Nautilus Minerals Inc.

(an exploration stage company)

Consolidated Financial Statements
For the years ended December 31, 2013 and December 31, 2012

(Expressed in US Dollars)

MANAGEMENT'S RESPONSIBIILTY FOR FINANCIAL REPORTING

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

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

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

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

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

Signed: "Michael Johnston"

President and Chief Executive Officer

Signed: "Shontel Norgate"

Chief Financial Officer

March 28, 2014

Independent Auditor's Report

To the Shareholders of Nautilus Minerals Inc.

We have audited the accompanying consolidated financial statements of Nautilus Minerals Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nautilus Minerals Inc. as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years ended then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Signed "PricewaterhouseCoopers LLP"

Chartered Accountants

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia Canada V6C 3S7
T: 604 806 7000, F:604 806 7806, www.pwc.com/ca

Nautilus Minerals Inc.

Consolidated Statements of Financial Position

(expressed in US Dollars)

	December 31, 2013 $	December 31, 2012 $
ASSETS		
Current assets		
Cash and cash equivalents (Note 6)	40,617,963	57,806,465
Prepaid expenses and advances	558,677	675,991
	41,176,640	58,482,456
Non-current assets		
Restricted cash (Note 9)	658,323	2,319,663
Property, plant and equipment (Note 11)	198,533,059	170,166,331
Exploration and evaluation assets (Note 10)	43,448,448	40,778,662
	242,639,830	213,264,656
TOTAL ASSETS	283,816,470	271,747,112
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	5,117,410	11,677,480
Non-current liabilities		
Accounts payable and accrued liabilities (Note 7)	8,896,457	5,747,090
Joint venture contribution (Note 2)	1,797,081	1,797,081
	10,693,538	7,544,171
TOTAL LIABILITIES	15,810,948	19,221,651
Equity		
Share Capital (Note 13)	514,123,985	477,413,919
Contributed Surplus	47,647,463	46,537,794
Deficit	(293,765,926)	(271,426,252)
Total Equity	268,005,522	252,525,461
TOTAL LIABILITIES AND EQUITY	283,816,470	271,747,112

Approved by the Board of Directors

Signed: “Russell Debney”

Russell Debney

Signed: “Cynthia Thomas”

Cynthia Thomas

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

Nautilus Minerals Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2013 and 2012

(expressed in US Dollars)

	December 31, 2013 $	December 31, 2012 $
Operating expenses		
Exploration costs (Note 14)	4,884,141	6,821,848
General and administration (Note 15)	13,062,673	18,021,262
Corporate social responsibility	1,433,424	927,887
Technology	341,945	2,734,041
Development	796,656	1,096,862
Foreign exchange (gains)/losses	2,810,639	(608,530)
Operating loss	23,329,478	28,993,370
Impairment of vessel prepayment (Note 5)	-	12,933,620
Interest income	(404,909)	(918,858)
Rent and other income	(584,895)	(25,990)
Loss and comprehensive loss for the year	22,339,674	40,982,142
Weighted average number of shares outstanding, basic and diluted	350,074,988	210,312,649
Loss per share		
Basic and diluted	0.06	0.19

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

Nautilus Minerals Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2013 and 2012
(expressed in US Dollars)

	December 31, 2013 $	December 31, 2012 $
Operating activities		
Loss for the year	(22,339,674)	(40,982,142)
Adjustments for:		
Depreciation and amortization	1,187,050	899,552
Impairment of vessel prepayment	-	12,933,620
Unrealized foreign exchange losses/(gains)	2,801,167	(941,939)
Share-based payments	1,109,669	973,946
Changes in non-cash working capital		
Prepaid expenses and advances	117,314	88,069
Accounts payable and accrued liabilities	1,200,324	(2,774,010)
Net cash used in operating activities	(15,924,150)	(29,802,904)
Investing activities		
Restricted cash	1,661,340	(48,708)
Purchase of plant and equipment	(34,155,001)	(86,496,110)
Exploration and evaluation assets	(2,679,591)	(10,686,418)
Net cash used in investing activities	(35,173,252)	(97,231,236)
Financing activities		
Issuance of shares for cash - net of issue costs	36,710,066	34,450,872
Net cash generated from financing activities	36,710,066	34,450,872
Effect of exchange rate changes on cash and cash equivalents	(2,801,166)	941,939
Decrease in cash and cash equivalents	(17,188,502)	(91,641,329)
Cash and cash equivalents - Beginning of year	57,806,465	149,447,794
Cash and cash equivalents - End of year (Note 6)	40,617,963	57,806,465

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

Nautilus Minerals Inc.

