

# **NEVSUN RESOURCES LTD.**

Consolidated Financial Statements

Years ended December 31, 2012 and 2011

(Expressed in United States dollars)



## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying consolidated financial statements of Nevsun Resources Ltd. are the responsibility of management.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. These statements include amounts that are based on management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Management is also responsible for ensuring that financial information used elsewhere in annual filings is consistent with that in the financial statements.

The Company maintains a system of internal control in order to provide management with reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee. The Audit Committee consists of three directors all of whom are independent. This Committee meets periodically with management, as well as the external auditors, to satisfy itself that each party is properly discharging its responsibilities, and to review the quarterly and annual consolidated financial statements and submit them to the Board of Directors; review the adequacy of the system of internal controls; review any relevant accounting, financial and security regulatory matters; recommend the appointment of external auditors; and approve the scope of the internal and external auditors' audit and non-audit work.

The Company's auditors, KPMG LLP, Registered Public Accountants, appointed by the shareholders, conduct an examination in accordance with Canadian generally accepted auditing standards and standards of the Public Company Accounting Oversight Board (United States) to allow them to express their opinion on the financial statements. The auditors have full and free access to the Audit Committee and their reports are included herein.

*"Cliff T. Davis"*

Cliff T. Davis  
Chief Executive Officer

*"Fausto Taddei"*

Fausto Taddei  
Chief Financial Officer

March 20, 2013



**KPMG LLP**  
**Chartered Accountants**  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada

Telephone (604) 691-3000  
Fax (604) 691-3031  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## **INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Directors of Nevsun Resources Ltd.

We have audited the accompanying consolidated financial statements of Nevsun Resources Ltd., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Other Matter*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 20, 2013 expressed an unqualified opinion on the effectiveness of the internal control over financial reporting.

**/s/ KPMG LLP**

Chartered Accountants

March 20, 2013  
Vancouver, Canada



**KPMG LLP**  
**Chartered Accountants**  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada

Telephone (604) 691-3000  
Fax (604) 691-3031  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors of Nevsun Resources Ltd.

We have audited Nevsun Resources Ltd.'s (the "Company") internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Canadian generally accepted auditing standards and in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as at December 31, 2012 and December 31, 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and our report dated March 20, 2013 expressed an unqualified opinion on those consolidated financial statements.

**/s/ KPMG LLP**

Chartered Accountants

March 20, 2013  
Vancouver, Canada

# NEVSUN RESOURCES LTD.

Consolidated Balance Sheets

(Expressed in thousands of United States dollars)

	Note	December 31, 2012	December 31, 2011
<b>Assets</b>			
Current assets			
Cash and cash equivalents	7	\$ 396,404	\$ 347,582
Accounts receivable and prepaids	8	27,870	20,490
Inventories	9	45,864	32,099
Due from non-controlling interest	10	-	11,137
		470,138	411,308
Non-current assets			
Due from non-controlling interest	10	63,130	84,312
Mineral properties, plant and equipment	11	340,428	279,606
		403,558	363,918
<b>Total assets</b>		<b>\$ 873,696</b>	<b>\$ 775,226</b>
<b>Liabilities and equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	12	\$ 18,130	\$ 24,651
Dividends payable	13	9,949	10,013
Income taxes payable		43,615	103,670
		71,694	138,334
Non-current liabilities			
Deferred income taxes	14(c)	20,704	16,187
Provision for mine closure and reclamation	15	18,013	13,233
		38,717	29,420
<b>Total liabilities</b>		<b>110,411</b>	<b>167,754</b>
Equity			
Share capital	16	404,960	409,305
Share-based payments reserve		13,145	11,736
Retained earnings		201,698	76,383
Equity attributable to Nevsun shareholders		619,803	497,424
Non-controlling interest	10	143,482	110,048
<b>Total equity</b>		<b>763,285</b>	<b>607,472</b>
<b>Total liabilities and equity</b>		<b>\$ 873,696</b>	<b>\$ 775,226</b>

Commitments and contingencies (notes 12, 23, 29)

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

Approved on behalf of the Board:

"Robert J. Gayton"

Director

"R. Stuart Angus"

Director

Robert J. Gayton

R. Stuart Angus

# NEVSUN RESOURCES LTD.

## Consolidated Statements of Comprehensive Income

(Expressed in thousands of United States dollars, except per share amounts)

