

# **NEVSUN RESOURCES LTD.**

Interim Consolidated Financial Statements

Three and nine month periods ended September 30, 2008 and 2007

(Expressed in United States Dollars)

Unaudited – Prepared by Management

# NEVSUN RESOURCES LTD.

Interim Consolidated Balance Sheets  
(Expressed in United States dollars)

	September 30, 2008 Unaudited	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 47,112,888	\$ 20,461,990
Short-term investments (note 5)	1,165,570	2,542,116
Accounts receivable and prepaids (note 6)	1,329,024	28,265,154
Inventory	170,578	99,279
Current assets held for sale (note 7)	-	4,900,267
	<u>49,778,060</u>	<u>56,268,806</u>
Property, plant and equipment (note 8)	27,127,978	994,670
Non-current assets held for sale (note 7)	-	17,189,182
	<u>\$ 76,906,038</u>	<u>\$ 74,452,658</u>

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,906,771	\$ 1,177,177
Current liabilities relating to assets held for sale (note 7)	-	3,464,644
	<u>1,906,771</u>	<u>4,641,821</u>
Long-term liabilities relating to assets held for sale (note 7)	-	4,171,482
Minority interest (note 9)	9,835,000	-
Deferred credit (note 9)	25,000,000	25,000,000
Shareholders' equity:		
Share capital (note 10)	240,407,545	239,997,257
Contributed surplus	11,831,247	10,544,616
Accumulated other comprehensive loss	(1,563,663)	(230,244)
Deficit	(210,510,862)	(209,672,274)
	<u>40,164,267</u>	<u>40,639,355</u>
	<u>\$ 76,906,038</u>	<u>\$ 74,452,658</u>

Adoption of new accounting standards (note 2)  
Commitments and contingencies (note 11)  
See accompanying notes to interim consolidated financial statements

Approved on behalf of the Board:

"Gary E. German" Director  
Gary E. German

"Robert J. Gayton" Director  
Robert J. Gayton

# NEVSUN RESOURCES LTD.

Interim Consolidated Statements of Operations and Other Comprehensive Loss

Unaudited

(Expressed in United States dollars)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Operating costs and expenses				
Depreciation and amortization	\$ 2,821	\$ 36,459	\$ 7,917	\$ 92,302
Exploration	-	1,231,377	-	3,232,101
General and administrative	1,111,240	849,100	3,548,751	4,154,534
Loss from operations	(1,114,061)	(2,116,936)	(3,556,668)	(7,478,937)
Foreign exchange loss	(4,099)	(15,963)	(6,410)	(33,883)
Interest income	275,522	176,591	761,368	690,050
Gain on sale of Mali operations (note 7)	-	-	3,796,142	-
Other income and expenses	(583)	-	(12,161)	11,692
Income (loss) before income taxes	(843,221)	(1,956,308)	982,271	(6,811,078)
Income taxes	-	-	-	8,888
Income (loss) from continuing operations	(843,221)	(1,956,308)	982,271	(6,819,966)
Loss from discontinued operations (note 7)	-	(2,696,468)	(1,820,860)	(6,134,401)
Loss for the period	(843,221)	(4,652,776)	(838,589)	(12,954,367)
Other comprehensive loss (note 5)	(572,196)	-	(1,333,419)	-
Comprehensive loss	\$ (1,415,417)	\$ (4,652,776)	\$ (2,172,008)	\$ (12,954,367)
Weighted average number of common shares outstanding	128,178,126	117,739,597	128,012,023	117,249,835
Basic and diluted income (loss) per share from continuing operations	\$ (0.01)	\$ (0.02)	\$ 0.01	\$ (0.06)
Basic and diluted loss per share from discontinued operations	\$ -	\$ (0.02)	\$ (0.02)	\$ (0.05)
Basic and diluted loss per share	\$ (0.01)	\$ (0.04)	\$ (0.01)	\$ (0.11)

