

# **NAUTILUS MINERALS INC.**

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

*(US dollars)*

The following Management Discussion and Analysis ("MD&A") has been prepared as at November 5, 2018 for the period ended September 30, 2018.

The MD&A of Nautilus Minerals Inc. (the "Company", "NMI" or "Nautilus") should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2018, and related notes thereto (the "Third Quarter 2018 Financial Statements") which have been prepared in accordance with IAS 34, Interim Financial Reporting. This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017, and the related notes thereto (the "2017 Financial Statements"), and the related annual management's discussion and analysis and the Annual Information Form on file with the Canadian provincial and territorial securities regulatory authorities.

This MD&A 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; plans for establishing or expanding mineral resource estimates on the Company's projects; the construction and delivery of the Production Support Vessel ("PSV"); the fulfillment of the obligations under the Tongling sales agreement and the timing and sustainability of such arrangements; costs and timing of the development of the Company's seafloor production system; the Company's seafloor massive sulphide ("SMS") 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 PSV and Seafloor Production Tools ("SPTs"); and the procurement 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 material assumptions listed in the paragraph below will not be borne out; 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; possible variations in resources, grade or recovery rates; the risk of failure to conclude the investigation into the cyber-attack, the inability to reach agreement with Marine Assets Corporation (“MAC”) as to the deposit under the vessel charter agreement, the insolvency of MAC or the applicable shipyard and other events which may cause a delay to the delivery of the PSV; the risk that the obligations under the Tongling sales agreement are not fulfilled; late delivery of the PSV and SPTs or other equipment; 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.

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 continued compliance with regulatory requirements and the estimated cost and availability of funding for the continued exploration of the Company's tenements and the development of the Seafloor Production System. 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, subject to funding; and that any additional financing needed will be available on reasonable terms. With respect to the arrangement with MAC, the Company is assuming that the parties will observe their obligations, that the investigation into the cyber-attack will reach a timely conclusion and that MAC and the Company can agree how to proceed in relation to the payment of the deposit under the vessel charter agreement.

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

## **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 1 Project in the Bismarck Sea. The Solwara 1 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](http://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.

### **2018 Q3 SIGNIFICANT EVENTS**

- Bridge Loans
- Solwara 1 Project status
- Production Support Vessel construction advanced

### **Bridge Finance**

In early January 2018, the Company commenced receiving secured bridge loans from Deep Sea Mining Finance Ltd. ("DSMF"), a private entity controlled by the Company's two largest shareholders. The bridge loans form part of a larger secured structured credit facility in the amount of up to \$34 million to be provided by DSMF to the Company (the "Facility"). This structured facility was formalised on June 11, 2018 and ratified by shareholders at the AGM on June 25, 2018.

The loan facility will assist the Company's immediate working capital requirements and facilitate payments required to continue the development of the Company's seafloor production system to be first utilized at the Company's Solwara 1 Project. The loans bear interest at 8% per annum, payable bi-annually in arrears with a one year maturity date. The Company will be entitled to pre-pay each loan prior to maturity, by paying 108% of the outstanding principal of the loan plus accrued and unpaid interest. Each loan is represented by a promissory note and will initially be secured against the assets of the Company through a general security agreement. DSMF may subsequently require the loans to be guaranteed by the Company's material operating subsidiaries and secured against the assets of such subsidiaries.

### **Solwara 1 Project status**

During 2018, the Company continued to advance the Solwara 1 Project in accordance with the funding provided through the bridge loans.

### Seafloor Production Equipment Build Status

Installation of the Seafloor Production Equipment including the Derrick and Draw Works System and Seafloor Production Tools launch and recovery systems and controls systems remain on hold with major equipment in place on the PSV and in storage at the shipyard.

Dewatering Plant structural steel and plate work fabrication remains on hold pending further project finance.

The Seafloor Production Tools (SPTs) remain in storage at PNG following successful submerged trials.

The riser system remains in storage near the port of Houston, Texas.

The Subsea Slurry Lift Pump (SSLP) remains at GE Hydril's facility in Houston, Texas. Proposals have been reequested for the preservation requirements of the equipment.

### **Production Support Vessel construction advanced**

Construction of the PSV has continued during the quarter. Mawei continue to work on the marine systems with limited work on SPE. Overall progress percentage complete is estimated at 83%.

