NAUTILUS MINERALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(US dollars, in accordance with International Financial Reporting Standards)

The following Management Discussion and Analysis ("MD&A") has been prepared as at March 28, 2014 for the period ended December 31, 2013.

The MD&A of Nautilus Minerals Inc. (the "Company", "NMI" or "Nautilus") should be read in conjunction with the Company's audited consolidated financial statements for the full year ended December 31, 2013, and related notes thereto (the "2013 Financial Statements") which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Amounts for the full year and three month periods ended December 31, 2013 and 2012 have been presented in accordance with IFRS. Unless otherwise indicated, all amounts in this MD&A are in accordance with IFRS.

It includes references to United States dollars, Canadian dollars, Papua New Guinea kina, United Kingdom pounds sterling and euros. All dollar amounts referenced, unless otherwise indicated, are expressed in United States dollars and the Canadian dollars are referred to as C$, Papua New Guinea kina are referred to as PGK, United Kingdom pounds sterling are referred to as £ and euros are referred to as €.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This document includes "forward-looking statements" which include all statements other than statements of historical fact.

Forward-looking statements include, but are not limited to, statements with respect to the future price of copper, gold and other metals; the estimation of mineral resources; the realization of mineral resource estimates; the timing and amount of estimated future production; the final resolution of the dispute with PNG; 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; 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 production support vessel ("PSV"), seafloor production tools ("SPTs"); and the purchase of the PSV. 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, the risk of failure to obtain required equity or debt funding, the risk that the conditions of the Agreement with PNG are not met which could impair the Company's relationship with the State and have a negative impact on the Company's ability to develop the Project; the risk that material assumptions listed in the paragraph below will not be borne out; risks related to the identification of a vessel solution; changes in project parameters as plans continue to be refined; any additional permitting or licensing requirements associated with any modifications to the scope of the Solwara 1 Project; 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 and SPTs or other equipment, assuming the full development of the seafloor production system is re-commenced; variations in the cost of the PSV and SPTs or other equipment; variations in exchange rates; the failure to obtain regulatory approval for financings; 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" and “Liquidity and Capital Resources – Outlook and Capital Requirements”.

Such forward-looking statements are current only as at the date of this MD&A 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 satisfaction of the conditions of the Agreement with PNG, the continued compliance with regulatory requirements, the proposed mine plan, the estimated cost and availability of funding for the continued exploration of the Company's tenements, and the ability of the Company to identify a suitable arrangement with respect to the PSV 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.

OUR BUSINESS

Overview

Nautilus is a seafloor resource exploration company and the first publicly listed company to commercially explore the ocean floor for copper, gold, silver and zinc rich seafloor massive sulphide deposits and for manganese, nickel, copper and cobalt nodule deposits. The Company’s main focus is to create shareholder value by demonstrating the seafloor production system and establishing a pipeline of development projects to maximize the value of mineral licenses and exploration applications that Nautilus holds in various locations in the Pacific Ocean.

The Company's principal project is the Solwara Project in the Bismarck Sea. The Solwara Project and the Company's other projects are described in detail in the Company's Annual Information Form, available on SEDAR at www.sedar.com.

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

2013 SIGNIFICANT EVENTS

- Favourable decision on arbitration with the Independent State of PNG
- C$40M Rights Offering completed
- Solwara 1 Project advanced with SPT build now 90% complete
- Clarion Clipperton Zone nodule exploration program completed with analysis of samples collected supporting the grade of elements previously reported
- Changes to the Board of Directors

Solwara 1 Project – Favourable decision on arbitration with the Independent 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 March 29, 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 considered that the State had 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 2013 totaled approximately US$70.8 million (excluding interest). The State disputed that it was required to meet such obligations at that time. In order to continue the construction of the Seafloor Production System, Nautilus has been forced to carry the State's share of Project development costs to date.