Consolidated Statements of Changes in Equity

(expressed in US Dollars)

	Share capital		Contributed Surplus	Deficit	Total equity
	Number of shares	Amount			
		$	$	$	$
Balance January 1, 2012	**196,181,741**	**442,832,443**	**45,694,452**	**(230,444,110)**	**258,082,785**
Exercise of share options	243,000	302,844	-	-	302,844
Issue of shares in Share Loan Plan	2,850,000	-	-	-	-
Issue of shares in private placement	37,673,124	34,148,028	-	-	34,148,028
Share-based payments	-	-	973,946	-	973,946
Transfer of value on exercise of share options	-	130,604	(130,604)	-	-
Loss for the year and comprehensive loss	-	-		(40,982,142)	(40,982,142)
Balance December 31, 2012	**236,947,865**	**477,413,919**	**46,537,794**	**(271,426,252)**	**252,525,461**
Exercise of shares through rights issue	200,000,000	36,710,066	-	-	36,710,066
Issue of shares in Share Loan Plan	4,500,000	-	-	-	-
Forfeited loan shares	(675,000)	-	-	-	-
Share-based payments	-	-	1,109,669	-	1,109,669
Loss for the year and comprehensive loss	-	-		(22,339,674)	(22,339,674)
Balance December 31, 2013	**440,772,865**	**514,123,985**	**47,647,463**	**(293,765,926)**	**268,005,522**

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

1 Corporate Information

Nature of Operations

Nautilus Minerals Inc. (the "Company", "Nautilus" or "NMI") is a company whose common shares are listed on the Toronto Stock Exchange and quoted on OTCQX International.

Nautilus is engaged in the exploration and development of the ocean floor for copper and gold rich seafloor massive sulphide deposits. To date the Company has not earned any revenues from operations and is considered to be in the exploration stage. The Company has one segment being mineral property exploration in Australasia. The exploration activity involves the search for deepwater copper and gold rich seafloor massive sulphides in the western Pacific Ocean. The Company's main focus is the Solwara 1 Project in Papua New Guinea (PNG) in the western Pacific Ocean. The proposed principal operations of the Company subject to permitting will be the extraction of copper, zinc, gold and silver deposits where there are economically viable discoveries. The Company's consolidated financial statements and those of its controlled subsidiaries ("consolidated financial statements") are presented in US Dollars.

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

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

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

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

Operations (Brisbane, Australia)
Nautilus Minerals Inc.
Level 7, 303 Coronation Drive
Milton Queensland, Australia 4064

2 Status of State of PNG's participation in Solwara 1 Project and liquidity risk

State of PNG Participation in Solwara 1 Project

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

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

On June 1, 2012, Nautilus announced that it was in dispute with the State of PNG as to the parties' obligations to complete the Agreement and that it had initiated the dispute resolution process provided for in the Agreement. Subsequently Nautilus announced that the State had issued Nautilus with a Notice of Arbitration in relation to the dispute, with the hearing of the arbitration to commence on August 26, 2013.

On October 3, 2013, Nautilus announced that the arbitrator had issued an award in Nautilus' favour in respect of the issues that were subject to the Notice of Arbitration initiated by the State. The arbitrators' award included an order that the State comply with its obligations under the agreement to complete the purchase of the 30% interest in the Solwara 1 project and to pay 30% of all the project expenditure incurred to date within a reasonable time of the award.

Nautilus issued the State with a notice requiring completion to occur by October 23, 2013. Nautilus estimated the total amount payable by the State at October 23, 2013 to be approximately $118.2 million (including interest). Nautilus continued discussions with the State following the expiration of the date to complete, however on February 13, 2014, in the absence of the State completing the purchase of its 30% stake in the Project, the Company announced the termination of the Agreement with the State.