See accompanying notes to interim consolidated financial statements

# NEVSUN RESOURCES LTD.

Interim Consolidated Statements of Cash Flows  
Unaudited  
(Expressed in United States dollars)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Cash provided by (used for):				
Operations:				
Income (loss) from continuing operations	\$ (843,221)	\$ (1,956,308)	\$ 982,271	\$ (6,819,966)
Items not involving the use of cash				
Depreciation and amortization	2,821	36,459	7,917	92,302
Stock based compensation	421,642	265,888	1,193,618	1,903,014
(Gain)loss on sale of short term investments	-	-	11,294	(11,692)
Gain on disposal of Mali operations	-	-	(3,796,142)	-
Loss on disposal of assets	583	-	867	-
Changes in non-cash operating capital:				
Accounts receivable and prepaids	77,867	86,566	63,641	(119,754)
Inventories	-	(255)	99,279	23,449
Accounts payable and accrued liabilities	(78,539)	65,132	(772,652)	(945,356)
	(418,847)	(1,502,518)	(2,209,907)	(5,878,003)
Investments:				
Short-term investments sales proceeds	-	-	31,832	21,603
Proceeds on disposal of Ghana property	3,042,411	-	3,042,411	-
Proceeds on reduction of Bisha property interest	-	-	25,000,000	-
Proceeds on disposal of Mali operations, net of cash transaction cost of \$128,599	-	-	19,871,401	-
Expenditures on property, plant and equipment	(14,344,043)	(88,694)	(26,034,430)	(399,183)
Changes in non-cash working capital related to investing activities	(1,857,996)	-	161,746	-
	(13,159,628)	(88,694)	22,072,960	(377,580)
Financing:				
Minority interest contributions	2,500,000	-	9,835,000	-
Issuance of shares, net of issue costs	7,406	4,252	32,923	1,148,007
	2,507,406	4,252	9,867,923	1,148,007
Increase (decrease) in cash and cash equivalents continuing operations	(11,071,069)	(1,586,960)	29,730,976	(5,107,576)
Decrease in cash and cash equivalents from discontinued operations (note 7)	-	(1,810,276)	(3,080,078)	(4,948,337)
Increase (decrease) in cash and cash equivalents	(11,071,069)	(3,397,236)	26,650,898	(10,055,913)
Cash and cash equivalents, beginning of period	58,183,957	16,718,704	20,461,990	23,377,381
Cash and cash equivalents, end of period	\$ 47,112,888	\$ 13,321,468	\$ 47,112,888	\$ 13,321,468
Non-cash investing and financing transactions				
Reclassification of contributed surplus to share capital upon exercise of shares	-	-	14,648	209,965
Amortization capitalized to property, plant and equipment	43,858	-	107,395	-
Stock based compensation capitalized to property, plant and equipment	26,071	-	107,663	-
Shares for debt	-	-	362,717	-
Loss on disposables of assets capitalized to property, plant and equipment	63,785	-	63,785	-

See accompanying notes to interim consolidated financial statements

# NEVSUN RESOURCES LTD.

Interim Consolidated Statements of Shareholders' Equity

Unaudited

(Expressed in United States dollars)

	Number of shares	Share capital (note 10)	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit
December 31, 2006	116,289,322	\$ 222,748,798	\$ 8,410,121	\$ -	\$ (197,676,243)
Transition adjustment for the adoption of new accounting standards	-	-	-	3,307	-
Exercise of options	1,445,000	1,143,755	-	-	-
Transfer to share capital on exercise of options	-	209,965	(209,965)	-	-
Stock based compensation	-	-	1,637,127	-	-
Unrealized gain on available-for-sale investments (net of tax)	-	-	-	616	-
Realized gain	-	-	-	(3,923)	-
Loss for the six months	-	-	-	-	(8,301,591)
June 30, 2007	117,734,322	224,102,518	9,837,283	-	(205,977,834)
Exercise of options	30,000	4,252	-	-	-
Stock based compensation	-	-	265,889	-	-
Loss for the three months	-	-	-	-	(4,652,776)
September 30, 2007	117,764,322	224,106,770	10,103,172	-	(210,630,610)
Private placement	10,000,000	15,735,384	-	-	-
Exercise of options	100,000	155,103	-	-	-
Stock based compensation	-	-	441,444	-	-
Unrealized loss on available- for-sale investments (net of tax)	-	-	-	(230,244)	-
Income for the three months	-	-	-	-	(958,336)
December 31, 2007	127,864,322	239,997,257	10,544,616	(230,244)	(209,672,274)
Exercise of options	15,000	25,517	-	-	-
Transfer to share capital on exercise of options	-	14,648	(14,648)	-	-
Shares for debt	290,000	362,717	-	-	-
Stock based compensation	-	-	853,568	-	-
Unrealized loss on available- for-sale investments (net of tax)	-	-	-	(770,934)	-
Realized loss on available- for-sale investments (net of tax)	-	-	-	9,711	-
Income for the six months	-	-	-	-	4,633
June 30, 2008	128,169,322	240,400,139	11,383,536	(991,467)	(209,667,641)
Exercise of options	10,000	7,406	-	-	-
Stock based compensation	-	-	447,711	-	-
Unrealized loss on available- for-sale investments (net of tax)	-	-	-	(572,196)	-
Loss for the three months	-	-	-	-	(843,221)
September 30, 2008	128,179,322	\$ 240,407,545	\$ 11,831,247	\$ (1,563,663)	\$ (210,510,862)