By November 2012, an agreed commercial resolution with the State had not been achieved and Nautilus concluded that the avenues for achieving such a resolution within the timeframe that Nautilus could reasonably continue to carry the total development costs for the Solwara 1 Project had been exhausted. On November 13, 2012, in order to preserve capital, Management and the Board of Directors of Nautilus decided to terminate a number of non-critical contracts relevant to the construction of its Seafloor Production System. All of the relevant supplier agreements contain provisions for termination without penalty. The Company was also forced to reduce staff and contractor numbers with approximately 60 positions made redundant. By the end of 2012, all contracts except the three key contracts for the Seafloor Production Tools, the Subsea Slurry Lift Pump and the Riser, had been terminated.

The Company considered it essential to continue with the build of its three key contracts related to the Seafloor Production System to ensure the Company is in the best possible position to advance the Solwara 1 Project following resolution of the dispute with the State of PNG, or alternatively to allow for the re-deployment of the equipment to other jurisdictions. The key contracts include the build of the Seafloor Production Tools by Soil Machine Dynamics Ltd, the supply of the Subsea Slurry Lift Pump by GE Hydril and the procurement of the rigid riser system by General Marine Contractors LLC. The Company therefore completed a C$40 million Rights Offering in June 2013, with net proceeds being used to continue the build of the equipment under the three key contracts.

On October 3, 2013 Nautilus announced that the arbitrator had issued an award in Nautilus' favour in respect of the issues that were the subject of the Notice of Arbitration initiated by the Independent State of Papua New Guinea. The arbitrators' award included an order that the State is required to comply with its obligations under the agreement to complete the purchase of the 30% interest in the Solwara 1 project and 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 cancellation of the Agreement with the State in accordance with the Agreement signed in March 2011 by the parties.

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

C$40M Rights Offering completed

The offering (the "Rights Offering") announced on March 28, 2013 to raise gross proceeds of C$40,000,000 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 closed 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 (a related party under IFRS), 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 were paid a fee of C$2,000,000 for undertaking the role of Standby Purchaser for the transaction.

The net proceeds from the offering are being used by the Company to continue funding its three key contracts related to the Seafloor Production System.

Solwara 1 Project advanced

During 2013, the Company continued to advance the Solwara 1 Project and in particular, the three key equipment contracts. Significant focus has also remained on securing the PSV build contract.

Project Build Progressed

Progress on the development of the SPTs continued to advance. Fabrication assemblies for the Auxillary Cutter and Collecting Machine are nearing completion. The Bulk Cutter chassis is now in final assembly at SMD premises in Newcastle, England. Assembly and fit out of this machine is approximately 90% complete.

GMC in Houston is well advanced with machining of the auxiliary riser pin and box connectors. Preparations for weld procedure qualification testing and associated fatigue testing are underway for the main line connectors. All buoyancy components have been completed at Balmoral Offshore Engineering in Aberdeen, Scotland.

GE Hydril has completed refurbishment of the test loop facilities and testing activities are expected to re-commence by Q2 2014.

Following the termination of some contracts during the final quarter of 2012, the Company has made arrangements with some contractors to allow the resurrection of some of the terminated contracts in the event that construction is re-started following the execution of a PSV contract.

Vessel Activities

The project has finalized the basic design of the PSV along with Classification Society interim approval of these basic arrangements and details. Using this information, various shipyards and other parties have been engaged to provide budgetary quotations and deliveries. More detailed discussions are intended to take place with shipyards and potential financiers.

Community Activities

During 2013, Nautilus conducted a wide range of community engagements and initiatives in Papua New Guinea. The engagements were mainly focused along the west coast of New Ireland Province particularly the Namatanai region which is closest to the Solwara 1 site. Nautilus also held two 'Deep Sea Minerals Fairs' for the communities of Kavieng and Namatanai in New Ireland Province. These events provided the community with the opportunity to speak directly with Company employees about the Solwara 1 Project, Nautilus and generally about the deep sea minerals industry.