While the termination of the Agreement allows the Company to pursue damages, it remains Nautilus' preference to resolve these matters amicably with the State.

Liquidity Risk

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

The Company has no source of revenue and has significant cash requirements to be able to meet its administrative overhead and maintain its property interests. In order to be able to complete the ongoing sub-sea equipment construction contracts and advance the development of its mineral property interests, the Company will need to raise additional funding. Until that time, certain discretionary expenditures may be deferred and measures to reduce operating costs will be taken in order to preserve working capital. A rights offering for net proceeds of $36.7 million was completed on June 11, 2013.

3 Summary of significant accounting policies

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

3.1 Basis of measurement

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

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at December 31, 2013, and were approved as of March 28, 2014, the date of the Audit Committee of the Board of Directors approved the statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.14.

3.2 Consolidation

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

Subsidiaries are all entities (including structured entities) over which Nautilus Minerals Inc has control. We control an entity when we are exposed to, or have rights to, variable returns from its involvement with the entity and have the ability to affect those returns through our power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date which control is transferred to us until the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

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

3.3 Foreign currency translation

a) Functional and presentational currency

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

b) Transactions and balances

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

3.4 Cash and cash equivalents

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

3.5 Financial assets

a) Classification

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

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

b) Impairment of financial assets

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

3.6 Property, plant and equipment

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

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

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

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

3.7 Exploration and evaluation assets

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

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

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

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

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

Once the Company considers that a future economic benefit is more likely than not to be realized from an area of interest, all subsequent costs directly relating to the advancement of the related area of interest are capitalized. Capitalized costs are considered to be tangible assets as they form part of the underlying mineral property and are recorded within ‘exploration and development assets’ at cost less impairment charges, if applicable. No amortization is charged during the exploration and evaluation phase because the asset is not available for use. When the Company considers that the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, capitalized exploration and evaluation costs are reclassified to mineral properties.

3.8 Impairment of non-financial assets

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

Fair value is determined as the amount that would be obtained by the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value of mineral assets is generally determined as the present value of the estimated cash flows expected to arise from the continued use of the asset, including any expansion projects.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and from its ultimate disposal.

Impairment is normally assessed at the level of CGUs, which are identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets.

Non-financial assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed. When a reversal of a previous impairment is recorded, the reversal amount is adjusted for depreciation that would have been recorded had the impairment not taken place.

3.9 Share based payments

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

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

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

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

3.10 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

3.11 Income tax

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

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

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

3.12 Share capital

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

3.13 Loss per share

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

3.14 Significant accounting judgements and estimates

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

The area of judgement that has the most significant effect on the amounts recognised in these consolidated financial statements is the review of asset carrying values and impairment assessment.

In considering whether any impairment indicators occurred in respect of the Company's long lived assets as at December 31, 2013, management took into account a number of factors such as metal prices, projected costs to operate equipment, availability and costs of finance, cost and state of completion of subsea equipment construction, exploration successes in other areas, the existence and terms of binding off-take agreements and the Company's market capitalization compared to its net asset value. Management has concluded, based on this analysis that no impairment was required to be recognized at December 31, 2013 in respect of the Solwara 1 project and the subsea equipment currently under construction.

(expressed in US Dollars)

4 Changes in accounting policy and disclosures

New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January1, 2014 that would be expected to have a material impact on the Company.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013. The company has reviewed the disclosure requirements of changes in IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosures of interests in other entities' and IFRS 13 'Fair value measurement', however this does not currently require any changes to disclosures within the financial statements of the Company.

5 Impairment expense

The current year impairment expense was nil, however in 2012 the Company recognised an impairment charge for the full carrying amount of the prepayment related to the construction of a production support vessel of $12,933,620 following notification that the shipyard had entered administration.