On July 4, 2018 the Mawei shipyard rescinded the Ship Building Contract it had with the vessel owners MAC. The Company has been in discussion with MAC, Mawei and various interested parties (including financial advisors) in order to assist with securing a new owner for the vessel. These discussions continue and the Company will update the market when circumstances warrant.

### **RISK FACTORS**

Nautilus' ability to generate revenues and achieve a return on shareholders' investment must be considered in light of the early stage nature of the Solwara 1 deposit and seafloor resource production in general. The Company is subject to many of the risks common to early stage enterprises, including personnel limitations, financial risks, metals prices, permitting and other regulatory approvals, the need to raise capital, resource shortages, lack of revenues, equipment failures and potential disputes with, or delays or other failures caused by third party contractors or joint venture partners. 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. As the Company has not completed a pre-feasibility study or feasibility study in respect of the Solwara 1 Project, there can be no assurance that the Company's production plans will, if fully funded and implemented, successfully demonstrate that seafloor resource production is commercially viable. Other factors that influence the Company's ability to succeed are more fully described in the Company's most recent Annual Information Form available on [www.sedar.com](http://www.sedar.com), under the heading "Risk Factors". See also the factors discussed under "Cautionary Note Regarding Forward Looking Statements" above.

## **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”) applicable to interim financial reports.

		2016		2017				2018		
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	\$'M	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Loss for the period	\$'M	(4.0)	(2.7)	(2.4)	(2.7)	(2.5)	(2.0)	(2.5)	(6.3)	(1.5)
Basic and diluted loss per share	\$/share	(0.01)	(0.004)	(0.004)	(0.004)	(0.004)	(0.003)	(0.004)	(0.009)	(0.002)

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:

### *Q3 2016*

The loss for the period reflected a decrease in expenditure across exploration, corporate social responsibility and development, relative to Q1 & Q2 2016. This reduced expenditure was offset by a significant increase in corporate costs due to employee termination costs resulting from the restructure of the Solwara 1 project delivery.

### *Q4 2016*

The loss for the period reflected a decrease in expenditure across exploration, general and administration and development, relative to Q1, Q2 & Q3 2016. The reduced expenditure was a direct result of the restructure of the Solwara 1 project delivery.

### *Q1 2017*

The loss for the period reflected an increase in expenditure across exploration due to the target generation cruise in the Bismarck Sea that took place during the quarter. This increase was offset by a reduction in general and administration expenditure. This was due to reduced travel, professional services and salary and wages for the period.

### *Q2 2017*

The loss for the period reflected an increase in general and administration expenditure. This increase related primarily to professional services and directors fees paid during the quarter. This expenditure was offset by a reduction in exploration costs.

### *Q3 2017*

The loss for the period reflected a decrease in CSR, general and administration and exploration expenditure. This decrease related primarily to the completion of the health patrol and New Ireland infrastructure projects that took place during quarter 2 2017. This reduced expenditure was offset by an increase in development costs resulting from PSV related costs.

#### Q4 2017

The loss for the period reflected an increase in general and administration expenditure for the quarter. These related primarily to professional services. This was offset by a gain in PSV related expenditure. This was due to the capitalisation of costs in Q4 2017 that had been expensed in Q3 2017. The gain in Q4 2017 reflects the reversal of these costs.

#### Q1 2018

The loss for the period reflected an increase in general and administration expenditure. These costs related to fees and finance charges associated with loans received during the quarter.

#### Q2 2018

The loss for the period reflected favourable foreign exchange gains, and gains resulting from fair value adjustments to warrant derivative liabilities. This was offset by the recognition of a loss allowance provision during the quarter.

#### Q3 2018

The loss for the period reflected favourable foreign exchange gains, and gains resulting from fair value adjustments to warrant derivative liabilities. This was offset by the unwinding of transaction costs associated with loans received during the period.

### **RESULTS OF OPERATIONS – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018**

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

#### **Loss for the period**

For the three months ended September 30, 2018, the Company recorded a loss of \$1.5 million (\$0.002 loss per share) compared to a loss of \$2.4 million (\$0.004 loss per share) for the same period in 2017. The primary variances were as follows:

#### *Exploration*

Exploration expense decreased to \$0.2 million (2017 - \$0.3 million).

