Solwara 1 through 19 are located within these ELs and ML. Licences are granted for two years and are renewable for a further two years if the Company complies with the Papua New Guinea *Mining Act 1992*.

Table 1: Current Tenements as at December 31, 2012

Location	No.	Total area	Granted	Granted Area (km2)	Applications	Application area (Km2)
PNG - Bismarck Sea*	83	74,373	47	32,069	36	42,304
PNG - Woodlark Area	6	7,062	3	962	3	6,100
PNG - New Ireland Arc	5	12,788	0	0	5	12,788
Solomon Islands	80	40,853	80	40,853	0	0
Tonga	46	209,441	16	77,563	30	131,878
Fiji	15	60,370	15	60,370	0	0
New Zealand	1	52,818	0	0	1	52,818
Vanuatu	55	4,877	41	3,630	14	1,247
ISA - CCZ nodules	1	74,713	1	74,713	0	0
TOTAL	292	537,294	203	290,159	89	247,135

* Includes ML154

Nautilus considers the tenements, licences and Mining Lease to be very significant to its business.

Nautilus has applied for a number of patents in Asia, Australasia, Europe and the United States for certain processes, methods and apparatuses relating to its business of subsea mining. The applications are at various stages, and they are not considered to be critical to Nautilus' short term business plans.

CYCLES

The profitability of mining operations is significantly affected by changes in the market price of copper, gold, silver, zinc and other minerals and the cost of labour, steel, power, petroleum fuels and oil. The level of interest rates, the rate of inflation, world supply of these minerals and stability of exchange rates can all cause significant fluctuations in base metal, precious metal and oil prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of copper, gold, silver, zinc and other minerals, steel and oil has fluctuated widely in recent years.

ECONOMIC DEPENDENCE

Nautilus' current business plans include and are substantially dependent upon sourcing sufficient funds to recommence the build of the Seafloor Production System. To this end, the Company continues discussions with key contractors who shall supply the equipment for the Seafloor Production System (see the descriptions under "Overview of Business – Products, Services and Components").

CHANGES TO CONTRACTS

On November 13, 2012 the Company decided to preserve its cash position by terminating the construction of the equipment for its Seafloor Production System. The Company has since terminated a number of contracts relevant thereto but discussions continue with the suppliers of the critical equipment items including SMD, who will supply the SPTs, Technip USA in respect of the RALS and GE Oil & Gas in respect of the SSLP. The continuation or otherwise of these key contracts is dependent upon the Company sourcing sufficient funding to recommence the build of its Seafloor Production System. The contracts are cancellable by the Company at any time; however, in the event of cancellation, the Company would be liable for any costs incurred up to that point in time. No other penalties or cancellation fees are payable under this contract.

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

Except as detailed above, the Company is unaware of any aspect of the business being affected in the current reporting period by renegotiation or termination of contracts or sub-contracts.

ENVIRONMENTAL PROTECTION

On December 29, 2009 the Environmental Permit for the Solwara 1 Project was approved by the Department of Environment and Conservation.

Prior to obtaining an Environment Permit, which is a permit that must be obtained before the grant of a Mining Lease, the Company must complete a rigorous process which has the following steps:

1. Submission and approval of the Environmental Inception Report;
2. Environmental Impact Assessment ("EIA");
3. Submission and approval of the Environmental Impact Statement ("EIS"); and
4. Submission and approval of the Environment Permit Application.

To enhance transparency, and provide access to information, Nautilus maintains its CARES ("Community Accountable, Responsible Environmentally and Safe") website. The website provides information on the EIS, including the full EIS report, supporting studies, background information and commonly asked questions and answers. In addition to this, the Company conducts regular community consultation programs and holds multi-stakeholder expert workshops.

The Company has an Environmental Policy supported by an Environmental Management System. The Company's objective, as stated in the Environmental Policy is to minimize the environmental impact of the

Company's activities whilst contributing positively to the sustainable future of the communities in which the Company intends to operate. The Company's Environmental Management System provides a framework for continual environmental improvement and has been developed in line with the principles in the international standard for Environmental Management Systems, ISO 14001:2004.

See also "Social and Environmental Policies" below.

EMPLOYEES

As at the end of the 2012 financial year the total number of employees in the Nautilus group was 48.

FOREIGN OPERATIONS

The Company's main geographic focus is in the western Pacific Ocean with the majority of work to date completed in the territorial waters and the EEZ of Papua New Guinea and Tonga.

In 1997, Papua New Guinea became the first country in the world to grant exploration licenses, or tenements, for the exploration of SMS deposits. The tenements are either known to host or are considered prospective for base and precious metal SMS mineralization.

As at December 31, 2012 Nautilus had approximately 290,159km² of granted tenements in PNG, Tonga, Vanuatu, Fiji and the Solomon Islands, and approximately 247,135km² of tenements and applications in the territorial waters and EEZ of Papua New Guinea, Tonga, Fiji, New Zealand, Vanuatu and the CCZ.

SOCIAL AND ENVIRONMENTAL POLICIES

Nautilus is committed to responsible development. Health, safety, environment and community responsibilities are integral to the way we do business. The Company is committed to continual improvement in its performance and efficient use of natural resources.

Wherever the Company operates it will develop, implement and maintain management systems for health, safety, environment and the community that are consistent with internationally recognized standards and enable it to:

- develop its people and provide resources to meet its targets;
- identify, assess and manage risks to employees, contractors, the environment and communities;
- strive to achieve leading industry practice;
- provide written procedures and instructions to ensure safe systems of work;
- meet and, where appropriate, exceed applicable legal and other requirements;
- set and achieve targets that include reducing and preventing pollution;

- support the fundamental human rights of employees, contractors and the communities in which Nautilus operates;
- respect the traditional rights of indigenous peoples;
- care for the environment and value cultural heritage; and
- provide information, instruction, training and supervision where appropriate to employees, clients, visitors and contractors to ensure their safety.

Environmental Impact and Social Footprint

Nautilus intends to develop SMS deposits in the Bismarck Sea and elsewhere using methods that are socially acceptable, environmentally responsible, technologically achievable and economically viable. Nautilus has adopted a corporate and social responsibility policy. The Solwara 1 Project will implement the PNG resource development policy in a manner consistent with current PNG legislation and national goals and Nautilus' own policies and standards.

Seafloor resource production presents a potential new source of income and growth for PNG from a resource that has yet to be utilised. The Solwara 1 Project will bring benefits in the form of royalties and improvements in PNG's balance of trade and potential will be generated for new industrial development that can have positive social and economic effects within PNG. It should be noted that these benefits could be maintained, not just for the nominal project life, but for many years to come, as this new industry of seafloor resource production unfolds.

Extraction of resources from the seafloor opens new concepts in technology and environmental management practices. The location of mineralized material on (or immediately below) the seafloor avoids the need for large scale pre-stripping or land clearance activities and the associated handling of large volumes of overburden normally involved in land-based mining. The technologies proposed for the recovery of material and its transfer to the surface support vessel are proven in other offshore (deepwater) oil and gas, telecommunications, trenching, marine dredging and mining industries and, upon completion, all seafloor and surface production infrastructure can simply be relocated to other areas.

The seafloor production system has been carefully designed to not expose coastal reefs or fisheries to material from seafloor operations. Nautilus has completed extensive scientific research of the area, and the results of such research shows the seafloor at the Solwara 1 Project to be dynamic, and that the geothermal energy responsible for forming the SMS deposits cannot be extinguished by extraction operations.

Observations from the Company's own research (see "Environmental Impact Statement and Permit" below) showed venting and new chimney lattice structures starting to reform shortly after disturbance, and subsequent colonisation by animals, which could present opportunities for both natural and enhanced recovery of worked areas. Being the proponent of the first seafloor resource production of its kind, Nautilus has, with the assistance of the scientists involved, committed to a number of mitigation measures aimed to ensure the protection of biodiversity and to demonstrate the ecological acceptability of the operation.

Furthermore, all of Nautilus' operations are expected to occur at sea beyond the horizon minimizing any direct impact to local land-based communities.

Environmental Impact Statement and Permit

The Solwara 1 Project is a 'Level 3' activity under the PNG *Environment Act 2000*, (Section 53) which requires that an EIS be submitted to the PNG DEC. Nautilus appointed Coffey Environments (formerly Coffey Natural Systems (Australia)) as the lead consultant for the EIA / EIS process.

The Solwara 1 Project environmental footprint consists mainly of a single PSV (with attendant support vessels) and precision production machinery operating on an area proposed for extraction of approximately 0.112 km². There are no issues with respect to the surface rights of individual landowners or occupants.

In the EIS, Nautilus has proposed to discharge water from dewatering operations close to its point of origin at depths between 25 to 50 m above the seafloor to avoid any direct exposure or impacts on surface ecosystems. Nautilus' extensive work indicates that the processes of extraction and dewatering will therefore not affect the pelagic tuna, tuna fisheries or near-shore coral reefs.

Potential impacts to surface pelagic animals are considered to be minor, and may result from the presence of the surface vessels and their normal operations, including lighting, underwater noise and routine discharges (in compliance with relevant maritime acts and regulations). These impacts are similar to shipping generally and to the exploration surveys already completed.

In an effort to enhance scientific knowledge while meeting the needs of the EIA process, Nautilus engaged international scientific experts to design and conduct a number of environmental studies for the Solwara 1 Project, which are outlined in the EIS, available on SEDAR.

The main objectives of the EIS were to understand the existing environment, potential impacts due to the proposed extraction and how to mitigate significant impacts.

In August 2009, the DEC granted 'Approval in Principle' for the Solwara 1 Environmental Impact Statement. The Approval signalled the completion of internal and independent external reviews of the EIS by the DEC. The Solwara 1 Project Environmental Permit was granted on December 29, 2009 for a term of 25 years. The next steps for Nautilus are to prepare the draft project Environmental Management Plan for submission and approval by the DEC three months prior to project commissioning.

Stakeholder Consultation

Unlike other mining projects in PNG, the Solwara 1 Project does not impact individual landowners or occupants. Initial investigation of the social environment revealed that no customary land ownership exists at any of the proposed project locations.

Under PNG law, the Solwara 1 deposit is owned by the State of PNG. Social awareness and general acceptance of the Solwara 1 Project is important for its successful operation. To this end Nautilus currently maintains regular contact with regional stakeholders and government agencies through stakeholder awareness programs which aim to keep all parties informed of project development progress and to understand any new concerns.

Nautilus has also followed (and continues to undertake) a public consultation process that involves extensive interactions with stakeholder groups. Consultation with communities in New Ireland and East New Britain Provinces and other provinces in PNG, NGOs, the international scientific community and other stakeholders has included formal meetings, presentations and workshops. Over 11,000 people have been directly contacted in relation to the Solwara 1 Project. Additionally, there has been ongoing regular consultation with the national and provincial governments of PNG.

Environmental Impact and Social Footprint Highlights

Nautilus notes that seafloor resource production offers advantages over typical land-based mining from health, safety, environmental and social points of view. Nautilus believes the benefits of seafloor resource production include but are not limited to:

- **Limited social disturbance:** seafloor operations do not require the social dislocation common to land-based operations with the resulting impact on culture or disturbance of traditional lands
- **Reusable infrastructure:** Operations will be limited to a PSV and SPTs which can be re-used for future projects unlike many aspects of land-based operations
- **Minimal overburden or stripping:** the mineralization generally occurs directly on the seafloor and will not require large pre-strips or overburden removal common to many land based mining operations where commonly up to 75% of the material moved is waste
- **Minimal waste:** the high-grade of material that will be extracted, along with the minimal amount of overburden, is expected to result in a small physical footprint
- **Increased worker safety:** the operation is controlled remotely from the PSV, not requiring operators to be exposed at the cutting face

MINERAL PROJECTS

SOLWARA PROJECT

In accordance with Section 5.4 of Form 51-102F2, the following is a reproduction of the summary from the Solwara 1 and 12 Report, which summary has been updated and conformed to be consistent with other disclosure within this Annual Information Form.

The Solwara 1 and 12 Report is available on SEDAR under Nautilus' profile at www.sedar.com and is incorporated by reference in this Annual Information Form (see "Documents Incorporated by Reference").

SUMMARY OF THE SOLWARA 1 AND 12 REPORT

The Solwara 1 Seafloor Massive Sulphide (SMS) deposit is located in the Bismarck Sea Property (Figure 1), at latitude 3.789° S and longitude 152.094° E, approximately 50km N of Rabaul (Figure 1). The Solwara 12 SMS deposit is located at latitude 3.708° S and longitude 151.882° E, approximately 65km NW of Rabaul (Figure 1). The deposits contain significant resources of massive base metal sulphides, Au and Ag.