6 Cash and cash equivalents

	December 31, 2013 $	December 31, 2012 $
Cash	2,191,787	7,306,529
Term Deposits	38,426,176	50,499,936
	40,617,963	57,806,465

7 Non-current accounts payable and accrued liabilities

The non-current creditor of $8,896,457 (2012 - $5,747,090) represents the contractual retention from payments to SMD to be paid on completion of the contract. These amounts are considered non-current as payment is not due within the next 12 months.

(expressed in US Dollars)

8 Income Tax

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

	December 31, 2013 $	December 31, 2012 $
Loss before income taxes	(22,339.673)	(40,982,142)
Canadian statutory tax rate	25.50%	25.00%
Income tax recovery based on the above rates	(5,696,617)	(10,245,536)
Increase/(decrease) due to:		
Non-deductible expenses and other	4,447,281	2,310,196
Effect of change in Canadian and foreign future tax rates	(812,631)	(47,489)
Tax effect of tax losses and temporary differences not recognized	2,061,967	7,982,829
Income tax expense/(recovery)	-	-

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

	December 31, 2013 $	December 31, 2012 $
Future income tax assets		
Non-capital losses	32,071,075	30,365,106
Capital losses	3,560,661	3,202,641
Unamortized share issue costs	710,174	185,605
Unrealized foreign exchange losses and other	10,845,992	12,700,960
Mineral properties and property, plant and equipment	40,882,432	39,554,055
Total future income tax assets	88,070,334	86,008,367
Less: Tax benefits not utilised	(88,070,334)	(86,008,367)
Net future income tax assets/(liabilities)	-	-

(expressed in US Dollars)

c) The Company has non-capital loss carry forwards of $115,429,842 that may be available for tax purposes. The loss carry forwards expire as follows:

	Canada $	**Australia and Tonga** $
2018	-	-
2019	-	-
2020	-	-
2021	-	-
2022	-	-
2023	254,000	-
2024	382,579	-
2025	217,280	-
2026	2,839,864	-
2027	5,473,752	-
2028	206,839	-
2029	6,451,153	-
2030	6,581,393	-
2031	6,041,739	-
2032	2,042,162	-
2033	5,705,651	-
Not limited	-	79,233,430
Total non-capital losses	36,196,412	79,233,430

9 Restricted cash

$658,323 (December 31, 2012 - $2,319,663) has been provided as security for leases, tenements held in Papua New Guinea and Fiji. During the first half of 2013 an outstanding Letter of Credit for $1.5 million was returned, with both Technip USA and Nautilus agreeing to release their respective Letters of Credit given the contract was suspended.

10 Exploration and evaluation assets

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

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

(expressed in US Dollars)

	December 31, 2013 $	December 31, 2012 $
Opening balance	**40,778,662**	**30,906,586**
Boat charter and fuel	-	2,028,093
Engineering services	498,168	1,417,987
Environmental consulting	15,958	304,394
Project management and oversight	2,037,129	5,672,004
Geological services and field expenses	90,380	431,677
Mineral property fees	28,151	17,921
	2,669,786	9,872,076
Closing balance	**43,448,448**	**40,778,662**

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

11 Property, plant and equipment

Year ended December 31, 2013

`	Opening Cost Balance $	Additions $	Disposals $	Closing Cost Balance $	Accum Dep'n $	Closing Carrying Value $
Leasehold improvements	2,760,475	68,409	-	2,828,884	(1,415,713)	1,413,171
Plant and equipment	770,807	7,974	-	778,781	(507,510)	271,271
Office equipment	3,197,843	7,526	-	3,205,369	(2,642,385)	562,984
Motor vehicles	165,562	-	-	165,562	(92,428)	73,134
Land	466,969	-	-	466,969	-	466,969
Subsea equipment under construction	166,275,661	29,469,869	-	195,745,530	-	195,745,530
Total property, plant & equipment	173,637,317	29,553,778	-	203,191,095	(4,658,036)	198,533,059

(expressed in US Dollars)

Year ended December 31, 2012

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

12 Compensation of Key Management

Key management includes the company's directors and members of the Executive Committee that includes the CEO, CFO, VP Projects, VP Strategic Development & Exploration and VP Corporate Social Responsibility. Compensation awarded to key management included:

	December 31, 2013 $	December 31, 2012 $
Salaries and short-term employee benefits	2,050,613	4,159,319
Redundancy and annual leave paid on termination	-	915,949
Stock based compensation	807,433	858,161
Superannuation payments	130,880	230,619
	2,988,926	6,164,048

13 Equity

a) Common shares issued

Net proceeds of $36.7 million were raised through the issuance of rights to subscribe for an aggregate of 200,000,000 common shares at a subscription price of C$0.20 per common share, with the offer closing on June 11, 2013, with full proceeds received.