	Nodule Exploration		SMS Exploration		Total Exploration	
	Three months ended September 30,		Three months ended September 30,		Three months ended September 30,	
	2018	2017	2018	2017	2018	2017
General and administration	-	-	2,824	17,236	2,824	17,236
Geological services	479	8,698	14,768	39,128	15,247	47,826
Mineral property fees	-	-	1,550	-	1,550	-
Professional services	44,934	9,229	1,164	22,706	46,098	31,935
Travel	925	8,947	9,644	15,235	10,568	24,183
Salary and wages	825	691	111,958	163,357	112,783	164,047
<b>Total exploration expenditure</b>	<b>47,163</b>	<b>27,565</b>	<b>141,908</b>	<b>257,662</b>	<b>189,070</b>	<b>285,227</b>

#### *General & Administration*

General & Administration expenditure increased to \$5.4 million (2017 - \$1.5 million) for the quarter. This was due primarily to the unwinding of transaction costs and accrued interest relating to loans received during the period.

	Three months ended September 30, 2018	Three months ended September 30, 2017
Office and general	412,164	455,494
Interest expense	291,888	-
Loan transaction costs	3,803,314	-
Professional services	186,532	238,726
Salary and wages	653,028	527,582
Shareholder related costs	22,173	36,246
Travel	(23,269)	125,053
Depreciation	39,564	81,761
<b>Total general and administration expenditure</b>	<b>5,385,394</b>	<b>1,464,862</b>

#### *Corporate Social Responsibility*

Corporate Social Responsibility expense decreased to \$0.1 million (2017 - \$0.2 million) for the three months ended September 30, 2018. The company did not complete any programs during the period, resulting in lower expenditure.

#### *Technology*

Technology expense decreased to \$0.05 million (2017 - \$0.1 million) for the nine months ended September 30, 2018, due to reduced intellectual property maintenance costs.

#### *Development – PSV management*

The company did not incur any Development – PSV management expenses during the three months ended September 30, 2018 (2017 - \$0.4 million).

#### *Foreign exchange*

A foreign exchange gain of \$0.1 million was recorded during the quarter (2017 –\$0.1 million loss). 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.

#### *Other income*

Other income increased to \$0.1 million (2017 – \$0.05 million), for the three months ended September 30, 2018. This increase is due to income received from an office sublease, as well as income received from rental of nautilus subsea equipment.

#### *Operating Losses*

Overall, Nautilus’ operating loss decreased to \$1.5 million for the three months ended September 30, 2018, compared to \$2.5 million for the corresponding period in 2017. When adjusting the current period operating loss for the respective foreign currency exchange movements, the actual operating loss was \$1.6 million (2017 - \$2.3 million).

**RESULTS OF OPERATIONS – FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018**

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

**Loss for the period**

For the nine months ended September 30, 2018, the Company recorded a loss of \$10.3 million (\$0.01 loss per share) compared to a loss of \$7.6 million (\$0.01 loss per share) for the same period in 2017. The primary variances were as follows:

*Exploration*

Exploration expense decreased to \$0.7 million (2017 - \$1.5 million) for the nine months ended September 30, 2018. This was due primarily to reduced salary and wages, resulting from the restructure of the Solwara 1 project delivery, as well as reduced geological services costs as the company did not undertake any exploration campaigns during the period.

	<b>Nodule Exploration</b>		<b>SMS Exploration</b>		<b>Total Exploration</b>	
	<b>Nine months ended</b>		<b>Nine months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30</b>		<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
General and administration	-	-	16,743	43,330	16,743	43,330
Geological services	114,985	20,240	52,868	599,438	167,853	619,677
Mineral property fees	47,000	47,000	24,502	29,984	71,502	76,984
Professional services	91,715	82,525	7,583	23,350	99,298	105,875
Travel	3,445	11,327	30,078	73,555	33,523	84,882
Salary and wages	5,115	31,534	311,511	591,549	316,626	623,084
<b>Total exploration expenditure</b>	<b>262,260</b>	<b>192,626</b>	<b>443,284</b>	<b>1,361,206</b>	<b>705,545</b>	<b>1,553,832</b>

*General & Administration*

General & Administration expenditure increased to \$10.2 million (2017 - \$4.1 million). Salary and wages increased by \$0.9 million due to stock based compensation costs associated with loan shares and stock options granted in March 2018. Loan transaction costs of \$3.8 million (2017 - \$nil) relate to the unwinding of costs associated with warrants attached to loans received. The company also incurred interest payable of loans received during the period ended 30 September 2018.