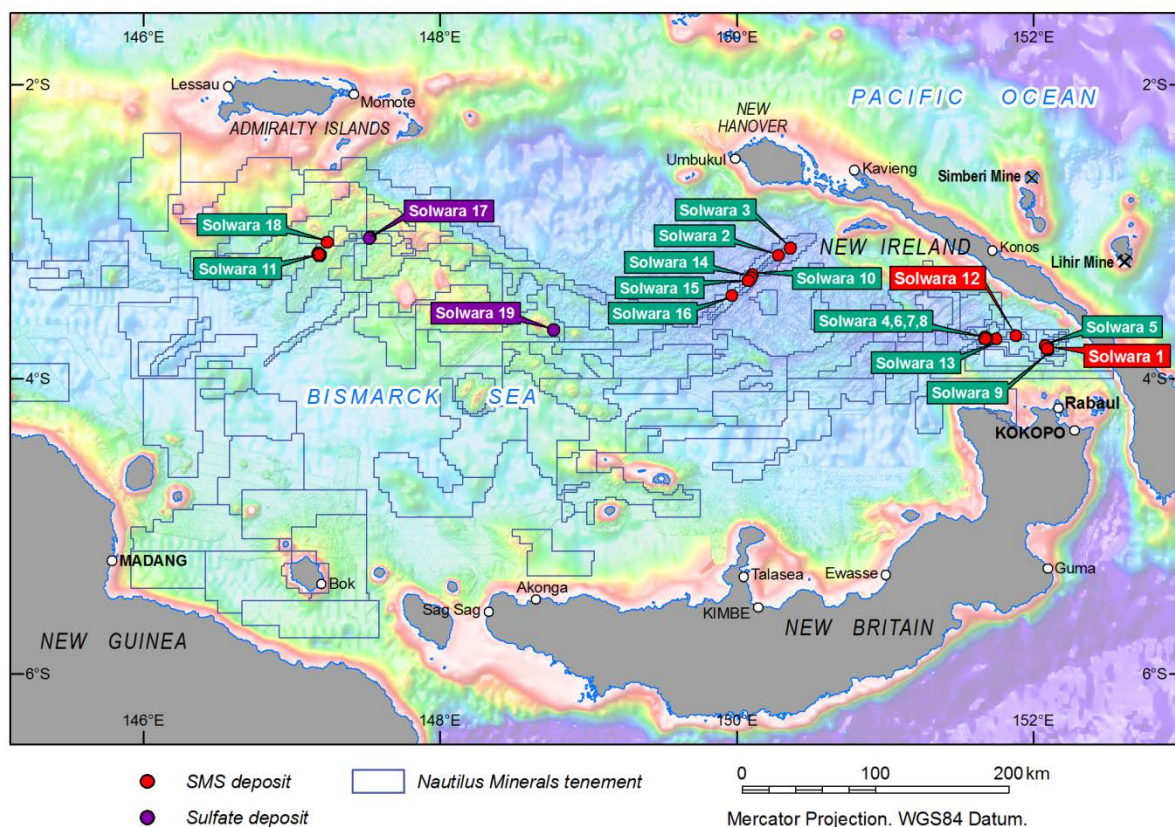


Figure 1. Location of Nautilus Minerals Bismarck Sea Property as at the date of the Solwara 1 and 12 Report

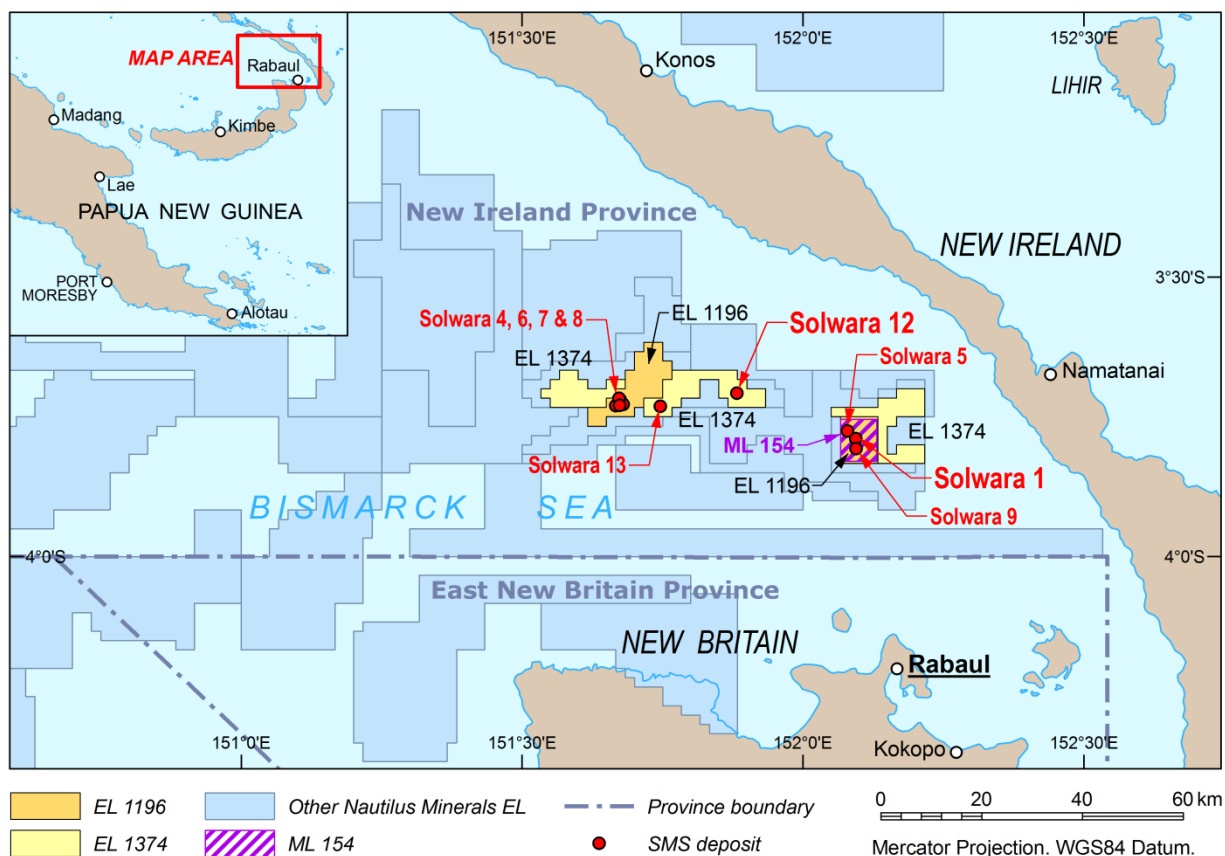


Figure 2: Solwara 1 and 12 location map as at the date of the Solwara 1 and 12 Report

Nautilus Minerals Niugini Ltd (a wholly owned subsidiary of the Company) holds title over the Solwara 1 deposit through ML154 (granted in January 2011). EL1196 has been held since 1997.

The Solwara 1 deposit is a stratabound SMS that occurs on the flank and crest of a sub-sea volcanic mound which extends about 150m to 200m above the surrounding seafloor. The average depth of the deposit is about 1550m below sea level. The slopes of the mound are relatively steep and interrogation of a coarse DTM (Digital Terrain Model) indicates slopes are generally in the range of 15° to 30° but can be locally steeper. There are some flatter areas near the crests of the ridges where much of the deposit is located.

The sub-surface geological sequence at Solwara 1, from the top down, may be summarized as:

Unconsolidated sedimentary rocks (lithology code SS). These typically comprise of dark grey clays and silts ranging in thickness from 0 to 5.62m, with an average of about 1.94m in the core holes. Due to the softness and low cohesiveness of this material, drilling recovery is commonly low in this domain;

Consolidated sedimentary rocks (lithology code SC). These typically comprise a layer of pale to dark grey, lithified volcanic sandstone varying from 0 - 4m thick and averaging 1.54m thick.

Mineralised and sulfate altered sedimentary rock (lithology code PT). A distinctive layer of pale to dark grey, fine to medium grained consolidated volcaniclastic sands with an average thickness of 1.1m

but locally can be up to 6m thick. The sediments are interpreted to have been flooded by hydrothermal fluids that have precipitated a cement of opaline silica, sulfide and sulfate minerals.

Sulfide-dominant rocks (lithology code RI) and conduit facies (lithology code CF). This is the main mineralisation horizon and it varies in thickness from 0 – 29m in the holes drilled to date. It consists mainly of pyrite and chalcopyrite, with variable amounts of anhydrite and barite.

Clay and sulfate-dominant rocks (lithology code RC and RA). The footwall to the mineralisation commonly consists of altered volcanic rocks in which most of the primary minerals and textures have been altered to clays, anhydrite, barite and disseminated sulfide. These rocks are commonly weak and core recovery is commonly low in this domain.

Local variations occur in this sequence. In addition, areas of relatively fresh lava rock form the lateral boundaries or locally overlie small areas of the mineralised domains.

Sulfide-rich chimneys are generally up to 10m in height, but have been recorded up to 15m high, and occur on the surface of the deposit. The majority of chimneys occur in several discrete chimney 'fields' separated by unconsolidated sediments (and locally by volcanic flows). Scattered chimneys occur between the main fields.

There is localised hydrothermal activity at Solwara 1. The location of venting chimneys has been identified from video footage and this venting has been shown to be episodic.

The Solwara 12 prospect is located in EL1374, 25 km NW of Solwara 1 and was discovered by Nautilus during the Fugro Solstice Target Generation and Target Testing program in 2009. In addition to the size of the mapped chimney field, an ROV based geophysical survey indicated both an electromagnetic and a self-potential anomaly within this area. High base and precious metal grades were returned from assayed chimney samples.

The Solwara projects have been explored by ROV dive videos, bathymetric surveys, geophysical techniques, surface sampling and by core drilling. In order to establish the extent and nature of deeper mineralisation at Solwara 1, Nautilus completed four drilling programs between 2006 and 2011.

In 2006, diamond core holes were drilled from the DP Hunter vessel from the surface at 35 locations. Core recovery was generally poor. Although the samples were generally not of sufficient quality for resource estimation, the drillholes demonstrated the presence of widespread massive sulfide mineralisation. In addition to the core drilling data, chimney samples were collected from the seafloor. These demonstrated high grade Cu, Au, Zn and Ag mineralisation. Downhole geophysics conducted at the time confirmed that the Cu-rich mineralisation is very conductive and could be expected to respond well to electromagnetic methods (EM).

In 2007 Nautilus conducted a six month field campaign over Solwara 1 during which further chimney sampling and a comprehensive diamond drilling program was completed. Two ROV operated drill systems were deployed, which significantly improved drill core recovery and efficiency. The ROV drills utilised a conventional drilling system and reached depths up to 18 m below the seafloor. At completion of the drilling campaign, 111 holes for a total drilling length of 1084 m were completed, from which 1432 samples were sent for assay (including quality control samples). A total of 362 geotechnical tests and over 680 density measurements on drill core samples, and 86 density measurement on chimney samples were conducted on the ship. A further 90 geotechnical tests were also conducted within onshore laboratories. This data was supplemented by a high resolution 20cm x 20cm bathymetric survey, and the

world's first underwater mineral delineation electromagnetic (EM) campaign. Detailed environmental monitoring and sampling was also carried out to provide input into environmental assessment studies, and the companies Environmental Impact Statement (EIS) to support the mining lease application.

The core recovery in the massive sulfide domain was much improved and the drilling results clearly demonstrated the continuity of sulfide mineralisation across the Solwara 1 deposit. In addition over 80 chimney samples were collected. An extensive geotechnical testing program on drill core and chimney samples provided confidence on average density and geotechnical parameters of the mineralisation at Solwara 1. Independent audit of the logging confirmed the widespread occurrence of significant chalcopyrite mineralisation in the chimneys and drill core, broadly consistent with the Cu geochemical analyses.

The 2007 core and chimney samples were placed in sample bags which were then sealed and packed into large plastic boxes using tamperproof numbered cable ties. The boxes were dispatched to ALS Laboratory Group, an independent NATA certified, commercial laboratory, in Australia for customs and quarantine clearance, and geochemical analysis. Some consignments of the boxes were opened and inspected at ALS in Townsville by Golder staff. The samples were examined for any evidence of contamination of the sample bags or tampering; none was observed. Thereafter, the samples remained in the custody of ALS during preparation and analysis.

Cu, Ag, Pb and Zn were measured by ore-grade analysis using inductively coupled plasma atomic emission spectrophotometry (ICP-AES) following an aqua regia digest. Au was analysed by fire assay using a 30g charge and an atomic absorption spectrophotometry finish. Due to the high sulfide content, the fire assay charges were reduced for many samples.

In addition to ALS internal quality control procedures, Nautilus carried out its own checks on laboratory performance by inserting duplicates, blanks, certified reference materials (CRM) and matrix-matched secondary reference material (SRM) into each batch of samples.

There were some sporadic instances of minor contamination of samples during sample preparation but there was no evidence of systematic problems. The contamination levels and frequency pose only a minor risk to the resource estimate. The results of the duplicate sampling showed that the mineralisation is relatively inhomogeneous, which is consistent with the coarse grain size of the sulfide mineralisation and the irregular nature of anhydrite distribution. The results of analysis of CRM samples show that the analytical data is adequate for estimation of Inferred and Indicated Resources of Cu, Au, Ag and Zn. The results of the analysis of the SRM supported the CRM results. In the author's opinion the sampling, sample preparation, security and analytical procedures were satisfactory for mineral resource estimation.