See accompanying notes to interim consolidated financial statements

# NEVSUN RESOURCES LTD.

Notes to Interim Consolidated Financial Statements  
(Expressed in United States dollars, unless otherwise stated)

Three and nine month periods ended September 30, 2008

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## 1. Nature of business:

Nevsun Resources Ltd. and its subsidiaries (collectively, "Nevsun" or the "Company") are in the mineral property exploration and development business in Africa.

The Company's continuing operations and the underlying value and recoverability of amounts shown for its mineral properties and construction in progress are entirely dependent upon the availability of the necessary financing to complete the exploration and development of such mineral property interests, and upon future profitable production or proceeds from the disposition of its mineral property interests. Future profitable production is primarily dependent on the quality of ore resources, future metal prices, operating and environmental costs, fluctuations in currency exchange rates, political risks and varying levels of taxation. While the Company actively tries to manage these risks, many of these factors are beyond its control. The Company has not entered into derivative financial instruments to manage foreign exchange or commodity price exposure.

Other than the adoption of new accounting standards described in note 2, the same accounting policies are used in the preparation of these interim financial statements as for the most recent audited annual financial statements and reflect all the adjustments necessary for the fair presentation in accordance with Canadian generally accepted accounting principles of the results for the interim periods presented.

## 2. Adoption of new accounting standards:

(a) On January 1, 2008 the Company adopted the following four new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"):

(i) Inventories, Section 3031:

This standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value. Any items not meeting the definition of inventory, including significant long-term capital spares, are required to be reclassified to property, plant and equipment. This section also provides guidance on the reversal of previous write-downs in certain circumstances. The Company's inventories are carried at cost. The adoption of this standard had no material impact on the Company's financial statements.

(ii) Financial Instruments – Disclosures and Presentation, Sections 3862 and 3863:

Effective January 1, 2008 the Company adopted the recommendations of CICA Handbook Section 3862. Financial Instruments - Disclosures (section 3862). Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to this section are in note 3. Section 3863 provides standards for presentation of financial instruments and non-financial derivatives.

(iii) Assessing Going Concern, Section 1400:

In June 2007, CICA Section 1400 was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The adoption of this standard had no material impact on the Company's financial statements. Disclosure requirements are set out in note 1.

# NEVSUN RESOURCES LTD.

Notes to Interim Consolidated Financial Statements  
(Expressed in United States dollars, unless otherwise stated)

Three and nine month periods ended September 30, 2008

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## 2. Adoption of new accounting standards: (continued)

### (iv) Capital Disclosures, Section 1535:

Effective January 1, 2008 the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, Capital Disclosures. The new standard requires an entity to disclose information to enable users of its financial statements to evaluate the entity's objectives, policies, and processes for managing capital. Disclosure requirements are set out in note 4.

### (b) Accounting standards issued for adoption in future periods:

The following accounting standards have been issued by the CICA for adoption in future periods. Management is evaluating the impact of these new standards on the Company's financial position and results of operations.

#### (i) Goodwill and intangible assets, Section 3064:

Issued by the CICA in February 2008, this Section will replace Section 3062, "Goodwill and Other Intangible Assets." This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Section 3064 requires the expensing of start-up costs unless those costs satisfy specific capitalization criteria. Concurrent with the adoption of this standard, EIC-27, "Revenues and Expenditures in the Pre-operating Period," will be withdrawn. Section 3064 is effective for annual or interim periods beginning on or after January 1, 2009.

#### (ii) The CICA adopted International Financial Reporting Standards for implementation on January 1, 2011. The Company is considering the impact of these changes.

## 3. Financial instruments and risk management:

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classified its financial instruments as follows: Cash and cash equivalents as held-for-trading; short-term investments as available for sale; accounts receivable as loans and receivables; accounts payable as other financial liabilities.