In partnership with Duke University and the University of Papua New Guinea, Nautilus held a Marine Science Short Course for university students from the South Pacific. Over 20 students from throughout the region were offered a scholarship to attend this course which gave them the opportunity to learn start-of-the-art techniques from a representative from Duke University's Marine Laboratory, one the most highly respected marine laboratories in the world.

Clarion Clipperton Zone Nodule Exploration Program Completed

Tonga Offshore Mining Ltd, a 100% Nautilus owned entity, completed a 54 day exploration campaign to its license area located in the Clarion Clipperton Zone, in the eastern Pacific Ocean. Work was completed by the oceanographic survey vessel '*R/V Mt Mitchell*', which departed from Seattle, Washington on August 22, 2013. The work program comprised 64,000km^2 of multibeam mapping and the collection of 2,090 wet kilograms of polymetallic nodules.

It was part of a two stage multi-beam and sampling program designed to upgrade a significant portion of the current 410 million wet tonne inferred resource* to an indicated status, to allow for preliminary engineering and metallurgy studies.

On March 19, 2014, the Company announced that it had processed the data and received analytical results from the samples collected during the exploration program and that such data and results support the grade of elements reported in the March 2013 NI 43-101 technical report*.

* Nimmo, 2013 – "Updated NI43-101 Technical Report Clarrion-Clipperton Zone Project, Pacific Ocean", dated effective March 20, 2013.

Changes to the Board of Directors

On September 24, 2013 the Company announced changes to its board of directors with the appointment of Usama Barwani and Mark Horn, and the resignation of Matthew Hammond. The appointment of Mr Barwani and Mr Horn to the Board recognizes the continued support of the Company's two largest shareholders.

Following the resignation of Mr Hammond and the appointment of Mr Barwani and Mr Horn, the members of the Company's Board of Directors are as follows:

A. Geoffrey Loudon (Chairman and Non-Executive Director)
Dr. Mohamed Al Barwani (Non-Executive Director)
Russell Debney (Non-Executive Director)
Cynthia Thomas (Non-Executive Director)
Usama Barwani (Non-Executive Director)
Mark Horn (Non-Executive Director)

Mr Usama Barwani
Mr Barwani is the Director (Business Development) and a shareholder of MB Holding Company LLC, Nautilus' largest shareholder. He is also Managing Director of United Engineering Services, the MB group's manufacturing and engineering arm, and holds board positions for a number of companies including Ahli Bank Oman, one of the fastest growing banks in Oman. He has a Bachelor of Science in Engineering from the University of Tulsa (USA) and a Master of Science in Energy, Trade and Finance from Cass Business School (UK).

Mr Mark Horn
Mr Horn has worked as an international fund manager, financial analyst and corporate financier, and has extensive international experience in the resources and technology sectors. Mr Horn was nominated by Metalloinvest, which is Nautilus' second largest shareholder.

<u>Options and Loan Shares issued</u>

The Company has granted 1,800,000 options and issued 400,000 loan shares to its non-executive directors as part of their remuneration for 2013. The Company has also granted 450,000 options and issued 4,100,000 loan shares to its employees, including officers, as part of the Company's retention plan for employees.

The options and loan shares were granted under the Company's Stock Option Plan and Share Loan Plan which were approved by shareholders and limit the total number of shares under the two plans to a combined maximum of 10% of the Company's issued capital.

The options and loan shares were granted to the non-executive directors at an exercise price of C$0.22, vesting as to 20% commencing on January 1, 2014 and 20% every six months thereafter and expiring on July 1, 2016.

The options and loan shares were granted to the employees, including officers, at an exercise price of C$0.24, vesting as to 40% on January 1, 2015 and 60% on January 1, 2016 and expiring on July 1, 2016

<u>RISK FACTORS</u>

Nautilus' ability to generate revenues and achieve a return on shareholders' investment must be considered in light of the early stage nature of the Solwara 1 deposit and seafloor resource production in general. The Company is subject to many of the risks common to early stage enterprises, including personnel limitations, financial risks, metals prices, permitting, the need to raise capital, resource shortages and lack of revenues. Substantial expenditures are required to discover and establish sufficient resources and to develop the mining and processing facilities and infrastructure at any site chosen for mining. There can be no assurance that the Company will be able to raise sufficient financing to facilitate this development. The Company's existing funds are not sufficient to bring the Solwara 1 Project into production and there can be no assurance that additional sources of finance will be available to the Company. Other factors that influence the Company's ability to succeed are more fully described in the Company's 2013 Annual Information Form available on www.sedar.com, under the heading "Risk Factors".