Over 680 dry bulk density measurements were made on core samples from the 2007 drilling program. A caliper method and a water displacement method based on Archimedes Principal, were used. Analysis of the paired results from the two methods showed that there was no significant difference between the results produced by the two methods. Dry bulk density values were measured for 9 rock types. Nautilus measured the dry bulk density of 86 samples from 49 individual chimneys using a simple water displacement method, and checked these results with duplicate measurements using a second water displacement method based on Archimedes principal.

A program to drill and obtain representative samples for metallurgical assessment was designed. In all 24 holes were drilled for metallurgical assessment at sites chosen to provide a representative selection of material types. In addition, 28 chimney samples spread across the deposit, totalling 100 kg, were

collected. The drill core and chimney samples were cleaned in fresh water, dried, vacuum sealed, placed in a nitrogen purged container, and shipped to Ammtec Laboratories (Ammtec) in Perth, Australia.

During the 2007 campaign, Nautilus successfully trialled and then deployed an ocean floor electromagnetic (OFEM) system over Solwara 1. The system is a controlled source method that measures electromagnetic fields associated with induced subsurface electrical currents. It was designed and built for the purpose of delineating areas of near-surface Cu rich massive sulfides on the seafloor. The survey delineated a conductivity anomaly that correlates extremely well with the 2007 drillhole data and was used to aid the interpretation of the geology.

The exploration work in 2006 and 2007 enabled a 3-D geological model of the Solwara 1 deposit to be constructed. Geological modelling was carried in two stages: (1) sectional interpretation followed by wireframing to form triangulated surfaces of the sub-chimney lithology; and (2) a floating circle approach to model the base of chimneys.

To resolve differences between the drillhole collars and the final bathymetric surface, the drillholes were registered to the bathymetric surface prior to sectional interpretation.

Block grade estimation employed unfolding techniques and hard boundaries between stratigraphic domains. Due to the amount of core loss and the irregular sampling intervals compositing was not undertaken. However, to account for the variable sample lengths, samples were length-weighted during block grade estimation. Drillhole data used for resource estimation was capped at variable Cu, Au, Ag and Zn grades appropriate for the stratigraphic domain. Downhole and omni-planar correlograms were used to determine three-dimensional continuity of mineralisation. Cu, Au, Ag and Zn grades for 10 x 10 x 0.5m blocks were estimated by ordinary block kriging (OK).

Validation of the resource block model included: (1) on-screen visual comparisons with the drillhole data; (2) statistical checks between declustered data and OK estimates; and (3) an alternative inverse distance weighting estimate. No obvious errors or inconsistencies were observed. Vertical discontinuities that were observed were related to the interpreted stratigraphic contacts that were used as a hard boundaries during block grade estimation.

The modelling work resulted in a maiden resource estimate, as at December 22, 2007, for Solwara 1 of over 2 million tonnes at a 4% Cu cut-off grade (Lipton, 2008).

In 2008 a scout drilling campaign was carried out at the Solwara 1, 4, 5, 6, 7, 8 and 10 prospects, completing an additional 31 diamond holes for a total advance of 176m. During this campaign, Nautilus also discovered buried mineralisation at the Solwara 1 North Zone while drill testing ocean floor EM anomalies proximal to the Solwara 1 outcrop. The limited number of drill holes at Solwara 1 was not sufficient to materially alter the mineral resource estimate.

Additional work carried out in 2009/2010 included relogging of the remaining drill core, and factor analysis of the geochemical data which enabled better differentiation of the main rock types.

The 2010/11 drilling program, conducted from the MV REM Etive, primarily focused on deeper drilling because many of the 2007 and 2008 drill holes at Solwara 1 had ended in high grade mineralisation. Other improvements included a larger diameter drill core to improve sample size; a wire-line drill string to drill deeper holes more efficiently; an improved casing capability to enable deeper holes; and an improved landing system to handle the rugged terrain better.

SGS Australia Pty Ltd managed and ran an independent onboard sample preparation facility for the 2010/11 REM Etive drilling program. No aspect of sample preparation was conducted by an employee, officer, director or associate of Nautilus. All core samples underwent a sample preparation process similar to that used in 2007 and 2008. Under a documented chain of custody, sealed boxes of pulps were transferred to shore in Kokopo, PNG, and were then sent via TNT Air Cargo to SGS's analysis facility in Garbutt (Townsville), Australia. Sample assaying was completed by NATA accredited laboratories of SGS Australia Pty Ltd.

Cu, Ag, Pb and Zn were measured by ore-grade analysis using inductively coupled plasma optical emission spectrophotometry (ICP-OES) following an aqua regia digest. Au was analysed by fire assay using a 30g charge and an atomic absorption spectrophotometry finish.

In addition to SGS internal quality control procedures, Nautilus carried out its own checks on laboratory performance by inserting duplicates and CRMs into each batch of samples. The results of the quality control checks were similar to the 2007 program. In the author's opinion the sampling, sample preparation, security and analytical procedures were satisfactory for mineral resource estimation.

The 2010/11 drilling program has increased the available geological knowledge at Solwara 1 and demonstrated continuity of high grade mineralisation in the North Zone and at Solwara 12.

The additional core data obtained for Solwara 1 enabled the resource model to be updated and a maiden resource estimate for Solwara 12 to be made. The resource modelling and estimation techniques used for the Solwara 1 resource estimate in 2007 were used for the new Solwara 1 and Solwara 12 resource estimates. Table 1 and Table 2 show the results of the resource estimation for the Solwara 1 (including the North Zone) and Solwara 12 deposits as of 25th November 2011. The results are declared using a 2.6% Cu equivalent cut-off.

The mineralisation classified as Indicated Mineral Resource was tested by drillholes spaced from less than 10m to a maximum of approximately 50m. Within the Indicated Mineral Resource, most of the blocks were estimated in the first estimation pass and the core recovery in the intercepts used to estimate the blocks was generally greater than 70%. In the area classified as Inferred Mineral Resource the drillhole spacing ranges up to 200m, but is generally less than 100m, and the core recovery was more variable. At the present time chimney material, where estimated, has been classified as Inferred Resource. The main criteria for this lower classification is that chimney sampling was limited to pieces of chimney that could be broken off from the mounds and that the internal grades have not been suitably tested.

Table 1: Mineral resource estimate for Solwara 1 and 1 North at 2.6% Cu equivalent cut off

Area	Class	Domain	Tonnes (kt)	Cu (%)	Au (g/t)	Ag (g/t)	Zn (%)
1	Indicated	Sulfide dominant	1030	7.2	5.0	23	0.4
	Inferred	Chimney	80	11.0	17.0	170	6.0
		Consolidated Sediment	27	4.1	4.5	49	1.4
		Sulfide dominant	1330	8.1	5.8	25	0.6
		Inferred Total	1440	8.2	6.4	34	0.9
1 North	Inferred	Consolidated Sediment	14	2.8	9.1	81	3.4
		Sulfide dominant	65	7.8	7.5	49	1.3
		Upper footwall	21	2.8	1.1	5	0.2
		Inferred Total	100	6.0	6.3	43	1.3

Area	Class	Domain	Tonnes (kt)	Cu (%)	Au (g/t)	Ag (g/t)	Zn (%)
Total	Indicated	-	1030	7.2	5.0	23	0.4
	Inferred	-	1540	8.1	6.4	34	0.9

Note: rounding may result in errors in reproducing the totals from the individual components shown in this table. Solwara 1 and 1 North estimated using OK.

Cu Equivalent CuEq = $0.915 \cdot \text{Cu} + 0.254 \cdot \text{Au} + 0.00598 \cdot \text{Ag}$

Table 2: Mineral resource estimate for Solwara 12 at 2.6% Cu equivalent cut off

Class	Domain	Tonnes (kt)	Cu (%)	Au (g/t)	Ag (g/t)	Zn (%)
Inferred	Sediments	46	2.9	2.0	35	2.2
	Sulfide dominant	185	8.4	4.0	61	4.0
	Upper footwall	0.7	3.7	0.7	13	0.3
	Inferred Total	230	7.3	3.6	56	3.6

Note: rounding may result in errors in reproducing the totals from the individual components shown in this table. Solwara 12 estimated using OK. Cu Equivalent CuEq = $0.915 \cdot \text{Cu} + 0.254 \cdot \text{Au} + 0.00598 \cdot \text{Ag}$

Golder considers that the following risks may materially influence the resource estimate:

- Several drillholes at Solwara 1 ended in massive sulfide material. In such instances, and where no adjacent drillhole information was available from which the true thickness could be reasonably interpreted, the base of the drillhole was interpreted to be the base of the massive sulfides. The massive sulfide resource is therefore open at depth in some areas.
- Drillhole intercepts in the unconsolidated sediment suggested that this domain contains some material above cut-off grade. Whilst this may be likely in the form of chimney rubble or interstitial sulfide precipitation, this material has been excluded from the resource estimate at Solwara 1.
- Few drillholes were located on the exposed chimney mounds due to difficulty in landing on these structures. Consequently, the block grade estimates for interpreted massive sulfide material below these mounds is based on holes drilled adjacent to these mounds. It is possible that the massive sulfide material beneath the chimney mounds may have a different mineralogical composition being closer to the interpreted mineralising fluid source.
- Core loss in the massive sulfide domain could result in estimation bias if the core loss was preferentially related to low or high grade material. Close-spaced (<5m) drilling for metallurgical and geotechnical samples suggests that the probability of such preferential core loss is low.
- Significant lateral extrapolation of massive sulfide mineralisation to the boundaries of the EM anomaly was supported by all holes drilled in 2007. However, drilling in 2010/11 of the EM anomaly in part of the eastern zone failed to intersect significant thickness of sulfide mineralisation. A proportion of the Inferred Resource relies on the EM anomaly in areas that have not been tested by drilling. Furthermore, it is not possible to determine the thickness of the conductor sulfide material from the EM data, thus, the interpreted thickness of massive sulfide in areas distant to drilling is of low confidence.
- The higher-grade chimney mounds have only essentially been surface sampled by breaking off protruding chimney pieces. The interpreted depth of the chimney mounds is based on an automated algorithm that produces a truncated bathymetry that is considered geologically

reasonable. However, until these mounds are tested by drilling their grade, density and depth should be considered of low confidence. If the chimney mound/massive sulfide interface is not correctly positioned then the risk to the contained metal is considered to be low to moderate as the higher grade/lower density chimney material would most likely be substituted by lower grade/higher density massive sulfide material.

- The work to date at Solwara 1 and Solwara 12 has demonstrated the presence of massive sulfide mineralisation and has been sufficient to define Indicated and Inferred Resources. There remains potential for the discovery of additional resources in feeder zones extending down the main hydrothermal pathways or in buried (stacked) lenses. Subject to further mine planning and economic evaluation, the qualified person is of the opinion that the following work is warranted:
- Infill drilling with the aim of converting Inferred Resources into Indicated Resources at Solwara 1 and Solwara 12. Further work to improve the core recovery is required.
- Deeper drilling in the areas in which the sulfide dominant domain still remains open at depth, with the aim of identifying additional, deeper resources or improving confidence.
- If higher confidence and the definition of Measured Resources are required, further investigation of methods of geochemical analysis and reassaying of sample pulps may be necessary in order to improve the accuracy and precision of the Ag and Zn analyses and estimates.
- Metallurgical testwork on samples from Solwara 12.

CLARION-CLIPPERTON ZONE PROJECT

In accordance with Section 5.4 of Form 51-102F2, the following is a reproduction of the summary from the Updated CCZ Report, which summary has been updated and conformed to be consistent with other disclosure within this Annual Information Form.

The Updated CCZ Report is available on SEDAR under Nautilus' profile at www.sedar.com and is incorporated by reference in this Annual Information Form (see "Documents Incorporated by Reference").

SUMMARY OF THE UPDATED CCZ REPORT

The CCZ is a large, extensive deposit of polymetallic nodules in the tropical north Pacific. The nodules are located on the seafloor at depths of 4 000 to 6 000 m and have significant grades of Mn, Ni, Cu, and Co as well as lower grades of a range of other metals of interest.

Since the CCZ deposit is situated within international waters, exploration and development of the deposit is regulated by the ISA. The ISA is an autonomous international organization established under the 1982 United Nations Convention on the Law of the Sea and the 1994 Agreement relating to the implementation of Part XI of the United Nations Convention on the Law of the Sea.

Exploration and development efforts in the CCZ started in the 1960s by state sponsored groups from Russia, France, Japan, Eastern Europe, China, Korea and Germany. Several commercial consortia also explored between the 1960s and the 1980s and in some instances their descendants are still involved to the present day. No commercial operations have yet been established in the CCZ. However, a variety of

collectors, pickup systems, and metallurgical processing flow sheets were tested, and an integrated “demonstration scale” system operated in the CCZ for several months in the late 1970s.

The Law of the Sea and ISA regulations require “pioneer contractors” to return 50% of their initial Exploration Areas (of equal value) along with key exploration data to become part of the “reserved blocks”. A developing nation or their sponsored companies may then apply for an “Exploration Area” from these “reserved blocks” (up to 75 000 km²). Tonga Offshore Mining Ltd (TOML), a 100% owned subsidiary of Nautilus Minerals Inc., is sponsored by the Kingdom of Tonga and has obtained an Exploration Area under a “contract for exploration of polymetallic nodules” (74 713 km²; executed 11th of January 2012). The Exploration Area consists of six separate areas (termed Areas A to F) scattered across the CCZ (Figure 1-1).