The Company has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk, and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, procedures and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these interim consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management procedures are established to identify and analyze the risks faced by the Company. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

# NEVSUN RESOURCES LTD.

Notes to Interim Consolidated Financial Statements  
(Expressed in United States dollars, unless otherwise stated)

Three and nine month periods ended September 30, 2008

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### 3. Financial instruments and risk management: (continued)

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management procedures and processes and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables and its investment securities.

(i) Cash equivalents:

The Company limits its exposure to credit risk by only investing in highly liquid securities and only with counterparties that have a strong credit rating. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(ii) Receivables:

The Company's receivables are due primarily from value-added-tax (VAT) paid in South Africa. Management does not expect these counterparties to fail to meet their obligations.

(iii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. All financial assets of the Company have contractual maturities of less than 90 days. The maximum exposure to credit risk at the reporting date was:

	September 30, 2008
Cash and cash equivalents	\$ 47,112,888
Accounts receivable	399,460
	<u>\$ 47,512,348</u>

The Company does not have receivables or deposits that it considers impaired or otherwise uncollectible.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations, if any; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The contractual financial liabilities of the Company as of September 30, 2008 equal \$1,906,771. The undiscounted cash flows of the liabilities are equal to their contractual amounts. All of the liabilities are due within six months of September 30, 2008.

# NEVSUN RESOURCES LTD.

Notes to Interim Consolidated Financial Statements  
(Expressed in United States dollars, unless otherwise stated)

Three and nine month periods ended September 30, 2008

## 3. Financial instruments and risk management: (continued)

### (c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on capital.

#### (i) Currency risk

The Company's functional currency is the United States Dollar (USD). The Eritrean Nakfa (ERN) is directly tied to the USD and, accordingly, is not a currency risk in terms of the functional currency. The Company is exposed to currency risk on settlements of purchases that were denominated in currencies other than the functional currency. The currency exposures are primarily to the Canadian Dollar (CAD), British Pound (GBP), and the South African Rand (ZAR).

The following is a break-down of financial assets and liabilities denominated in foreign currencies to which the Company is exposed:

	September 30, 2008		
	CAD	GBP	ZAR
Cash and cash equivalents	150,325	-	-
Available for sale investments	1,240,400	-	-
Accounts receivable	14,858	2,000	1,981,337
Trade payables	(375,274)	(42,629)	(2,439,445)
Total	1,030,309	(40,629)	(458,108)
USD foreign exchange rate	1.06	0.55	8.2
Balance sheet exposure in equivalent USD	968,154	(73,871)	(55,867)

#### (ii) Sensitivity analysis:

A 10 percent strengthening of the US dollar against the following currencies at September 30, 2008 would have increased (decreased) net income by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant (a 10 percent weakening of the US dollar against the above currencies at September 30, 2008 would have had the equal but opposite effect):

September 30, 2008	Gain (Loss)
CAD	\$ (88,104)
GBP	\$ 6,716
ZAR	\$ 5,079

# NEVSUN RESOURCES LTD.

Notes to Interim Consolidated Financial Statements  
(Expressed in United States dollars, unless otherwise stated)

Three and nine month periods ended September 30, 2008

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### 3. Financial instruments and risk management: (continued)

#### (c) Market risk: (continued)

##### (iii) Other market risk:

Equity price risk arises from available-for-sale equity securities and the Company's exposure at September 30, 2008 was \$1,165,570. The shares are publicly traded with an average daily volume in Q3 2008 of 62,000 shares, market price quotes are readily available, and their carrying value is equal to their market value.

##### Sensitivity analysis:

In Q3 2008, the price per share of the short term investment varied as much as Cdn \$0.11. A Cdn \$0.11 increase in the market price of the short-term investment at September 30, 2008 would have increased short term investments and decreased accumulated other comprehensive loss by \$915,806. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant (a Cdn \$0.11 decrease in the fair market value at September 30 would have had the equal but opposite effect).

### 4. Capital management

The Company manages its cash and cash equivalents, common shares, stock options, and warrants as capital. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. To meet these objectives, the Company ensures it has sufficient cash resources to meet 60 days of operations. At present employees and directors hold approximately 2 percent of common shares, or just under 2 percent assuming that all outstanding warrants and share options vest and/or are exercised.