SUMMARY OF QUARTERLY RESULTS (unaudited)

The following table sets out selected unaudited quarterly financial information of Nautilus and is derived from unaudited quarterly condensed consolidated interim financial statements prepared by management and expressed in US dollars in accordance with International Financial Reporting Standards ("IFRS")

		2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	$'M	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Loss for the period	$'M	(3.4)	(11.6)	(4.4)	(21.5)	(4.9)	(6.1)	(5.2)	(6.2)
Basic and diluted loss per share	$/share	(0.02)	(0.06)	(0.02)	(0.09)	(0.02)	(0.02)	(0.01)	(0.01)

As Nautilus is currently a pre-production entity engaging in exploration activities there is a significant amount of variability in the quarterly expenditure of the Company depending on the timing of contract milestones and exploration campaigns. Below is a summary of the more significant fluctuations in results excluding those resulting from foreign exchange movements:

Q2 2012

The quarterly expenditure included $1.5 million related to a Multibeam Echo Sounding ("MBES") exploration program on Bismarck Sea tenements outside of Solwara 1.

Q4 2012

The quarterly loss includes a $12.9 million impairment charge for prepayments made in relation to the PSV build.

RESULTS OF OPERATIONS – FOR THE THREE MONTHS ENDED DECEMBER 31, 2013

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

Loss for the period

For the three months ended December 31, 2013, the Company recorded a loss of $6.2 million ($0.01 loss per share) compared to a loss of $21.5 million ($0.09 loss per share) for the same period in 2012. The primary variances were as follows:

Exploration

Exploration expense increased to $1.8 million (2012 - $1.5 million) with the impact of the measures taken in Q4 2012 to preserve cash, offset by $0.6m to complete the approved nodule exploration program in the Clarion Clipperton Zone in the eastern Pacific Ocean.

	Nodule Exploration Three months ended December 31,		**SMS Exploration Three months ended December 31,**		**Total Exploration Three months ended December 31,**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Boat charter and fuel	314,044	-	-	-	314,044	-
General and administration	20,289	1,691	9,405	37,903	29,694	39,594
Geological services	200,928	70,614	3,130	23,667	204,058	94,281
Mineral property fees	-	-	380,834	284,509	380,834	284,509
Professional services	43,291	-	170,451	12,794	213,742	12,794
Travel	63,434	327	21,651	75,515	85,085	75,842
Salary and wages	98,346	227,790	453,341	738,496	551,687	966,286
Total exploration expenditure	**740,332**	**300,422**	**1,038,812**	**1,172,884**	**1,779,144**	**1,473,306**

General & Administration

General & Administration expense decreased to $3.4 million (2012 - $4.8 million) reflecting a reduction in salary and wages, office and general, and travel expenditure in line with the Company's strategy to preserve cash pending resolution of the dispute with the PNG government.

	Three months ended December 31, 2013	**Three months ended December 31, 2012**
Office and general	747,065	1,042,144
Professional services	374,741	921,375
Salary and wages	1,811,299	2,241,464
Shareholder related costs	75,395	111,818
Travel	55,359	160,308
Depreciation	290,802	337,647
Total general and administration expenditure	**3,354,661**	**4,814,756**

Corporate Social Responsibility

Corporate Social Responsibility expense was consistent at $0.4 million (2012 - $0.4 million).

Technology

Technology expense decreased to $0.1 million (2012 - $1.1 million) reflecting the Company's strategy to preserve cash, with the current year expenditure limited to maintaining patents and patent applications.