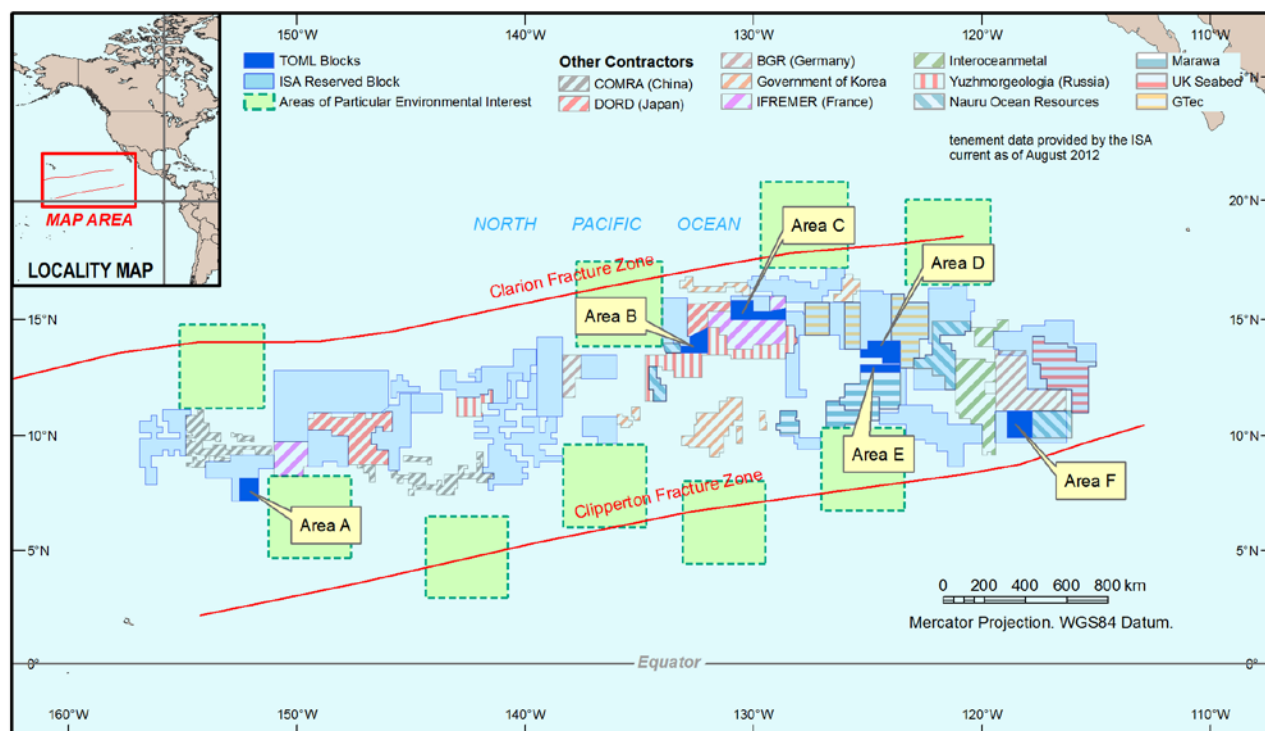


Figure 1-1: Location of the Clarion-Clipperton Zone (TOML, 2012).

Sea state is an important consideration in the location of the deposit. The climate is largely warm, and equatorial surface currents vary by season but are not very strong. Wave-heights and frequencies are often moderate (for the open ocean). Storms are significant for part of the year as a major tropical cyclone belt covers the southern side of the CCZ. The deposit is away from major existing sea routes used by commercial transport vessels.

The worldwide nature of polymetallic nodules has been known since the late 1800s. They form by the precipitation of metals either directly from ocean waters or via decomposing microorganisms and/or their waste matter in the benthic sediments. The specific conditions of the CCZ (water depth, latitude and seafloor sediment type) are the key controls on the formation of what is believed to be the largest and highest Ni-Cu-Co grade nodules deposit in the world. Nodules grow on 0.1 to 1 cm ‘seeds’ (e.g. shark’s teeth, pieces of pumice and older broken nodules) and are typically 4 to 6 cm and up to 10 cm in diameter.

Unlike most land deposits, exploration groups working within the CCZ term the quantity of nodules at a given sampling station as "abundance" measured in units of wet kg/m². This is because both the primary exploration method (surface sampling) and likely recovery method (surface collectors or rakes) are unlikely to work at any significant depth below the seafloor (i.e. 0 to 30 cm). Abundances are typically reported as wet weights due to the practicalities of handling the nodule samples, the wet density of studied nodules is around 2 g/cm³ irrespective of the nodule size. Studies show nodules to contain around 15% free water and 25% water of crystallisation (incorporated into the complex manganese and iron oxy-hydroxide minerals of formation).

Some of the exploration data from the pioneer contractors is of sufficient quality to allow Golder to estimate an Inferred Mineral Resource for Areas A to D, 4 of the 6 areas that comprise the TOML Exploration Area. Within these areas the data were collected by pioneer contractors representing Japan, Russia and France. The data were obtained directly from the ISA and were not supplied with quality assurance or quality control data. However, verification is possible by cross comparison between all of the six pioneer contractors (also Korea, Germany and an eastern European consortium) who have so far supplied the ISA with data across what is effectively a single large deposit. The TOML Mineral Resource estimate also compares very well with a subset of an ISA sponsored integrated Mineral Resource estimate that uses a much larger multisource database from across the entire CCZ.

The key data behind the Mineral Resource estimate are surface samples obtained by free-fall grab samplers, although a few results from box corers were also included. Free-fall grab samplers are believed to underestimate the actual abundance, as smaller nodules may escape some grabs during ascent and larger nodules around the edge of the sampler may be knocked or fall out during the sampling process. Despite this, they are the standard sampling method as they are the most productive and proven tool available, because several can be deployed at any one time independently of the survey vessel (from deployment to recovery is several hours).

Many of the sampling procedures used by the pioneer contractors were not available to the Qualified Persons, but it is likely that all of the pioneer contractors followed similar procedures. Nodule abundance (wet kg/m²) is derived by dividing the weight of recovered nodules by the surface area covered by the open jaws of the sampler or corer (typically 0.25 to 0.5 m²). A split of the nodules was dried, crushed and ground to enable grade determination via standard analytical methods (typically atomic absorption spectrometry and X-ray fluorescence) either on the vessel or back on shore. Specific nodule chemical standards, provided by the U.S. Geological Survey were used for instrument calibration.

Analysis of the data reveals that, as a consequence of their origin, nodule grades vary only slightly across the CCZ, with spatial continuity of the Ni, Co and Cu grades often ranging up to the order of several tens of kilometres. Nodule abundance is less continuous, with ranges up to the order of several kilometres, as they are also subject to local changes in net sedimentation (a consequence of seafloor slope, slumping, erosion and local currents).

Estimation of tonnage and grade for the TOML Exploration Area within the CCZ was undertaken using only sample data within the TOML Exploration Area. Datamine Studio mining software version 3.20.6140.0 was used for the modelling. The modelling methodology used for estimating the Mineral Resource was determined through careful consideration of the scale of deposit, mechanism of nodule formation, geological controls and nature of the sampling method. The approach involved estimating nodule abundance and grades into a two-dimensional block model with abundance in kg/m² used for calculating tonnage. Grades were estimated using Ordinary Kriging (OK) and Inverse Distance Weighting (IDW) while abundance was only estimated using IDW. The modelling methodology is similar to the

method applied by the ISA (2010) for their global estimate (not NI 43-101 compliant) which was produced by a multi-disciplinary effort that involved several world authorities.

The occurrence of manganese nodules within the CCZ is controlled by two large scale geological features: the boundary of the CCZ deposit and the presence of sea mounts.

The boundary limits of the CCZ defining the region where nodules have been found to occur is on a continental scale bracketed by the Clarion and Clipperton Fracture Zones to the north and south respectively. The deposit extends to the west and east in a channel between the two fracture zones. The limits to the CCZ occur well outside the boundaries of the TOML Exploration Area. Consequently, 100% of the TOML Exploration Area falls within the CCZ deposit. Internally within the CCZ deposit the continuity of the distribution of nodules can be reasonably assumed since the mechanism for the formation of nodules is continental in scale.

Bathymetric features are likely to play a role in local distribution of nodules through variations in net sedimentation rates via erosion and deposition. There are principally two bathymetric domains:

- Sea mount ranges
- Abyssal hill province.

Based on interpretation of GEBCO bathymetry data, less than 2% of the TOML Exploration Area contains isolated sea mounts. Essentially, the entire TOML Exploration Area falls within the abyssal hill domain.

The Inferred Mineral Resource estimate was made using a 2D model and ordinary kriging estimation for grade and inverse distance estimation for abundance, and is summarised at a range of cut-offs in Table 1-1. The Mineral Resource estimate at an abundance cut-off of 4 wet kg/m² is the selected base case scenario considering a non-selective bulk mining operation.

Table 1-1: Inferred Mineral Resource Estimate for the TOML Exploration Areas A-D within the CCZ at a series of Nodule Abundance cut-offs.

Abundance Cut-off (wet kg/m ²)	Abundance (wet kg/m ²)	Ni (%)	Co (%)	Cu (%)	Mn (%)	Polymetallic Nodules (x10 ⁶ wet t)
4	8.9	1.2	0.24	1.1	26.9	440
5	9.1	1.2	0.24	1.1	26.9	420
6	9.4	1.2	0.24	1.1	26.9	410
7	9.8	1.2	0.24	1.1	26.8	370
8	10.4	1.2	0.24	1.0	26.7	310

The available information regarding mining and processing of the manganese nodules has been assessed and there are reasonable prospects for economic extraction.

This Mineral Resource estimate is based upon and accurately reflects data compiled or supervised by Mr. Matthew Nimmo, Principal Geologist, who is a Member of the Australian Institute of Geoscientists and a full time employee of Golder Associates Pty Ltd. Mr. Nimmo has sufficient experience in resource estimation to qualify as a Qualified Person under NI43-101 He is the lead author of this report.

Dr Charles Morgan, Member of the Australian Institute of Geoscientists and Registered Member of the Society for Mining, Metallurgy, and Exploration, a full-time employee of Planning Solutions Inc., is a

Professional Marine Scientist and the Qualified Person responsible for Items 6, 9, 10, 11 and 12 of the Updated CCZ Report. He has visited the CCZ as part of a regional study by an independent multinational consortium called Ocean Minerals Company. Dr Morgan has been intermittently involved with evaluation of nodule resources over the past 30 years, and has produced various geological summaries and statements for the International Seabed Authority and other parties.

Davey Banning, Member of the Australian Institute of Geoscientists and consultant to Golder, is an independent consultant and the Qualified Person responsible for Items 7 and 8 of the Updated CCZ Report. He visited the site as part of the last (1980s) exploration cruises known over the TOML Exploration Area with Ocean Minerals Company.

Exploration information (samples collected by the Korean and German state-supported pioneer contractors) indicates nodule potential additional to the Inferred Mineral Resource in TOML Exploration Areas E and F, which comprise approximately 30% of the total TOML Exploration Area and for which no resource estimate has been completed. Also some or all of the nodules may contain elevated levels of rare-earth elements based on results released by an adjacent licence claimant.

TOML has not yet done any detailed recovery planning or equipment design for the nodule project, but a large and growing body of work, by a variety of organisations over the past 30 plus years, indicates that recovery of the nodules is possible. Nautilus is currently building the world's first deep seafloor resource production system for its Solwara 1 massive sulphide deposit.

TOML has not done any mineral processing or metallurgical test-work on the seafloor nodules from the TOML licences. However, considerable historical work has been done at both laboratory scale and pilot plant scale that indicates that processing of the nodules is technically feasible.

Recommended future work on the TOML Exploration Area focuses on determining an Inferred Mineral Resource estimate for Areas E and F and increasing the resource classification for parts of the other areas to Indicated or Measured Mineral Resource. Additionally, key modifying factors will be constrained to a point where a Mineral Reserve may potentially be estimated. Recommendations for future work also includes: detailed bathymetric and sonar surveys; additional sampling with assaying of all samples collected for additional elements; density and moisture studies; environmental, engineering and metallurgical studies and design work; and preliminary economic and commercial studies.

RISK FACTORS

Our operations are speculative due to the high-risk nature of business related to the exploration and acquisition of rights to potential mineable deposits of metals. These risk factors could materially affect the Company's future results and could cause actual events to differ materially from those described in forward-looking statements relating to our company.