### 5. Short-term investments:

Short-term investments are composed of 8,860,000 shares (December 31, 2007 – 9,000,000 shares) in PMI Gold Corporation ("PMI") received in connection with the sale of the Ghana property in October 2007. Consideration on the sale consisted of nine million PMI common shares plus a further \$3,000,000 payable in 6 months in cash or in PMI shares. In April 2008 the parties agreed to change the second installment to all cash, together with interest at 6% per annum from April 12, 2008. The receivable of \$3,000,000 plus the related interest was received in cash early in Q3 2008. The calculation of accumulated other comprehensive loss arising on the shares is as follows:

Original cost of short-term investment (October 2007)	\$ 2,729,233
Market value of short-term investment as September 30, 2008	1,165,570
Accumulated other comprehensive loss	\$ 1,563,663

The comprehensive loss for the nine months ended September 30, 2008 was \$1,333,419.

# NEVSUN RESOURCES LTD.

Notes to Interim Consolidated Financial Statements  
(Expressed in United States dollars, unless otherwise stated)

Three and nine month periods ended September 30, 2008

## 6. Accounts receivable and prepaids:

	September 30, 2008	December 31, 2007
Receivable on reduction of Bisha property interest (note 9)	\$ -	\$ 25,000,000
Receivable on disposal of Ghana property (note 5)	-	3,000,000
Advance to vendor	791,979	-
VAT receivable	256,983	-
Other	280,062	265,154
	<b>\$ 1,329,024</b>	<b>\$ 28,265,154</b>

## 7. Discontinued operations:

In May 2008 the Company sold its Mali operations for \$20 million plus a 1 % net smelter return royalty for a gain on sale of \$3,796,142.

On September 5, 2007, the Company announced the plan to place its Tabakoto mine in Mali onto care and maintenance and engaged an agent to seek a buyer for the Mali assets. Accordingly, as of December 31, 2007, the assets and liabilities relating to the Mali operations, which included the Tabakoto mine and the Segala property, were reclassified on the balance sheet as 'held for sale'. The results of the Company's Mali operations have been segregated and disclosed separately.

A summary of discontinued operations is as follows:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Revenue	\$ -	\$ 13,226,564	\$ 261,691	\$ 36,132,314
Operating costs (i)	-	(13,081,185)	(2,356,103)	(39,356,790)
Operating loss	-	145,379	(2,094,412)	(3,224,476)
Other income (expenses)	-	119,566	273,553	51,488
Agreement terminations	-	(2,961,413)	-	(2,961,413)
Loss from discontinued operations for the period	<b>\$ -</b>	<b>\$ (2,696,468)</b>	<b>\$ (1,820,859)</b>	<b>\$ (6,134,401)</b>

- (i) Operating costs include costs of sales and mining; exploration, general and administrative expenses

# NEVSUN RESOURCES LTD.

Notes to Interim Consolidated Financial Statements  
(Expressed in United States dollars, unless otherwise stated)

Three and nine month periods ended September 30, 2008

## 7. Discontinued operations: (continued)

Cash flow from discontinued operations:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Cash provided by (used for):				
Loss for the period	\$ -	\$ (2,696,468)	\$ (1,820,859)	\$ (6,134,401)
Non-cash items and changes to non-cash operating capital	-	1,552,845	(23,833)	1,604,939
Operations	-	(1,143,623)	(1,844,692)	(4,529,462)
Investments	-	-	(94,812)	-
Financing	-	(666,653)	(1,140,574)	(418,875)
	\$ -	\$ (1,810,276)	\$ (3,080,078)	\$ (4,948,337)

## 8. Property, plant and equipment:

	September 30, 2008	December 31, 2007
Mineral properties	\$ 507,800	\$ 203,911
Construction-in-progress	25,401,266	-
Plant and equipment at cost less accumulated amortization of \$676,228 (2007 - \$668,057)	1,218,912	790,759
	\$ 27,127,978	\$ 994,670

## 9. Minority interest and deferred credit:

On October 26, 2007 the Company and the State-owned Eritrean National Mining Corporation (ENAMCO) entered into an agreement to increase the State's participation in the Bisha project. ENAMCO agreed to purchase at fair value a 30% paid participating interest to add to its 10% free participating interest provided by Eritrean mining legislation, resulting in a total State participation of 40% (30% contributing; 10% free carried). The final amount to be paid by the State will be determined by an independent valuator and shall be based on the net present value of 30% of the project, as evaluated upon the first shipment of gold from the mine, currently estimated to be in mid 2010. As a first provisional payment, ENAMCO paid the Company \$25,000,000 during Q1 2008. The provisional payment has been recorded as a deferred credit on the balance sheet.