	<b>Nine months ended</b>	<b>Nine months ended</b>
	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Office and general	1,280,998	1,281,500
Finance charge	615,104	-
Interest expense	610,556	-
Loan transaction costs	3,803,314	-
Professional services	893,018	702,001
Salary and wages	2,507,297	1,644,419
Shareholder related costs	137,855	115,387
Travel	165,336	186,282
Depreciation	142,878	218,895
<b>Total general and administration Expenditure</b>	<b>10,156,356</b>	<b>4,148,484</b>



#### *Corporate Social Responsibility*

Corporate Social Responsibility expense decreased to \$0.3 million (2017 - \$1.3million) for the nine months ended September 30, 2018. The company did not complete any programs during the period, resulting in lower expenditure.

#### *Technology*

Technology expense decreased to \$0.1 million (2017 - \$0.2 million) for the nine months ended September 30, 2018, due to reduced intellectual property maintenance costs.

#### *Development*

Development expenses decreased to \$0.05 million (2017 - \$0.5 million) for the nine months ended September 30, 2018, due to reduced travel and consultant costs related to management of the PSV build.

#### *Foreign exchange*

A foreign exchange gain of \$0.3 million was recorded during the nine months ended September 30, 2018 (2017 – \$0.1 million loss). 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 period.

#### *Other income*

Other income increased to \$0.3 million (2017 – \$0.2 million) for the nine months ended September 30, 2018. This increase is due to income received from an office sublease, as well as income received from rental of nautilus subsea equipment.

#### *Operating Losses*

Overall, Nautilus’ operating loss increased to \$10.3 million for the nine months ended September 30, 2018, compared to \$7.6 million for the corresponding period in 2017. When adjusting the current period operating loss for the respective foreign currency exchange movements, the actual operating loss was \$10.6 million (2017 \$7.5 million), with the major impact coming from the increase in general and administration expenditure associated with loans received during the nine months ending 30 September 2018. This was offset by a decrease in exploration, CSR and development – PSV management expenditure.

#### *Cash flows*

##### *Operating activities*

Cash used in operating activities was \$4.4 million for the nine months ended September 30, 2018 compared to \$6.4 million for the corresponding period in 2017, largely reflecting the decrease in expenditure related to the PSV management, exploration and Corporate Social Responsibility.

##### *Investing activities*

Cash used in investing activities was \$10.3 million for the nine months ended September 30, 2018, including \$3.7 million in relation to the SPT’s, \$2.5 million for the riser and lifting system

and \$3.3 million for project services, operations mobilisation and vessel integration, compared to \$25.7 million for the corresponding period in 2017.

*Financing activities*

Cash flow from financing activities was \$14.4 million for the nine months ended September 30, 2018.

**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.

*Key financial measures*

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

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Working Capital	(\$43.2 million)	(\$6.9 million)
Cash and Cash Equivalents	\$0.2 million	\$4.8 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, liquidity risk and capital requirements*

The Company’s known contractual obligations at September 30, 2018, are quantified in the table below:

	<b>September 30, 2018</b>
	<b>\$</b>
<b><i>Non-cancellable commitments</i></b>	
Not later than 1 year	541,036
Later than 1 year and not later than 2 years	403,870
Later than 2 years and not later than 3 years	-
Later than 3 years and not later than 4 years	-
Later than 4 years and not later than 5 years	-
Later than 5 years	-
<b>Total Commitments</b>	<b>944,906</b>

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 requires significant additional funding to be able to complete the build and deployment of the seafloor production system to be utilized at the Solwara 1 Project by the Company and its joint venture partner (as to 15%), the Independent State of Papua New Guinea’s nominee.

In view of the Company's funding requirements, the Company continues to consider alternatives for securing immediate bridge financing to facilitate the time required to secure the significant additional project funding that is needed and/or to explore alternative transactions aimed at maximizing shareholder value.

In early January 2018, the Company commenced receiving secured bridge loans from Deep Sea Mining Finance Ltd. ("DSMF"), a private entity controlled by the Company's two largest shareholders. The bridge loans are intended to form part of a larger secured structured credit facility in the amount of up to \$34 million to be provided by DSMF to the Company (the "Facility"). The structured facility was formalised on June 11, 2018

As at November 5, 2018 an amount of \$15.2 million in bridge loans has been advanced to the Company by DSMF. Further details of the loans are set out in note 6.