EXPLORATION, DEVELOPMENT AND OPERATING RISKS

Exploration risk

Exploration risk exists in the discovery, location, drilling and definition of the SMS deposits. The majority of exploration companies fail to ever locate an economic deposit and given that no economic SMS deposit has ever been proven such risks are especially significant to the Company. The model for SMS deposits has never been tested by closed spaced drilling and/or production for the purpose of establishing resource tonnage. Drilling may be affected by the availability of suitable vessels and equipment, prevailing sea conditions, currents close to the seafloor and recovery of material drilled and lack of experience in drilling SMS deposits or unsuitability of equipment for drilling such material in the prevailing conditions. Exploration risk also exists in the surface and near-surface geophysical definition of active or inactive SMS deposits. Commercial exploration for SMS deposits is in its infancy and techniques and equipment have yet to be developed or adapted to locate, test and drill such SMS deposits efficiently and there is a risk that such techniques or equipment may not be developed or, if developed, may not be commercially viable.

Mining and recovery risk

SMS deposits have never been mined and there is a risk that mining and sulphide material recovery methods and equipment may not be able to be developed to allow for economic development of SMS deposits. Technologies have not been fully proven in such sub-sea conditions and for this specific material and application. Disturbing the seafloor may cause issues with visibility that could interfere with operations. Failure to adapt existing equipment or to develop suitable equipment or recovery and development techniques suitable for the prevailing material and seafloor conditions would have a material adverse effect on the Company's business, results of operations and financial condition. The Tenements are located in an active tectonic and volcanic setting and volcanic activity, including earthquakes, could hinder operations or damage or destroy equipment and there is a risk that volcanic activity could result in volcanic material, such as lava, covering any SMS deposit found, rendering it uneconomic.

Estimates of grades from samples

The prospective grades of SMS deposits included in this AIF and in the technical reports incorporated by reference herein are estimates. They are imprecise and may prove to be inaccurate. The nature of estimating grades from samples means that there can be no guarantee that SMS deposits of such grade will be available for extraction. Actual grades may vary from these estimates and consequently impact upon the estimated potential of future revenues, cash flows, royalties and development and operating expenditure. Such variances may be material.

No production history

As an exploration company that has no production history, the Company expects to incur losses in the future. The Company has never had mineral producing properties and cannot be certain that commercial quantities or grades of minerals will ever be recovered.

No pre-feasibility study or feasibility study

Nautilus does not intend to complete a pre-feasibility study or feasibility study or define a large, long life resource or reserve before proceeding with the construction of equipment and commencement of production at the Solwara 1 Project. Management considers the Company's best interests would be served by first demonstrating that existing offshore technologies could be adapted to cut and recover high grade seafloor massive sulphides from the deep ocean. Furthermore, the cost estimates in the Cost Study are not current as of the date of the Technical Report, the Solwara 1 and 12 Report or this AIF and should not be relied on as reflecting the current costs associated with Nautilus' present production plans. The Technical Report and the Solwara 1 and 12 Report do not update the cost estimates in the Cost Study. Accordingly, no independent Qualified Person has confirmed the amount of these costs or recommended that these costs be incurred. There is significant risk with this approach and no assurance can be given that the proposed production at the Solwara 1 deposit will successfully demonstrate that seafloor resource development is commercially viable.

Inability to find a suitable site for the concentrator or a toll concentrator

The Company has signed a binding heads of agreement with Tongling for the sale of the product extracted from the Solwara 1 deposit. Nautilus' future mining plans regarding other deposits may require construction of an appropriately located land-based concentrator together with a port facility and selected infrastructure in order to produce any gold rich copper concentrate for dispatch to smelters or may involve the sale of mineralized material directly to a third party. There is a risk that Nautilus will be unable to secure a site for the concentrator or access to an existing toll concentrator in a suitable location or to find a purchaser of its mineralized material, in each case, upon suitable terms. If the Company is unable to find a suitable site for the concentrator or access to an existing toll concentrator or is unable to reach an agreement upon suitable terms to sell the mineralized material directly, this would have a material adverse effect on the Company's business, its strategic plans, its results of operations and its financial condition.

Dependence on a small number of projects

The Company is only involved in a small number of projects, and exploration or operational problems relating to any one of them would have a materially adverse effect on the Company.

Reliance on strategic relationships

In conducting its business, the Company relies on continuing existing strategic relationships and has been forming new relationships with other entities in the mineral exploration and mining industry, including alliance partners, third party contractors, the marine scientific research community and certain regulatory and governmental departments. There can be no assurance that existing relationships will continue to be maintained or that new ones will be successfully formed and the Company could be materially adversely affected by changes to such relationships or difficulties in forming new ones.

Default by partners

The Company has agreed to form joint ventures with the State of PNG and Harren. There can be no assurance that these joint ventures will be formed, or if they are, that they will continue to be maintained or that the joint venture partners will not default in their obligations. The risk as it relates to the State of PNG is heightened in light of the dispute between the Company and the State, as discussed above under the heading "General Development of the Business of the Company – Three Year History – 2012 – Dispute Process and Arbitration with the State of PNG". In addition, if Solwara 1 is successfully mined, the Company will become reliant on Tongling for the good-faith discharge of its duties under the heads of agreement with them. The Company could be materially adversely affected by changes to such relationships or by the default of a partner.

Litigation

The Company is a respondent to arbitration proceedings commenced by the State of PNG (as described under "General Development of the Business of the Company – Three Year History – 2012 – Dispute Process and Arbitration with the State of PNG"). The Company could be materially adversely affected by an adverse finding in such arbitration proceedings or by a delay in the conclusion of such proceedings.

Other legal proceedings may arise from time to time in the course of the Company's business. There have been a number of cases where the rights and privileges of mining companies have been subject to litigation. The Directors cannot preclude that such litigation may be brought against the Company in the future from time to time or that it may be subject to any other form of litigation.

Grade, tonnage and resources

The exact form of mineral occurrence, grade and tonnage across the Company's tenements are not yet known and these need to be determined from drilling, mapping and analysis of samples. The Company has no SMS resources, except for the Solwara 1 Project and an Inferred Resource at Solwara 12, 25km to the northwest of Solwara 1, and no other SMS deposit has even been sufficiently sampled or drilled to determine a resource, and there is a risk that techniques and equipment may not be suitable or cannot be developed to allow a further resource to be determined. There is a risk of poor recovery from such drilling, making it difficult to accurately quantify tonnage and grade of identified SMS deposits. It is possible that if a deposit is located it will be unable to be treated as a mineral resource or mineral reserve according to the definitions of a mineral resource and mineral reserve under applicable securities laws. The inability to classify a deposit as a resource or reserve may impact the valuation of the Tenements, the price of the Common Shares and the ability of the Company to raise additional funds.

Metallurgy and treatment

The mineralized material that may be recovered by the Company may comprise a mixture of base and precious metals in varying proportions. This may create a requirement for specialised treatment by a mineral processing plant or smelters. No SMS deposit has been mined and treated for recovery of metal products and there is a risk that SMS deposits may not be economically treatable and that they may contain elements or compounds that may render them unsuitable for treatment by a mineral processing plant or smelter. The actual percentage recovery of metals to a concentrate may vary significantly from SMS deposit to SMS deposit and the Company has yet to complete detailed metallurgical test work on all of its discoveries or determine if there are any deleterious elements or minerals in the material that may

render the mineralized material unsaleable, untreatable or uneconomic or susceptible to monetary penalties from purchasers of the concentrates or material or generally of a nature that is not commercially viable.

Some metallurgical test work has been completed on the Solwara 1 deposit (refer to "General Development of the Business of the Company – Mineral Projects"). Whilst every effort has been made by the Company and its consultants to ensure the mineralized material tested was representative of the mineral deposit types, and handled appropriately, given this is the world's first SMS deposit to be potentially mined and processed, there can be no guarantee on mining that the various specifications are achieved, and/or that the mineralised material performs exactly as predicted.

Operational costs

Operational costs risk exists to the extent that future sub-sea engineering and recovery systems have yet to be determined, designed and tested and the specific requirements of the Company have yet to be determined. Performance, availability, reliability, maintenance, wear and life of equipment are unknown. There can be no guarantee that sub-sea engineering and recovery systems can be developed or if developed, will be employable in a commercially-viable manner. In addition, the deepwater port of Rabaul, which the Company may utilize for the transportation of extracted mineralized material from the Solwara 1 Project and other future Bismarck Sea developments, has been impacted in the past by nearby volcanic activity. In the event of any future volcanic activity, access to the port could be disrupted, which could have a material adverse impact on the Company's operating costs.

Cost Study

The Cost Study is not an economic assessment of the Solwara 1 Project as a whole and does not confirm the Solwara 1 Project's economic viability. Investors are cautioned not to use the Cost Study for that purpose and that a study of all costs, planned execution times, rates of recovery and reasonable revenue projections is necessary before any assessment of economic viability can be made.

The Cost Study was developed from a preliminary mine plan that includes Inferred mineral resources. Investors are cautioned that Inferred resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorised as mineral reserves, and there is no certainty that the costs relating to the seafloor production system set forth in the Cost Study will not increase and any such increases may be material. Certain of the costs included in the Cost Study are subject to the inflationary trends (including in respect of fuel costs and other inputs) affecting the mining industry as a whole. In addition, the Indicated mineral resources included in the mine plan are not mineral reserves and do not have demonstrated economic viability.

The Cost Study continues to be relevant, but only as a presentation of the production system and as a costs estimate as of the dates specified in the Cost Study and not as of the date of the Solwara 1 and 12 Report, nor this AIF.

Disruption from non-governmental organisations

As is the case with many businesses which operate in the mining industry, Nautilus may become subject to pressure and lobbying from non-governmental organisations. There is a risk that the demands and actions of non-governmental organisations may cause significant disruption to the Company's business which may have a material adverse effect on its operations and financial condition.

Safety at sea

Occupational health and safety at marine-based operating sites is an on-going risk for contractors engaged by the Company and the personnel employed by the Company to manage the contractors.

Maritime piracy

Maritime piracy involving criminal acts of violence, detention, or depredation may be directed on the high seas against the Nautilus PSV, or a vessel carrying Nautilus' cargo.

Equipment risk

The Company will use high value equipment for coring and bulk sampling and for mining and materials handling. Such equipment, and particularly sub-sea mining equipment, has yet to be finally constructed and/or tested and may not be technically feasible, may not perform the tasks designed for, may prove uneconomic, unreliable or may not be delivered on a timely basis, which could materially delay or prevent exploration and mining. Any equipment downtime may also have standby and breakdown rates which will be additional liabilities for the Company. Any delayed mobilisation of equipment may also impact the Company's operations, within suitable weather windows. Patents may protect technology that the Company may require for any operation, including exploration, and availability of such technology may be restricted or at a licence fee that impacts the economics of the Solwara 1 Project. There is a risk that operations of the Company may infringe patents or licences that could result in significant penalties or accounting of profits, should such a case be found against the Company.

Renewal of Tenements and Tenement applications

Any renewal of the Tenements is at the discretion of the relevant country's government. Failure to gain such renewal of the Tenements would have a material adverse effect on the Company's business, results of operations, and financial condition. In addition, there can be no assurance that the Company's tenement applications will be granted on a timely basis or at all.

Tenements

The majority of the Tenements are at an early stage of exploration. Any further development of these properties will only follow upon obtaining satisfactory exploration results and the scrutiny of technical and other geological reports. Substantial expenditures are required to discover and establish sufficient ore reserves 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.

Dependence on the Directors and officers

The Company's future success is dependent on the ability of the Directors and the officers of the Company to deal effectively with complex risks and relationships and to execute the Company's exploration plan. The success of the Company is, and will continue to be, to a significant extent dependent on the expertise and experience of its Directors and officers and the loss of one or more of the Directors or officers could have a material adverse effect on the Company. The success of the Company will depend on the ability of its Directors and officers to interpret market and geological data correctly and

to interpret and respond to economic, market and other conditions in order to locate and adopt appropriate investment opportunities, monitor such investments and ultimately, if required, successfully divest such investments.

Dependence on key personnel

The Company has a small management team and the loss of a key individual or its inability to attract suitably qualified persons in the future could have a material adverse effect on the Company.

Dependence on other contractors

The Company will be heavily dependent on third party contractors. The Company will be dependent on contractors for developing a workable system for mining the SMS deposits and for constructing and delivering a marine vessel on a timely basis. The Company will also depend on contractors for the construction of the land-based concentrator, associated port facility and related infrastructure. A failure of a contractor or disputes with a contractor could have a material adverse effect on the Company, its business, the results of operations and its financial condition. See "General Development of the Business of the Company – Overview of Business – Changes to Contracts".

Financial resources

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 funds as at the date of this AIF will 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. A condition precedent of the Vessel JV requires Harren to secure final binding financing from a third party financier for a minimum of EUR75 million. If Harren is unable to secure this financing, the Vessel JV may not proceed and alternative funding may need to be sourced.

Increases in capital and operating costs

The actual capital costs and operating costs could be significantly higher than the estimates, particularly if there are delays to the Solwara 1 Project or significant movements in inflationary factors. There can be no assurance that actual capital costs and operating costs will be as estimated in the Cost Study, which has not been updated since the date of the Cost Study.

Future funding requirements and risk

The Company has no producing mines and has no source of operating cash flow other than through debt and/or equity financing. Furthermore, there is no precedent for the Projects, so debt financing may not be available on commercially reasonable terms, or at all. There is, therefore, no assurance that additional funding will be available to allow the Company to proceed with development of the Projects. Failure to obtain additional financing on a timely basis could cause the Company to reduce or terminate its proposed operations.