Over 75% of the total shares on offer were subscribed for under the offering and one of the Company's major shareholders, MB Holding Company LLC, through a wholly owned subsidiary, fulfilled its obligations as Standby Purchaser in respect of the full offering and purchased the 49,377,527 unsubscribed shares. MB Holdings Company LLC received a fee of C$2,000,000 under the agreement to act as standby purchaser for the transaction.

In 2012 a total of 37,673,124 common shares were issued in two tranches of a private placement with an issue price of C$0.90. Total net proceeds of $34.1 million were received.

b) Loan shares

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

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

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

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

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

(expressed in US Dollars)

Outstanding share options

	Share options	Weighted average exercise price C$
At January 1, 2012	8,634,000	2.87
Granted	1,125,000	0.93
Exercised	(243,000)	1.26
Forfeited	(621,000)	1.61
Expired	(4,695,000)	5.17
At December 31, 2012	**4,200,000**	**1.77**
Granted	2,250,000	0.22
Expired	(2,375,000)	1.83
At December 31, 2013	**4,075,000**	**0.88**

Information relating to share options outstanding at December 31, 2013 is as follows:

Price range C$	Outstanding share options	Vested stock options	Weighted average exercise price of outstanding options C$	Weighted average exercise price of vested options C$	Weighted average remaining life of outstanding options (months)
0.00 – 0.99	3,150,000	360,000	0.42	0.91	27.5
1.00 – 1.99	225,000	-	1.01	-	27.3
2.00 – 2.99	700,000	560,000	2.91	2.91	8.1
	4,075,000	920,000	0.88	2.13	24.1

(expressed in US Dollars)

Outstanding loan shares

	Loan shares	Weighted average exercise price C$
At January 1, 2012	200,000	2.91
Granted	4,000,000	1.00
Forfeited	(1,150,000)	1.01
At December 31, 2012	**3,050,000**	**1.13**
Granted	4,500,000	0.24
Forfeited	(675,000)	1.01
At December 31, 2013	**6,875,000**	**0.56**

No loan shares were purchased during the year ended December 31, 2013 or for the year ended December 31, 2012.

Information relating to loan shares outstanding at December 31, 2013 is as follows:

Price range C$	Outstanding share loan shares	Vested loan shares	Weighted average exercise price of outstanding loan shares C$	Weighted average exercise price of vested loan shares C$	Weighted average remaining life of outstanding loan shares (months)
0.00 – 0.99	4,700,000	80,000	0.27	0.91	29.6
1.00 – 1.99	1,975,000	-	1.01	-	27.3
2.00 – 2.99	200,000	160,000	2.91	2.91	8.1
	6,875,000	240,000	0.56	2.24	28.3

The fair value of the share options and loan shares granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

(expressed in US Dollars)

	Options granted in 2013	Options granted in 2012
Expected dividend yield	Nil	Nil
Expected stock price volatility	93.76%	76.33%
Risk-free interest rate	1.35%	1.16%
Expected life of options in years	3	3

The weighted average fair value of the options granted was C$0.22 (2012 – C$0.93).

	Loan shares granted in 2013	Loan shares granted in 2012
Expected dividend yield	Nil	Nil
Expected stock price volatility	93.76%	74.17%
Risk-free interest rate	1.35%	1.22%
Expected life of loan shares in years	3	3

The weighted average fair value of the loan shares granted was C$0.24 (2012 – C$1.00).