Development

Development expenses decreased to $0.3 million (2012 - $0.7 million) with $0.3 million spent on PSV design and procurement in the current quarter.

Foreign exchange

A foreign exchange loss of $0.9 million was recorded during the quarter (2012 – $0.5 million). The foreign exchange loss consists of realized gains and losses on actual cash transactions during the period and unrealized gains and losses on cash denominated in different currencies at the period end. The Company holds a "basket of currencies" to act as a natural hedge against its expected cash outflows and can therefore experience unrealized fluctuations at period end when cash balances are converted to US dollars for reporting purposes, as experienced during the current quarter.

Impairment of vessel prepayment
An impairment charge of $12.9 million being the full amount of the prepayment in relation to the vessel build contract was booked in Q4 2012, there was no further impairment in 2013.

Interest income
Interest income earned on cash and cash equivalents held during the period was $0.2 million (2012 - $0.3 million). This is consistent with the prior year. The Company maintains its cash and cash equivalents with banks with an S&P rating of A+ or better.

Operating Losses
Overall, Nautilus' operating loss decreased to $6.8 million for the three months ended December 31, 2013, compared to $8.9 million for the same period in 2012. When adjusting the current quarter operating loss for the respective foreign currency exchange movements the actual operating loss was $5.9 million (2012 $8.4 million) reflecting the commitment to reducing expenditure in line with management's decision taken in November 2012 to preserve cash while working to resolve the dispute with the PNG government, offset by increased expenditure for the nodule exploration program for $0.6 million and PSV development expenditure of $0.3 million.

SELECTED ANNUAL INFORMATION

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

	2013	**2012**	**2011**
Sales	$Nil	$Nil	$Nil
Loss for the year	$22,339,674	$40,982,142	$34,045,323
Loss per share (basic and diluted)	$0.06	$0.19	$0.20
Total assets	$283,816,470	$271,747,112	$282,553,450
Total long-term liabilities	10,693,538	$7,544,171	$5,155,666
Dividends declared	$Nil	$Nil	$Nil

Loss for the year

There was a decrease in the overall level of expenditure in 2013, remaining below initial budget expectation as the Company looked to preserve cash during 2013 while working to resolve the dispute with the PNG government.

Total assets

Total assets for the year ended December 31, 2013 increased to $283.8 million (2012 - $271.7 million) as the capital raised from the rights issue was used to progress the build of equipment.

RESULTS OF OPERATIONS – FOR THE YEAR ENDED DECEMBER 31, 2013

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

Loss for the year

For the full year ended December 31, 2013, the Company recorded a loss of $22.3 million ($0.06 loss per share) compared to a loss of $41.0 million ($0.19 loss per share) for the same period in 2012. The primary variances were as follows:

Exploration

Exploration expense decreased to $4.9 million (2012 - $6.8 million) with the impact of the measures taken in Q4 2012 to preserve cash being fully reflected in the current year, while also completing a $2.3 million exploration campaign over our nodule tenements in the Clarion Clipperton zone.

	Nodule Exploration Year ended December 31,		**SMS Exploration Year ended December 31,**		**Total Exploration Year ended December 31,**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Boat charter and fuel	1,668,130	-	-	1,748,526	1,668,130	1,748,526
General and administration	37,737	1,691	37,713	205,800	75,150	207,491
Geological services	454,214	70,614	11,049	328,888	465,263	399,502
Mineral property fees	-	-	594,465	965,578	594,465	965,578
Professional services	111,724	-	181,464	82,354	293,188	82,354
Travel	88,007	327	127,821	309,951	215,828	310,278
Salary and wages	517,966	227,790	1,054,151	2,880,329	1,572,117	3,108,119
Total exploration expenditure	**2,877,778**	**300,422**	**2,006,363**	**6,521,426**	**4,884,141**	**6,821,848**

General & Administration

General & Administration expense decreased to $13.1 million (2012 - $18.0 million) reflecting a reduction in salary and wages, office and general, and travel expenditure in line with the Company's strategy to preserve cash pending resolution of the dispute with the PNG government.