As of September 30, 2008 ENAMCO had advanced \$9,835,000 to the Bisha project as part of its requirement to provide one third of owners' contributions, recorded as minority interest on the balance sheet.

# NEVSUN RESOURCES LTD.

Notes to Interim Consolidated Financial Statements  
(Expressed in United States dollars, unless otherwise stated)

Three and nine month periods ended September 30, 2008

## 10. Share capital:

- (a) Authorized:  
250,000,000 common shares without par value.
- (b) Stock options

The Company's shareholders approved an amended stock option plan in April 2006. The stock option plan is designed to attract and retain individuals and to reward them for current and expected future performance. The maximum term of the options granted is ten years. The vesting periods of stock options granted vary with terms determined by the board of directors. Under plan the Company is authorized to grant stock options of up to ten percent (10%) of the number of common shares issued and outstanding.

The Company has recorded the fair value of all options granted since January 1, 2003 using the Black-Scholes model. Stock based compensation costs are amortized over a period of 12 months and the most recently issued options costs were calculated using the following weighted average assumptions: expected life of option 5 years, stock price volatility 51%, no dividend yield, and a risk-free interest rate yield of 3%. The fair value is particularly impacted by the Company's stock price volatility, determined using data from the previous five years.

The quarter ended September 30, 2008 included \$447,711 in stock based compensation costs, \$421,642 (2007 -\$265,888) of which were included in general and administrative expenses, with the remaining \$26,071 (2007 – nil) capitalized to property, plant and equipment.

	Number of options	Weighted average exercise price (CDN\$)
Outstanding, December 31, 2007	6,617,500	\$ 2.78
Expired	(875,000)	3.22
Exercised	(15,000)	1.72
Outstanding, June 30, 2008	5,727,500	2.72
Granted	2,435,000	1.35
Expired	(655,000)	2.57
Exercised	(10,000)	0.75
Outstanding, September 30, 2008	7,497,500	\$ 2.30

Type	Number of options	Range of exercise price (CDN\$)	Average remaining life in years
Vested (exercisable)	110,000	\$0.15	2.4 years
Vested (exercisable)	2,370,000	\$1.72 to \$2.36	2.2 years
Vested (exercisable)	1,155,000	\$3.07 to \$3.10	2.8 years
Vested (exercisable)	765,000	\$4.81	0.3 years
Vested (exercisable)	100,000	\$7.33	0.2 years
Un-vested	2,997,500	\$1.35 to \$2.00	4.7 years
Total	7,497,500		

The weighted average price of options exercisable at the end of the period was Cdn \$2.85.

# NEVSUN RESOURCES LTD.

Notes to Interim Consolidated Financial Statements  
(Expressed in United States dollars, unless otherwise stated)

Three and nine month periods ended September 30, 2008

## 10. Share capital: (continued)

### (c) Warrants

Expiry	Number of warrants	Exercise Price (CDN\$)
October 25, 2008	8,889,000	\$ 3.00
December 19, 2008	5,000,000	\$ 10.00
October 31, 2009	5,000,000	\$ 4.00
Outstanding, September 30, 2008	18,889,000	Average \$ 5.12

### (d) Shares reserved for issuance (fully diluted):

	Number of shares
Issued and outstanding at September 30, 2008	128,179,322
Reserved for options (note 10)	7,497,500
Reserved for warrants (note 10)	18,889,000
Shares reserved for issuance (fully diluted) at September 30, 2008	154,565,822

## 11. Commitments and contingencies:

As of September 30, 2008 the Company had purchase commitments for the Bisha project in the amount of approximately \$12,000,000. The Company's subsidiary is in the process of arranging a letter of credit for approximately \$6,000,000 related to the commitments for the purchase of the Ball and SAG mills.

During early 2008, the Company learned its Eritrean subsidiary, Bisha Mining Share Company, will likely be assessed a withholding tax of 10% for payments to foreign suppliers whose activities are performed outside the borders of Eritrea, retroactive to January 2006. The Company intends to challenge any such assessment and the outcome is not determinable. The Company estimates the assessment may be as high as \$1,300,000 for services to September 30, 2008.

The Company has arranged an environmental bond for the Bisha Project for \$500,000 at a cost of 1% per annum.

## 12. Segmented information:

The Company conducts its business as a single operating segment being the mining business in Africa. All mineral properties and equipment are situated in Africa. Investment revenues were earned principally from international sources.