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

14 Exploration Expenditures

	Year ended December 31, 2013 $	2012 $
Boat charter and fuel	1,668,130	1,748,526
General and administration	75,150	207,491
Geological services and field expenses	465,263	399,502
Mineral property fees	594,465	965,578
Professional services	293,188	82,354
Travel	215,828	310,278
Wages and salaries	1,572,117	3,108,119
Total operating expenses	4,884,141	6,821,848

In order to maintain the exploration leases, licenses and permits in which the Company is involved, the Company is expected to fulfil the minimum annual expenditure conditions under which the tenements are granted. These obligations may be varied from time to time, subject to approval, and are expected to be fulfilled in the normal course of operations of the Company. The exploration commitments are based on those exploration tenements that have been granted and may increase or decrease depending on whether additional applications are granted, relinquished or form joint ventures in the future. Based on tenements granted at December 31, 2013, total rental commitments are

(expressed in US Dollars)

$4.7 million and total expenditure commitments are $41.4 million over the life of the licenses, which in the majority of cases extend to a maximum of two years, with the exception of the CCZ tenements where expenditure commitments extend to 5 years.

15 General and Administration Expenditures

	Year ended December 31, 2013 $	2012 $
Office and general	2,919,845	4,039,442
Professional services	2,927,343	2,684,032
Salary and wages	4,897,588	8,702,784
Shareholder related costs	493,242	587,676
Travel	637,604	1,107,773
Depreciation	1,187,051	899,555
Total general and administration expenses	13,062,673	18,021,262

16 Contingencies and Commitments

a) Non-cancellable commitments

	December 31 2013 $
Non-cancellable operating leases	
Not later than 1 year	1,026,698
Later than 1 year and not later than 2 years	513,744
Later than 2 years and not later than 3 years	32,796
Later than 3 years and not later than 4 years	18,741
Later than 4 years and not later than 5 years	14,056
Total Commitments	1,606,035

b) Cancellable commitments

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

The Company has entered into various contracts for the design and build of the seafloor production system. As at December 31, 2013, the committed value of the contracts is $39.6 million (equivalent). During 2012, a number of contracts were terminated to allow the Company to preserve cash while the dispute with the PNG government is resolved, and contracts with SMD, GE Hydril and General Marine Corporation were continued at reduced rates of progress. The committed value of $39.6 million reflects ongoing milestone payments for continuing contracts. The contracts are cancellable by the Company at any time, however, in the event of cancellation, the Company is liable for any costs incurred up to that point, with an estimate of costs for terminated contracts included in the accrued costs at year end. No other penalties or cancellation fees are payable under these contracts.

17 Financial risk management

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

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

a) Capital Management

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

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets to facilitate the management of its capital requirements. The Company prepares annual expenditure budgets that are updated as necessary depending upon various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. As at December 31, 2013 the Company does not have any long-term debt and is not subject to any externally imposed capital requirements. The Company has sufficient funds to meet its current operating and exploration and development obligations.

b) Foreign exchange risk

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

(expressed in US Dollars)

Foreign exchange risk is mitigated by the Company maintaining its cash and cash equivalents in a "basket" of currencies that reflect its current and expected cash outflows. As at December 31, 2013 the Company held its cash and cash equivalents in the following currencies:

Currency Denomination	**% of total cash in US$ terms held**
USD	44
GBP	14
AUD	19
EUR	1
CAD	22
	100

c) Credit Risk

The company places its cash and cash equivalents only with banks with an S&P credit rating of A+ or better. Our maximum exposure to credit risk at reporting date is the carrying value of cash and cash equivalents and other receivables.

d) Liquidity Risk

The Company manages liquidity by maintaining adequate cash and short-term investment balances. In addition, the Company regularly monitors and reviews both actual and forecasted cash flows. The exposure of the Company to liquidity risk is considered to be minimal.

18 Subsequent Event

On February 13, 2014 the Company announced that contrary to the arbitrator's award of October 2, 2013, the State has not completed the purchase of its 30% interest in the Solwara 1 Project. In accordance with the State Equity Option Agreement signed by the parties in March 2011, Nautilus has terminated the Agreement and will now claim damages.

Although the Agreement has been terminated, Nautilus continues to seek an amicable resolution to the dispute with the State and is still intending to move forward with the Solwara 1 Project.