The Company has reviewed all aspects of its business during this process and as result, has implemented certain measures aimed at preserving the Company's capital position. These measures include reducing the Company's workforce, terminating contracts for the construction of any seafloor production equipment that was in the early stages of development and not entering into any new construction contracts until further additional funding required is secured. Failure to secure project financing may result in the Company taking further steps aimed at maximizing shareholder value, including suspending or terminating the development of the seafloor production system and the Solwara 1 Project, and engaging in various transactions including, without limitation, asset sales, joint ventures and capital restructurings.

There can be no assurances that any transaction will result from these matters and any transaction will be subject to all necessary stock exchange and, if applicable, shareholder approvals as well as compliance with all other regulatory requirements.

The Company had previously disclosed that the Company was planning to commence initial production activities at the Solwara 1 Project during the third quarter of 2019, subject to securing project financing; finalizing the ship build contract delivery date between the shipyard and MAC Goliath Pte. Ltd. ("MAC") and finalizing the vessel equipment integration methodology (due in Q2 2018). As a result of the delays in securing the remaining project financing and the fact the Mawei shipyard have rescinded the ship building contract with MAC, the timing for initial production at the Solwara 1 Project is expected to be delayed past Q3 2019.

While the Company has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future. 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 funding 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 on the Company's tenements, ongoing results from environmental studies, engineering studies and detailed design and delivery of equipment. Current market conditions, the Company's history, current financial position of the Company,

combined with the Company's contractual obligations as stated in the Note 16 give rise to a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and, therefore, its ability to realize its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements do not reflect the adjustments to the carrying values of the assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumptions deemed to be inappropriate. These adjustments could be material.

### ***Interest rate risk***

The Company holds cash and cash equivalents which earn interest at variable rates as determined by financial institutions. As at September 30, 2018, 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.

## **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 dispose 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 long lived assets as at September 30, 2018, management took into account a number of factors such as long term 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 that there are no impairment indicators relating to the Company's long-lived assets as at September 30, 2018.

### **FUTURE ACCOUNTING CHANGES**

IFRS 16, Leases, which will replace IAS 17, Leases, is effective for the Company's fiscal year ending December 31, 2019 and is available for early adoption. The objective of the new standard is to report all leases on the consolidated balance sheet with the exception of short term (under 12 months) and low value leases, and to define how leases and liabilities are measured. Under the new standard, a lessee is in essence required to:

- a) Recognize all lease assets and liabilities (including those currently classed as operating leases) on the balance sheet, initially measured at the present value of the lease payments not paid at that date;
- b) Recognize amortization of lease assets and interest on lease liabilities in the statement of income over the lease term; and
- c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (which companies can choose to present within operating or financing activities consistent with presentation of any other interest paid) in the statement of cash flows.

The Company is currently evaluating the impact of IFRS 16. Generally, it is expected that under IFRS 16, the present value of most lease commitments will be shown as a liability on the balance sheet together with an asset representing the right of use. This will include those classified as operating leases under the existing standard. In addition to the increase in assets and liabilities, the Company expects an increase in depreciation and accretion expenses and also an increase in cash generated from operating activities due to the removal of operating lease payments. Cash outflows from financing activities are expected to increase as finance lease principal payments will be treated as financing cash flows.

The Company intends to apply the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. None of the remaining standards and amendments to standards and interpretations are expected to have a significant effect on the consolidated financial statements of the Company.

### **OUTSTANDING SHARE DATA**

The following is a summary of the Company's outstanding share data as of November 5, 2018.

### ***Common shares***

A total of 683,030,995 common shares are outstanding including 8,245,000 restricted shares.

### ***Restricted shares***

A total of 8,245,000 restricted shares are issued and outstanding under the Company's share loan plan, expiring March 22, 2023. The weighted average issue price for the restricted shares is C\$0.23.

### ***Stock Options***

A total of 8,032,000 stock options are issued and outstanding, with expiry dates ranging from July 2018 through to March 2023. The weighted average exercise price for all stock options is C\$0.23. Each stock option entitles the holder to purchase one common share of the Company.

## **INTERNAL CONTROLS**

### ***Internal control over financial reporting***

There have been no material changes in the Company's internal control over financial reporting since the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## **ADDITIONAL SOURCES OF INFORMATION**

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