Ability to exploit successful discoveries

It may not always be possible for the Company to participate in the exploitation of successful discoveries. Such exploitation may involve the need to obtain licences or clearances from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretion by such authorities. It may or may not be possible for such conditions to be satisfied. Furthermore, the decision to proceed to further exploitation may require the participation of other companies whose interests and objectives may not be consistent with those of the Company. Such further exploitation may also require the Company to meet or commit to financial obligations which it may not have anticipated or may not be able to commit to due to a lack of funds or an inability to raise funds.

Insurance risk

Any insurance coverage the Company currently has, or may obtain, may not cover all potential losses. The mining industry is subject to significant risks that could result in damage to, or destruction of, mineral properties or producing facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Where considered practical to do so, the Company maintains insurance in amounts it believes to be reasonable, including insurance for workers' compensation, theft, general liability, destruction of property, autos and mobile equipment. Such insurance, however, contains exclusions and limitations on coverage. Accordingly, the Company's insurance policies may not provide coverage for all losses related to its business (for example, the total extent of, amongst other things, environmental liabilities and losses). The occurrence of losses, liabilities or damage not covered by such insurance policies could have a material adverse effect on the Company's results of operations and financial condition. The Company cannot be certain that insurance will be available, or that it will be available on terms and conditions acceptable. In some cases, coverage is not available or considered too expensive relative to the perceived risk.

Political instability

The Company's mineral exploration activities could be affected in varying degrees by political instability and changes in government regulation relating to foreign investment and the mining business, including expropriation. Operations may also be affected in varying degrees by possible terrorism, military conflict, crime, fluctuations in currency rates and high inflation. In addition, from time to time governments may nationalise private businesses including mining companies. There can be no assurance that the governments of countries where the Company operates will not nationalise mining companies and their assets in the future.

Several of the nations in which the Company operates or may operate, including but not limited to PNG, Fiji and Tonga, have experienced political and social unrest (including military coups) and protestors have at times targeted foreign firms in the mining sector. The Company's projects could suffer delays and losses due to insurgent activities which could disrupt operations.

Management of growth

The ability of Nautilus to implement its strategy requires effective planning and management control systems. Nautilus' plans may place a significant strain on the Company's management, operational, financial and personnel resources. The Company's future growth and prospects will depend on its ability to manage this growth and to continue to expand and improve operational, financial and management

information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to expand and improve operational, financial and management information and quality control systems in line with the Company's growth could have a material adverse effect on the Company's business, financial condition and results of operations.

Labour and employment matters

While the Company has good relations with its employees, these relations may be impacted by changes in the scheme of labour relations which may be introduced by the relevant governmental authorities. Adverse changes in such legislation may have a material adverse effect on the Company's business, results of operations and financial condition.

Currency risk

The Company's operations incur most expenditures in US dollars, British pounds, Euro and Australian dollars but also incur expenditure in the local currencies of PNG, Vanuatu, Fiji, Tonga and Canada. As a result of the use of these different currencies, the Company is subject to foreign currency fluctuations which may materially affect its business, results of operations and financial condition.

Lack of recognition of risks

There is a risk that management of the Company may not be skilled or knowledgeable enough to foresee, recognise, contemplate or quantify the risk factors or take any steps to mitigate or lessen the impact of any risks.

Conflicts of interest

Certain Directors and officers of the Company are, and may continue to be, involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of the Company. Situations may arise in connection with potential acquisitions in investments where the other interests of these Directors and officers may conflict with the interests of the Company. Directors and officers of the Company with conflicts of interest will be subject to and will follow the procedures set out in applicable corporate and securities legislation, regulations, rules and policies.

RISKS RELATING TO THE MINING INDUSTRY

The exploration for and development of mineral deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate.

Market risk

Whether a mineral deposit, if ever discovered, will be commercially viable depends on a number of factors. Factors may include: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the

combination of these factors may result in the Company not receiving an adequate return on invested capital.

Commodity prices

The profitability of mining operations is significantly affected by changes in the market price of copper, gold and other metals and the cost of labour, power, petroleum fuels and oil. The level of interest rates, the rate of inflation, world supply of these minerals and stability of exchange rates can all cause significant fluctuations in base metal, precious metal and oil prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of copper, gold and other metals and oil has fluctuated widely in recent years. Depending on the price of copper, gold and other metals, and the cost of power, petroleum fuels and oil, cash flow from mining operations may not be sufficient to cover the Company's operating costs or costs of servicing debt.

The Company is not currently party to any commodity hedging contracts as the Company has no production. The Company expects that in connection with any debt financing facility that may be required for the business of the Company, mandatory hedging will be required for a portion of estimated annual production. To the extent that the Company participates in any option and spot-deferred contracts for gold, the realisation of any gain by the Company as a result of increased gold prices may be limited. As there is no precedent for the Projects, debt financing may not be available on commercially reasonable terms, or at all.

Economic operations

While the discovery of a mineralised body may result in substantial rewards, few properties which are explored are ultimately developed into production. Major expenses may be required to establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration programs planned by the Company will result in the discovery of a mineralised body or a profitable commercial mining operation, and on an industry statistical basis it is unlikely that an economic operation will be developed.

Competition

The mining industry is very competitive. The competition, to the extent that it will affect the Company, relates to competition from new players in the search for SMS deposits, for the availability of marine exploration and drilling vessels, related marine equipment and specialised personnel. There is a risk that competitors may find substitutes for the metals for which the Company is exploring, or find lower cost sources of, or more efficient processes to extract, these metals (either on the seafloor or on land).

Vessel and equipment availability

Vessel and equipment utilisation rates are high in the current period of global exploration activity. Whilst the Company is building relationships with its major suppliers for the construction and delivery of specialised mining equipment and a vessel for use on the Solwara 1 Project, the Company may nevertheless need to compete for the availability of suitable vessels and equipment. There is a risk that vessels may be under long-term charter and suitable vessels may not be available to the Company in a timely manner or at all.

Weather and sea conditions

There is a risk that adverse weather and sea conditions may affect exploration and any potential mining activities by reducing the time available for productive exploration and mining, or increasing the operating and capital costs to a level that a project may not be economic. Weather, volcanic eruptions, storms, cyclones, tsunamis and sea conditions may also damage or destroy equipment, or contribute to injury or loss of life.

Government regulation

The exploration activities of the Company are subject to various international, state and local laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. The Company operates in some jurisdictions with limited or no mining history and therefore the mining related legislation has not been exhaustively tested in some of these jurisdictions. Although the Company believes that its exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

By imposing a condition on any and all exploration licences issued under the *PNG Mining Act 1992*, the PNG Government reserves the right to elect at any time prior to the commencement of mining, to make a single purchase up to a 30 per cent equitable interest in any mineral discovery arising from any such licence, at a price *pro rata* to the accumulated exploration expenditure and then to contribute to further exploration and development in relation to the lease on a *pro rata* basis. The State of PNG has exercised this right in respect of the Mining Lease and may do so in relation to other of the Company's tenements. If this happens, then any return on investment and profitability of the Company may be significantly affected. Other governments in areas where we operate may enact similar legislation.

Permits and licences

The exploitation and development of the Company's mineral properties will require the Company to obtain regulatory or other permits and licenses (including mining leases) from various governmental licensing bodies. While the Company has received the Mining Lease for its Solwara 1 Project, there can be no assurance that the Company will be able to obtain all necessary operating permits and licenses that may be required to carry out development, mining and processing operations on its Solwara 1 Project. Further, there can be no assurance that the Company will be able to obtain all permits and licenses that may be required to carry out exploration, development, mining and processing operations on its other properties. There can be no assurance that the Company's interest in its Tenements is free from defects or that licences or other contractual arrangements between the Company and entities owned or controlled by foreign governments will not be unilaterally altered or revoked.

Environmental risks and hazards

All phases of the Company's mineral exploration operations are subject to environmental regulation in the various jurisdictions in which Nautilus operates. Environmental legislation is evolving in a manner which

will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations or results. Further, while Company studies have indicated a low likelihood of risk to the aquatic environment from mining activities, the actual impact of any SMS mining operations on the environment has yet to be determined.

Government approvals and permits are currently, and may in the future be, required in connection with the Company's operations. To the extent such approvals are required and not yet obtained, the Company may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Global Financial Conditions

Global financial conditions have recently been subject to increased volatility and numerous financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to financing has been negatively impacted by the European sovereign debt crisis and the effect of such event on Canadian and global credit markets. These factors may impact the ability of Nautilus and its joint venture partners or potential partners to obtain equity or debt financing in the future and, if obtained, on favourable terms. If these increased levels of volatility and market turmoil continue, Nautilus' operations could be adversely impacted and the trading price of the Common Shares could continue to be adversely affected.

RISKS RELATING TO OUR COMMON SHARES AND THE TRADING MARKET

The Company's largest shareholders and their respective affiliates, in the aggregate, beneficially own a substantial amount of the Company's outstanding Common Shares

As a result, these shareholders may be able to influence matters requiring approval by shareholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests.

Sale of substantial amounts of Common Shares in the public market

The Company is unable to predict whether a large number of its Common Shares will be sold in the open market. Any future sales of substantial amounts of Common Shares in the public market by any significant shareholder or a block of shareholders, or even the perception that such sales could occur, may decrease the market price of the Common Shares.

Market price volatility

The market price of the Common Shares may be volatile and subject to wide fluctuations. The market price of the Common Shares may fluctuate as a result of a variety of factors, including but not limited to period-to-period variations in operating results or changes in turnover or profit estimates by the Company, industry participants or financial analysts. The market price could also be adversely affected by developments unrelated to the Company's operating performance, such as: the operating and share price performance of other companies that investors may consider comparable to the Company; speculation about the Company in the press or the investment community; strategic actions by competitors, such as acquisitions and restructurings; changes in market conditions; and regulatory changes.

Further issues of Common Shares

It is likely that the Company will issue additional Common Shares to fund its growth plans. Any such issue could dilute the interests of Shareholders and impact the price of the Common Shares. Any such Common Shares may be issued at market price or a discount to the market price.

Nautilus has not and does not plan to pay dividends

The Company has never declared or paid any dividends on its Common Shares and does not currently intend to pay dividends in the future. Earnings, if any, will be retained to finance further growth and development of the Company's business.

There will be dilution upon exercise of convertible securities

In the event that all of the Company's stock options and other options are exercised, there will be an additional 4,200,000 Common Shares available for trading in the public market. The increase in the number of Common Shares in the market will result in the dilution of the voting power of the Company's existing shareholders.

DIVIDENDS

The Company has not paid dividends in the past and does not expect to have the ability to pay dividends in the near future. If the Company generates earnings in the future, it expects that they will be retained to finance further growth and, when appropriate, retire debt. The Company's directors will determine if and when dividends should be declared and paid in the future based on the Company's financial position at the relevant time. All holders of the Common Shares are entitled to an equal share in any dividends declared and paid on the Common Shares.

Under the *Business Corporations Act* (British Columbia), the Company is unable to declare or pay a dividend if there are reasonable grounds for believing that: (a) the Company is insolvent; or (b) the payment of the dividend would render the Company insolvent.

DESCRIPTION OF CAPITAL STRUCTURE

AUTHORIZED CAPITAL

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preference shares issuable in series, of which it has 236,872,865 Common Shares and no preference shares issued and outstanding as of the date hereof.

The Company has not issued Common Shares other than for cash since the RTO.

COMMON SHARES

The Common Shares entitle the holder thereof to receive notice of any meetings of shareholders of Nautilus, and to attend and cast one vote per common share at all such meetings. Holders of the Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election.

Holders of Common Shares are entitled to receive on a pro-rata basis such dividends, if any, as and when declared by the board of directors at its discretion from funds legally available therefore and, upon the liquidation, dissolution or winding up of Nautilus, are entitled to receive on a pro-rata basis the net assets of the company after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to, or on an equal basis with, the holders of Common Shares with respect to dividends or liquidation.

The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

MARKET FOR SECURITIES

PRICE RANGE AND TRADING VOLUME

Common shares

The Common Shares are listed and posted for trading on the TSX under the symbol "NUS". The following table sets forth information relating to the monthly trading of the Common Shares on the TSX for the fiscal year ended December 31, 2012.

<u>Period</u>	<u>High</u> <u>(Cdn\$)</u>	<u>Low</u> <u>(Cdn\$)</u>	<u>Total Volume</u>
January 2012	2.47	1.88	1,140,428
February 2012	2.35	2.02	1,174,844
March 2012	2.90	1.86	3,758,202
April 2012	2.77	2.22	1,664,709
May 2012	2.44	2.05	1,133,490
June 2012	2.01	0.92	5,517,873
July 2012	1.20	1.00	971,650
August 2012	1.40	0.96	1,451,274
September 2012	1.20	0.85	3,330,409
October 2012	1.01	0.67	1,867,865
November 2012	0.85	0.33	8,895,897
December 2012	0.40	0.27	8,809,826

In addition, the Common Shares were quoted under the symbol "NUSMF" on OTCQX International effective as at April 27, 2012.