	Year ended December 31, 2013	**Year ended December 31, 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 expenditure	**13,062,673**	**18,021,262**

Corporate Social Responsibility

Corporate Social Responsibility expense increased to $1.4 million (2012 - $0.9 million) with an expanded remit from the previous year. In addition to the environmental expenditure the current year also included $0.3 million for the maintenance and upkeep of the Lassul Bay site in PNG that was previously reported as development expenditure.

Technology
Technology expense decreased to $0.3 million (2012 - $2.7 million) reflecting the Company's strategy to preserve cash, with the current year expenditure limited to maintaining patents and patent applications.

Development
Development expenses decreased to $0.8 million (2012 - $1.1 million) with $0.6 million of expenditure on preliminary PSV design and procurement.

Foreign exchange
A foreign exchange loss of $2.8 million was recorded during the period (2012 – $0.6 million gain). The foreign exchange loss consists of realized gains and losses on actual cash transactions during the period and unrealized gains and losses of cash denominated in different currencies at the period end. The Company holds a "basket of currencies" to act as a natural hedge against its expected cash outflows and can therefore experience unrealized fluctuations at period end when cash balances are converted to US dollars for reporting purposes, as experienced during the year to date.

Impairment of vessel prepayment
An impairment charge of $12.9 million being the full amount of the prepayment in relation to the PSV build contract was booked in 2012, there was no further impairment in 2013.

Interest income
Interest income earned on cash and cash equivalents held during the period was $0.4 million (2012 - $0.9 million).
The decrease is reflective of the lower average cash balance for the current year. The Company maintains its cash and cash equivalents with banks with an S&P rating of A+ or better.

Operating Losses
Overall, Nautilus' operating loss decreased to $23.3 million for 2013, compared to $29.0 million for 2012. When adjusting the annual operating loss for the respective foreign currency exchange movements the actual operating loss was $20.5 million (2012 $29.6 million) reflecting the commitment to reducing expenditure in line with management's decision taken in November 2012 to preserve cash while working to resolve the dispute with the PNG government, offset by increased expenditure for the nodule exploration program of $2.2 million and PSV development expenditure of $0.6 million.

Cash flows

Operating activities
Cash used in operating activities was $15.9 million for 2013 compared to $29.8 million for 2012, with the current year reflecting the commitment to reduce expenditures.

Investing activities
Cash used in investing activities for 2013 was $35.2 million as compared to $97.2 million for 2012. Milestone payments for the construction of subsea production equipment were $34.2 million (2012 - $86.5 million) and capitalized mineral property costs were $2.7 million (2012 - $10.7 million). The current year also reflects a cash inflow of $1.5 million with the cancellation of a cash backed letter of credit that was held by Technip USA.

Financing activities

Cash from financing activities for 2013 was $36.7 million due to the closing of the Rights Offering, compared to 2012, when the company raised $34.5 million through a private placement of shares and the exercise of stock options.

The net proceeds from the Rights Offering have been used by the Company to continue funding its three key contracts related to its Seafloor Production System, intended to be used at the Company's Solwara 1 Project and cash and cash equivalents on hand for the year ended December 31, 2013. The net proceeds raised through the private placement in 2012 have been applied to the build of the seafloor production equipment, exploration activities, general corporate expenditure and cash and cash equivalents on hand for the year ended December 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

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

Key financial measures

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

	December 31 2013	**December 31 2012**
Working Capital	$36.2 million	$46.8 million
Cash and Cash Equivalents	$40.6 million	$57.8 million

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

Outlook and capital requirements

The Company's known contractual obligations at December 31, 2013, are quantified in the table below:

	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

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

The Company has no source of revenue and has significant cash requirements to be able to meet its administrative overhead and maintain its property interests. In order to be able to resume the construction contracts and advance the development of its mineral property interests, the Company will be required to raise additional financing. Until that time, certain discretionary expenditures may be deferred and measures to reduce operating costs will be taken in order to preserve working capital.

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

Nautilus' opinion concerning liquidity and its ability to avail itself in the future of the financing options mentioned above are based on currently available information. To the extent that this information proves to be inaccurate, future availability of financing may be adversely affected.

Factors that could affect the availability of financing include Nautilus' performance (as measured by various factors including the progress and results of its exploration work), the state of international debt and equity markets, investor perceptions and expectations of past and future performance, the global financial climate, metal and commodity prices, political events in the south Pacific, obtaining operating approvals from the PNG government for the Solwara 1 Project, drilling and metallurgical testing results, results from environmental studies, engineering studies and detailed design of equipment.

Foreign currency exchange rate risk

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

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

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

Interest rate risk

The Company holds cash and cash equivalents which earn interest at variable rates as determined by financial institutions. As at December 31, 2013, with other variables unchanged, a 0.1% increase (decrease) in the interest rate would have no significant effect on comprehensive loss.

Credit risk

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

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

Liquidity risk

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

The Company has no source of revenue and has significant cash requirements to be able to meet its administrative overhead and maintain its property interests. In order to be able to resume the construction contracts and advance the development of its mineral property interests, the Company will be required to raise additional financing. Until that time, certain discretionary expenditures may be deferred and measures to reduce operating costs will be taken in order to preserve working capital. The Rights Offering for C$40 million was completed in June 2013. Given the measures being taken by the Company to terminate contracts, reduce employee numbers and the Rights Offering, the Company’s exposure to liquidity risk is currently considered to be low.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

In considering whether any impairment indicators occurred in respect of the Company's other 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 conducted an assessment of impairment indicators specific to the Solwara 1 Project, which falls under the scope of IFRS 6, *Exploration and evaluation of mineral resources* (IFRS 6), at December 31, 2013 and concluded that there were none. The Company's market capitalization was less than its net asset value as at December 31, 2013, which is an impairment indicator under IAS 36. Accordingly we performed an assessment of whether any of the long-lived assets of the Company were impaired at December 31, 2013. Based on that assessment we have not recorded any impairment charge at December 31, 2013.

OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as of March 28, 2014.

Common shares

A total of 440,772,865 common shares are outstanding including 6,875,000 restricted shares.

Restricted shares

A total of 6,875,000 restricted shares are issued and outstanding under the Company's share loan plan, with loan expiry dates ranging from September 2014 through to July 2016. The weighted average issue price for the restricted shares is C$0.56.

Stock Options

A total of 3,275,000 stock options are issued and outstanding, with expiry dates ranging from September 2014 through to July 2016. The weighted average exercise price for all stock options is C$0.84. All stock options entitle the holders to purchase common shares of the Company.

INTERNAL CONTROLS

Internal control over financial reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Nautilus' disclosure controls and procedures. Based on the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as at December 31, 2013, the Company's disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed by the Company in reports it files are recorded, processed, summarized and reported within the appropriate time periods and forms.

The Company's management is responsible for establishing and maintaining an adequate system of internal controls, including internal controls over financial reporting. Nautilus' internal controls include policies and procedures that (1) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions related to acquisition, maintenance and disposition of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and receipts are recorded and expenditures are incurred only in accordance with authorization of management and directors; and (3) provide reasonable (but not absolute) assurance of compliance with regulatory matters and to safeguard reliability of the financial reporting and its disclosures. Having assessed the effectiveness of the Company's internal controls over financial reporting, the Chief Executive Officer and Chief Financial Officer believe that: (1) the internal controls over financial reporting are effective and provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS; and (2) that no material failings in the reporting were discovered in the period ended December 31, 2013.

There have been no material changes in the Company's internal control over financial reporting since the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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

ADDITIONAL SOURCES OF INFORMATION

Additional information regarding Nautilus Minerals Inc., including its Annual Information Form, is available on SEDAR at www.sedar.com and on the Company's website www.nautilusminerals.com.