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

To the knowledge of the Company, as at December 31, 2012 no securities of any class of the Company were held in escrow or were subject to a contractual restriction on transfer, other than as follows:

Designation of Class	Number of securities that are subject to a contractual restriction on transfer	Percentage of class
Common shares	3,050,000 ⁽¹⁾	1.3%

Note:

- (1) The Company has an equity compensation plan, known as the "Share Loan Plan" or the "SLP" that it uses to attract, retain and motivate its Australian resident directors, officers, employees and service providers. The SLP is described in the management information circular of the Company dated May 1, 2012 and filed on SEDAR on May 18, 2012. Common Shares issued under the SLP are held by Computershare Trust Company of Canada, as administrative agent, for the benefit of the SLP participants. Such shares are released to the participant at such time as the loan for the purchase price is repaid, if at all, during the term of the loan. If the loan is not repaid during its term, the applicable Common Shares are returned to treasury for cancellation.

DIRECTORS AND OFFICERS

The following table sets forth the name, province/state, country of residence, nationality, position held with the Company, principal occupation, business or employment of each of our directors and executive officers and the period(s) during which each has served as a director of the Company. All directors hold office until the next annual meeting of the Company's shareholders or until their successors are elected or appointed.

<u>Name, Province/State, Country and Nationality</u>	<u>Position with the Company</u>	<u>Principal Occupation, Business or Employment</u>
A. Geoffrey Loudon ⁽²⁾ Christchurch, New Zealand Australian	Chairman and Director since May 4, 2006	Director, Auriferous Mining Limited
Russell Debney ⁽¹⁾⁽²⁾ NSW, Australia Australian	Director since May 4, 2006	CEO, Direct Nickel Limited
Matthew Hammond ⁽¹⁾ Dubai, UAE English	Director since October 2, 2009	Group Strategist at Metalloinvest Holdings
Cynthia Thomas ^{(1) (2)} Paris, France Canadian	Director since June 23, 2010	Principal of Conseil Advisory Services Inc.
Mohammed Al Barwani Muscat, Oman Omani	Director since September 11, 2012	Chairman, MB Holding Co. LLC
Stephen Rogers Perth, Australia Australian	Director since June 4, 2008. President & CEO from June 4, 2008 to October 30, 2012. Chief Development Officer from January 2, 2007 to June 4, 2008	Senior Vice President, Sunrise Business Unit, , Woodside Energy Ltd
Michael Johnston Queensland, Australia New Zealander	President & CEO (Interim) since 31 October 2012. VP Strategic Development and Exploration from June 4, 2006 to 30 October 2012.	President & CEO (Interim), Nautilus
Shontel Norgate Queensland, Australia Australian	Chief Financial Officer since September 6, 2006	Chief Financial Officer, Nautilus
Kevin Cain Queensland, Australia Australian	Vice President – Projects since February 9, 2012	Vice President – Projects, Nautilus
Samantha Smith Queensland, Australia Canadian	Vice President – Corporate Social Responsibility since February 9, 2012	Vice President – Corporate Social Responsibility, Nautilus
Karen Hauff Queensland, Australia Australian	Company Secretary since July 26, 2011	General Counsel/Company Secretary, Nautilus

(1) Current member of the Audit Committee.

(2) Current member of the Nomination and Remuneration Committee.

The principal occupations, businesses or employments of each of the directors and executive officers during the past five years are disclosed in the brief biographies set forth below.

Geoffrey Loudon (*Chairman and Director*)

Mr. Loudon is a New Zealand based resource professional with qualifications in geology and engineering. His extensive international experience covers resource exploration, development and production as well as investment banking. Mr. Loudon has worked worldwide including Australasia, Asia, the Americas and Europe.

Mr. Loudon is Executive Chairman of the private New Zealand based L&M Group of minerals and energy companies. He is a director of the Papua New Guinea based PNG City Mission. Mr. Loudon was founder and Chairman of Niugini Mining Limited, discoverer of the Lihir gold deposit in PNG which was developed by RIO TINTO in 1995. Mr Loudon was a founding director of Lihir Gold Limited from inception in 1995 until it was taken over in 2010. Professional affiliations include Fellow of the Society of Economic Geologists, Fellow of the Australasian Institute of Mining and Metallurgy, Member of the Canadian Institute of Mining and Member of the American Institute of Mining and Exploration.

Russell Debney (*Director*)

Mr. Debney was Chairman of the Board of Directors of Nautilus Minerals Niugini Limited and Nautilus Minerals Oceania Limited prior to the acquisition of those companies by Nautilus. He has been actively involved in Nautilus' development strategy, almost since inception. He is based in Sydney, Australia and is a commercial and corporate lawyer as well as a Director of a number of companies in the mining and resources industry.

Mr. Debney has extensive experience in the management, financing and structuring of resource projects, particularly in the offshore environment. He was a Director and Senior Vice President of the Global Engineering Group, a world leading offshore oil and gas engineering company for almost 15 years. Mr Debney is currently Managing Director and Chief Executive Officer of Direct Nickel Limited, an ASX-listed mining company with a revolutionary new hydrometallurgical process for treating nickel laterites.

Matthew Hammond (*Director*)

Mr Hammond is the Group Managing Director of Mail.ru, one of Russia's largest internet companies where he has been a director since 2010. Before that he was the Group Strategist at Metalloinvest Holdings, where he had responsibility for part of the non-core asset portfolio and advised the Metalloinvest Board on strategic acquisitions and investments.

Prior to joining Metalloinvest, Mr Hammond was a Director at Credit Suisse, where he worked for 12 years. He has a BA (Hons) from Bristol University in economics and history. As a non-executive director he also sits on the boards of Strike Resources and Puricore Plc

Cynthia Thomas (*Director*)

Ms. Thomas joined the Board of Directors in June 2010. She has 30 years of banking and mine finance experience, and currently acts as Principal of Conseil Advisory Services Inc., an independent financial advisory firm specialising in the natural resource industry which she founded in 2000. Prior to founding Conseil, Ms. Thomas worked with Bank of Montreal, Scotiabank and ScotiaMcLeod in the corporate and investment banking divisions. Ms. Thomas holds a Bachelor of Commerce degree from the University of Toronto and a Masters in Business Administration from the University of Western Ontario. Ms. Thomas was formerly a Director of PolyMet Mining Corp. and a Director and Chair of the Audit Committee for Ferrinov Inc., a pigment development and manufacturing company. She is currently a Director and Chair of Victory Nickel Inc., and a Director of KWG Resources Inc.

Mohammed Al Barwani *(Director)*

Dr Al Barwani joined the Board of Directors of the Company in September 2012. Dr Al Barwani is founder and Chairman of MB Holding, has a Bachelor's Degree in Science from Miami University, Ohio, USA and was awarded Master's Degree and PhD in Petroleum Engineering from Heriot-Watt University, Edinburgh, UK.

Dr. Al Barwani worked as a petroleum engineer for Petroleum Development Oman from 1976 to 1986, founding the beginnings of MB Holding in 1986. Today MB Holding has wide ranging interests in Oilfield services, Exploration and Production of hydrocarbon, mining & minerals, engineering & manufacturing and Investments.

Dr Al Barwani is also the Chairman of Musstir, a property, hotels and resorts development company, a non-executive Chairman of two publicly listed companies, Transgulf Holding and Al Madina Insurance, and is a member of the Board of Oman Air. He is the Honorary Consul of the Republic of Poland to the Sultanate of Oman. He is a member of the Sea-keepers International, a group dedicated to the protection of Ocean's eco-systems and its environment.

Stephen Rogers *(Director)*

Mr Rogers is the Senior Vice President, Sunrise Business Unit, at Woodside Energy Ltd. Mr. Rogers was the President & CEO of the Company from June 2008 to October 2012 after having joined Nautilus in 2007 as Chief Development Officer, responsible for the definition and execution of the Solwara 1 Project. He has over 35 years of experience in the offshore industry with a background in corporate and project management having worked previously with Clough (one of Australia's leading engineering and construction companies) as CEO Oil and Gas, and prior to that he was MD of Technip Oceania, Europe's leading oil and gas services group and one of the world's leading deepwater subsea contractors.

Michael Johnston *(President & CEO)*

Mr Johnston, Nautilus' interim President & CEO joined the Company in 2006 as the Vice President for Strategic Development and Exploration. He was appointed interim President and CEO in October 2012. During his time with Nautilus, Mr Johnston has been instrumental in the Company developing its extensive land position in the SW Pacific, delivering the first resource in accordance with NI 43-101 for a seafloor massive sulphide system, and in obtaining the first licence granted to a publicly listed company by the International Seabed Authority.

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. Mr Johnston is also a director of private company XDM Resources, a company focused on royalty streaming deals.

Shontel Norgate *(Chief Financial Officer)*

Prior to joining Nautilus, Ms. Norgate was the financial controller of Macarthur Coal Ltd., which is a publicly-listed coal mining company on the Australian Securities Exchange. Before joining Macarthur, Ms. Norgate was the financial controller of a listed exploration company for seven years and commenced her career as an auditor with a predecessor firm of PricewaterhouseCoopers in Australia. Ms. Norgate is a qualified Chartered Accountant and a member of the Chartered Secretaries of Australia. Ms. Norgate has more than 15 years commercial experience in the resources industry including debt and equity finance,

financial reporting, project management, corporate governance, commercial negotiations and business analysis.

Kevin Cain (*Vice President – Projects*)

Mr Cain joined Nautilus as Project Director for the Solwara 1 Project in May 2010. Mr Cain has over 35 years experience in the offshore oil and gas industry with experience in the North Sea, Middle East, South East Asia and Australasia. Mr Cain's experience covers shallow and deep water projects and FEED to development of offshore projects. Prior to joining Nautilus, Mr Cain was the Vice President Marine Construction and Fabrication for Clough Limited with assets located in the Gulf of Mexico, Thailand, Australia and South East Asia. Prior to joining Clough, Mr Cain was Project Director for Technip Oceania.

Samantha Smith (*Vice President – Corporate Social Responsibility*)

Dr Smith joined Nautilus in 2006 as Manager – Environment and later became Manager – Environment and Community before being promoted to Vice President – Corporate Social Responsibility. Dr Smith has more than 17 years experience conducting environmental assessments with experience in Mexico, Canada, UK and Papua New Guinea. Prior to joining Nautilus, Dr Smith lectured at the University of Bristol and the University of Toronto and worked as a consultant to Placer Dome Gold. Dr Smith also serves as an Officer (President-elect) of the International Marine Minerals Society and is a steering committee member of the European Union/Secretariat of the Pacific Community Deep Sea Minerals Assessment Project.

Karen Hauff (*General Counsel/Company Secretary*)

Prior to joining Nautilus in 2010, Ms Hauff was the General Counsel and Company Secretary of then ASX listed mineral sands mining company, Bemax Resources Limited, after having spent 6 years at international legal firm, Norton Rose (formerly Deacons) as a Senior Associate in its Commercial Dispute Resolution group. Ms Hauff is a qualified solicitor of the Supreme Court of Queensland and the High Court of Australia with 13 years' experience in legal practice, including in the areas of risk management, compliance and corporate governance.

COMMON SHARES BENEFICIALLY OWNED OR CONTROLLED

As of the date hereof, our directors and executive officers, as a group, beneficially owned or controlled, or directed, directly or indirectly 43,766,972 Common Shares, representing approximately 18.5% of the Company's total number of issued and outstanding Common Shares.

To the knowledge of the Company, no director or executive officer of the Company is or was within 10 years prior to the date hereof was a director, chief executive officer or chief financial officer of any company that:

- (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

For the purposes of the disclosure above regarding the directors, executive officer or shareholder, “order” means: (a) a cease trade order, including a management cease trade order; (b) an order similar to a cease trade order; or (c) an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days.

To the knowledge of the Company, no director or executive officer of the Company or any shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

(a) is, as at the date hereof, or has been within the 10 years before the date hereof, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;

(b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder

(c) has been subject to:

(i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

CONFLICTS OF INTEREST

To the Company's knowledge, and other than as disclosed herein, there are no known existing or potential conflicts of interest among Nautilus, or any of its subsidiaries, and any of its directors or officers, except that certain of the Company's directors and officers serve as directors, officers, promoters and members of management of other public companies and therefore it is possible that a conflict may arise between their duties as a director and/or officer of Nautilus and their duties as a director, officer, promoter or member of management of such other companies. See "Directors and Officers".

Certain of the Company's directors serve as directors of companies that may enter into contracts with Nautilus in the future. In the event this occurs, a conflict of interest will exist. In accordance with the Business Corporations Act (*British Columbia*), directors are required to act honestly and in good faith with a view to the best interests of Nautilus. In addition, directors in a conflict of interest position are required to disclose certain conflicts to the Company and to abstain from voting in connection with the matter.

The Company's directors and officers have been advised of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest, and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of the Company's directors or officers. All such conflicts are required to be disclosed by such directors or officers in accordance with the Business Corporations Act (*British Columbia*) and they are required to govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is a respondent to arbitration proceedings commenced by the State of PNG on June 19, 2012 in relation to the parties' obligations under an agreement dated March 29, 2011 (the "**Proceedings**"). The Proceedings, which are still to complete interlocutory steps, will be conducted in Sydney, Australia under the Uncitral Arbitration Rules 2010 before the appointed arbitrator, former Chief Justice of the High Court of Australia, the Honourable Murray Gleeson AC QC.

Other than the Proceedings, the Company was not a party to any material legal proceedings or regulatory actions during the year ended December 31, 2012, and the Company is not aware of any material proceedings contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed herein, none of the directors, executive officers or principal shareholders and no associate or affiliate of the foregoing persons has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or will materially affect the Company or any of its subsidiaries.

As a result of their participation in equity financings of the Company, including the private placements described under the headings "General Development of the Business of the Company – Three Year History – 2011 – C\$98.1 Million Raised in Private Placement of Common Shares" and "General Development of the Business of the Company – Three Year History – 2012 – 37.7 Million Shares Issued in Private Placement", each of Metalloinvest and MB Holding have the right to nominate one member of the Company's board of directors. Metalloinvest's current nominee is Matthew Hammond and MB's current nominee is Mohammed Al Barwani.

TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada at its offices in Vancouver, British Columbia and Toronto, Ontario, Canada. Its affiliate, Computershare Trust Company Inc., located in Bristol, UK is acting as UK co-transfer agent.

MATERIAL CONTRACTS

Nautilus is not a party to a material contract that was not entered into in the ordinary course of its business or that is otherwise required to be filed under section 12.2 of National Instrument 51-102 ("NI 51-102") at the time this AIF is filed or would be required to be filed under section 12.2 of NI 51-102 at the time this AIF is filed but for the fact that it was previously filed, other than:

1. the offtake agreement with Tongling dated April 21, 2012 and described under "General Development of the Business of the Company – Three Year History – 2012 – Offtake Agreement for Solwara 1"; and
2. the State Equity Option Agreement dated March 29, 2011, as described under "General Development of the Business of the Company – Three Year History – 2011 – Agreement to form Mining JV".

INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP, Chartered Accountants, are the Company's auditors and have prepared an opinion with respect to the Company's consolidated financial statements as at and for the year ended December 31, 2012. PwC LLP has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

Ian Lipton, Peter Munro, Phil Jankowski and James Jonathan Lowe, each of whom is a "qualified person" for the purposes of NI 43-101, are responsible for the preparation of the Solwara 1 and 12 Report. Mr. Lipton is a Principal Geologist with Golder, Mr. Munro is a Senior Principal Consulting Engineer with Mineralurgy Pty Ltd, Mr. Jankowski is an Associate Consultant to SRK and Mr. Lowe is the Vice President – Strategic Development & Exploration of the Company.

Matthew Nimmo, Charles Morgan and Davey Banning, each of whom is a "qualified person" for the purposes of NI 43-101, are responsible for the preparation of the Updated CCZ Report. Mr. Nimmo is a Principal Geologist with Golder, Dr. Morgan is a Professional Marine Scientist with Planning Solutions Inc. of Honolulu, Hawaii, and Mr. Banning is an independent Consulting Geologist.

Mr. Jankowski is responsible for the preparation of the Technical Report.

To the knowledge of the Company, none of the persons listed above, at the time of preparing the reports, held or has received or will receive any registered or beneficial interests, direct or indirect, in any securities or other property of the Company or of one of the Company's associates or affiliates or is expected to be elected, appointed or employed as a director, officer or employee of the Company or of any associate or affiliate of the Company, other than Mr. Lowe, the Company's Vice President – Strategic Development & Exploration, who holds, directly or indirectly, less than 1% of the issued and outstanding Common Shares.

AUDIT COMMITTEE

The Audit Committee is responsible for monitoring the Company's systems and procedures for financial reporting and internal control, reviewing certain public disclosure documents and monitoring the performance and independence of our external auditors. The committee is also responsible for reviewing the Company's annual audited financial statements, unaudited quarterly financial statements and management's discussion and analysis of financial results of operations for both annual and interim financial statements and review of related operations prior to their approval by the full Board of Directors.

The Audit Committee's charter sets out its responsibilities and duties, qualifications for membership, procedures for committee member removal and appointment and reporting to the Board of Directors. A copy of the charter is attached hereto as Schedule "A".

The Audit Committee is comprised of three directors, all of whom are independent directors.

From January 1, 2012 to December 31, 2012, the Audit Committee comprised: Russell Debney, Matthew Hammond and Cynthia Thomas. All members of the Company's Audit Committee must meet the "independence" tests under National Instrument 52-110, "Audit Committees" in that their directors' fees and committee member fees are the only compensation they, or their firms, receive from us and that they do not otherwise have a material relationship with the Company. Each member of the Audit Committee is financially literate within the meaning of National Instrument 52-110.

During 2012 there were four meetings of the Audit Committee, each of which was attended by all committee members.

Relevant Education and Experience

Set out below is a description of the education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member.

Russell Debney – Mr Debney is a qualified commercial and corporate lawyer as well as a director of a number of companies in the mining and resources industry. Mr Debney has approximately 40 years' experience as a legal practitioner specializing in commercial and corporate law, including three years as CEO managing a major national law firm that acted as counsel to two international accounting firms in Australia. Mr Debney led a team that was responsible for the overview of work that included advising on the development and interpretation of accounting standards and auditor duties and responsibilities. Mr Debney has extensive experience in the management, financing and structuring of resource projects, particularly in the offshore environment. For almost 15 years he was a director and Senior Vice President of the Global Engineering Group which grew to be a world leader as an offshore oil and gas engineering consultant and project manager. Mr Debney was a founding Director of Nautilus Minerals.

Matthew Hammond – Mr Hammond holds a BA (Hons) from Bristol University and is the Group Strategist at Metalloinvest Holdings, where he has responsibility for part of the non-core asset portfolio. Matthew advises the Metalloinvest Board on strategic acquisitions and investments. Prior to joining Metalloinvest, Mr Hammond was a Director at Credit Suisse, where he worked for 12 years.

Cynthia Thomas – Ms. Thomas holds a Bachelor of Commerce degree from the University of Toronto and a Masters in Business Administration from the University of Western Ontario. She has over 30 years of

banking and mine finance experience, and currently acts as Principal of Conseil Advisory Services Inc., an independent financial advisory firm specialising in the natural resource industry which she founded in 2000. Prior to founding Conseil, Ms. Thomas worked with Bank of Montreal, Scotiabank and ScotiaMcLeod in the corporate and investment banking divisions. Ms. Thomas was formerly a Director of PolyMet Mining Corp. and is currently a Director and Chair of Victory Nickel Inc., Director of KWG Resources Inc. and a Director and Chair of the Audit Committee for Ferrinov Inc., a pigment development and manufacturing company.

Pre-Approval Policies and Procedures

The Audit Committee's charter sets out responsibilities regarding the provision of non-audit services by the Company's external auditors. This policy encourages consideration of whether the provision of services other than audit services is compatible with maintaining the auditor's independence and requires Audit Committee pre-approval of permitted audit and audit-related services.

External Auditor Service Fees

The aggregate fees billed by the Company's external auditors in each of the last three fiscal years for audit and other fees are as follows:

Financial Year Ending	Audit Fees	Audit Related Fees	Tax Fees	All Other Fees
2012	US\$219,269	US\$63,842	US\$67,979	US\$Nil
2011	US\$133,888	US\$163,808	US\$106,668	US\$82,935
2010	US\$77,072	US\$38,333	US\$30,883	US\$Nil

Audit Fees

The aggregate audit fees billed by the Company's auditors for the year ended December 31, 2012 were US\$ 219,269 (December 31, 2011 - US\$133,888, December 31, 2010 - US\$77,072). These fees related to the audit of the Company's consolidated financial statements for the period ended December 31, 2012 and review of the interim consolidated financial statements.

Audit Related Fees

The aggregate audit-related fees billed by the Company's external auditors for the year ended December 31, 2012 were US\$ 63,842 (December 31, 2011 - US\$163,808, December 31, 2010 were US\$38,333).

Tax Fees

Tax fees in respect of tax compliance, tax advice and tax planning billed by the Company's auditors for the year ended December 31, 2012 were US\$67,979 (December 31, 2011 - US\$106,668, December 31, 2010 - US\$30,883).

All Other Fees

Other fees billed by the Company's external auditors for the year ended December 31, 2012 were US\$Nil (December 31, 2011 - US\$82,935, December 31, 2010 - US\$Nil).

ADDITIONAL INFORMATION

Additional information relating to the company may be found on SEDAR at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, our principal holders and securities authorized for issuance under equity compensation plans, as applicable, is contained in our Management Information Circular dated June 20, 2012. Additional financial information is provided in our financial statements and managements' discussion and analysis for the fiscal year ended December 31, 2012, which can also be found on SEDAR at www.sedar.com.

Unless otherwise stated, information contained herein is as at December 31, 2012.

SCHEDULE A

TERMS OF REFERENCE OF THE AUDIT COMMITTEE (THE "COMMITTEE")

(approved at a meeting of the board of directors held on 10 April 2010)

1. TERMS OF REFERENCE TO BE MADE AVAILABLE

The Committee should make available these terms of reference explaining its role and the authority delegated to it by the Board.

2. MEMBERSHIP

2.1. The members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee. The Committee shall be made up of at least three members.

2.2. The majority of members of the Committee shall be independent non-executive directors. At least one member of the Committee should have recent and relevant financial experience. The Chairman of the Board shall not be a member of the Committee.

2.3. Appointments to the Committee shall be for a period of up to three years, which may be extendable for no more than two further three year periods, so long as members continue to be independent.

2.4. The Board shall appoint the Committee Chairman who shall be an independent non-executive director.

2.5. In deciding chairmanship and membership of the Committee, the value of ensuring that Committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account.

3. SECRETARY

The Company Secretary or their nominee shall act as the secretary of the Committee.

4. MEETINGS

4.1. **Frequency:** The Committee shall meet at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required.

4.2. **Right to attend:** Only members of the Committee have the right to attend committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive Officer, Chief Financial Director, other directors, the head of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate. The external auditors will be invited to attend meetings of the Committee on a regular basis.

- 4.3. **Notice:** Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditors if the committee considers it necessary. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person invited to attend, no fewer than five working days prior to the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.
- 4.4. **Quorum:** The quorum necessary for the transaction of business shall be two. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 4.5. **Chairman:** In the absence of the appointed chairman of the Committee and/or an appointed deputy, the remaining members shall elect one of their number to chair the meeting.
- 4.6. **Minutes:** The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance. The Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

5. ANNUAL GENERAL MEETING

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

6. DUTIES

The Committee should carry out the duties below for the Company, major subsidiary undertakings and the group as a whole, as appropriate.

6.1. Financial Reporting

- (a) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
- (b) The Committee shall review and challenge where necessary:

- (i) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/group;
 - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the view of the external auditor;
 - (iv) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
 - (v) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);
- (c) The Committee shall review the annual financial statements of the pension funds (if relevant) where not reviewed by the Board as a whole.

6.2. Internal Controls and Risk Management Systems

The Committee shall:

- (a) keep under review the effectiveness of the Company's internal controls and risk management systems; and
- (b) review and approve the statements to be included in the Annual Report to stockholders concerning internal controls and risk management.

6.3. Whistleblowing

The Committee shall review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

6.4. Internal Audit

The Committee shall review annually the need or otherwise for an internal audit function.

6.5. External Audit

(a) The Committee shall:

- (i) consider and make recommendations to the Board, to be put to stockholders for approval at the annual or special meeting of the stockholders of the Company, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for new

auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.

- (ii) oversee the relationship with the external auditor including (but not limited to):
 - (A) approval of its remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - (B) approval of its terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (C) assessing annually its independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;
 - (D) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
 - (E) agreeing with the Board a policy on the employment of former employees of the Company's auditor and monitoring the implementation of this policy;
 - (F) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and
 - (G) assessing annually the auditor's qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on its own internal quality procedures;
- (iii) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss its remit and any issues arising from the audit;
- (iv) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- (v) review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
 - (A) a discussion of any major issues which arose during the audit;
 - (B) any accounting and audit judgements; and
 - (C) levels of errors identified during the audit.

- (b) The Committee shall also review the effectiveness of the audit and shall:
- (i) review any representation letter(s) requested by the external auditor before they are signed by management;
 - (ii) review the management letter and management's response to the auditor's findings and recommendations; and
 - (iii) develop and implement a policy on the supply of non audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

6.6. Reporting Responsibilities

- (a) The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- (b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (c) The Committee shall compile a report to stockholders on its activities to be included in the Company's Annual Report to stockholders.

6.7. Other Matters

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- (c) give due consideration to applicable laws and regulations, the provisions of the Combined Code and the requirements of the Financial Services Authority's Listing Rules as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) oversee any investigation of activities which are within its authority and act as a court of the last resort; and
- (f) at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

7. AUTHORITY

The Committee is authorised:

- 7.1. to seek any information it requires from any employee or advisers of the Company in order to perform its duties;
- 7.2. to obtain, at the Company's expense, outside legal or other professional advice on any matters within its authority when the Committee reasonably believes it necessary to do so; and
- 7.3. to call any member of staff to be questioned at a meeting of the Committee as and when required.