Years ended December 31, 2012 and 2011

	Note	2012	2011
Revenues	17	\$ 566,039	\$ 547,770
Cost of sales			
Operating expenses	18	(103,432)	(76,812)
Royalties		(27,898)	(27,283)
Depreciation and depletion		(29,035)	(25,892)
Operating income		405,674	417,783
Administrative expenses	19	(8,261)	(14,471)
Finance income	20	3,956	4,913
Finance costs	21	(624)	(2,334)
Income before taxes		400,745	405,891
Income taxes	14(a)	(154,049)	(155,857)
Net income		246,696	250,034
Other comprehensive income (loss), net of tax			
Reclassification adjustment for realized gain on sale of available-for-sale investment included in net income		-	(1,166)
Unrealized gain on available-for-sale investment		-	458
Comprehensive income		\$ 246,696	\$ 249,326
Net income attributable to:			
Nevsun shareholders		\$ 145,262	\$ 147,065
Non-controlling interest		101,434	102,969
		\$ 246,696	\$ 250,034
Comprehensive income attributable to:			
Nevsun shareholders		\$ 145,262	\$ 146,357
Non-controlling interest		101,434	102,969
		\$ 246,696	\$ 249,326
Earnings per share attributable to Nevsun shareholders:	16(f)		
Basic		\$ 0.73	\$ 0.74
Diluted		\$ 0.72	\$ 0.73

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

# NEVSUN RESOURCES LTD.

Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)

Years ended December 31, 2012 and 2011

	Note	2012	2011
Cash provided by (used in)			
Operating			
Net income		\$ 246,696	\$ 250,034
Items not involving the use of cash			
Accretion on reclamation liability	15	612	509
Depreciation and depletion		29,045	25,892
Income taxes		154,049	155,857
Share-based payments and stock appreciation rights	16(c),16(d)	996	8,897
Interest income on due from non-controlling interest	10	(3,677)	(3,625)
Interest expense on advances from non-controlling interest	10	-	1,681
Gain on sale of available-for-sale investment		-	(1,166)
Changes in non-cash operating capital			
Accounts receivable and prepaids		(7,381)	(14,960)
Inventories		(12,999)	(20,595)
Accounts payable and accrued liabilities		(3,940)	(560)
Income taxes paid	14(b)	(209,586)	(36,000)
Net cash provided by operating activities		193,815	365,964
Investing			
Proceeds on sale of available-for-sale investment		-	1,232
Proceeds on pre-production gold sales	11	-	48,613
Expenditures on plant and equipment – gold phase		(13,148)	(33,717)
Expenditures on plant and equipment – copper phase		(62,053)	(24,050)
Expenditures on exploration and evaluation		(11,263)	(6,105)
Changes in non-cash working capital related to investing activities		(1,627)	2,400
Net cash used in investing activities		(88,091)	(11,627)
Financing			
Dividends paid to Nevsun shareholders	13	(19,989)	(5,935)
Distribution to non-controlling interest	10	(68,000)	-
Receipt of purchase price settlement from non-controlling interest	10	34,223	26,490
Interest received on due from non-controlling interest	10	1,773	598
Principal and interest paid on loan from non-controlling interest	10	-	(4,103)
Repayment of advances from non-controlling interest	10	-	(74,995)
Interest paid on advances from non-controlling interest	10	-	(6,414)
Issuance of common shares, net of issue costs	16	1,363	7,459
Repurchase and cancellation of common shares	16(b)	(6,272)	-
Net cash used in financing activities		(56,902)	(56,900)
Increase in cash and cash equivalents		48,822	297,437
Cash and cash equivalents, beginning of year		347,582	50,145
Cash and cash equivalents, end of year		\$ 396,404	\$ 347,582

Supplemental cash flow information (note 22)

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

# NEVSUN RESOURCES LTD.

## Consolidated Statements of Changes in Equity

(Expressed in thousands of United States dollars)

Years ended December 31, 2012 and 2011

	Number of shares (note 16)	Share capital (note 16)	Share-based payments reserve	Accumulated other comprehensive income	Retained earnings (deficit)	Equity attributable to Nevsun shareholders	Non-controlling interest	Total equity
December 31, 2010	196,488,322	\$ 390,658	\$ 10,056	\$ 708	\$ (194,675)	\$ 206,747	\$ (3,915)	\$ 202,832
Exercise of stock options	2,510,300	7,459	-	-	-	7,459	-	7,459
Exercise of stock appreciation rights	1,256,093	8,451	-	-	-	8,451	-	8,451
Transfer to share capital on exercise of options	-	2,737	(2,737)	-	-	-	-	-
Activation of stock appreciation rights	-	-	(3,213)	-	(9,716)	(12,929)	-	(12,929)
Share-based payments	-	-	7,630	-	-	7,630	-	7,630
Other comprehensive loss	-	-	-	(708)	-	(708)	-	(708)
Partial disposition of subsidiary to non-controlling interest, net of tax (note 10)	-	-	-	-	149,657	149,657	10,994	160,651
Income for the year	-	-	-	-	147,065	147,065	102,969	250,034
Dividends declared (note 13)	-	-	-	-	(15,948)	(15,948)	-	(15,948)
December 31, 2011	200,254,715	\$ 409,305	\$ 11,736	\$ -	\$ 76,383	\$ 497,424	\$ 110,048	\$ 607,472
Exercise of stock options	460,700	1,545	-	-	-	1,545	-	1,545
Transfer to share capital on exercise of options	-	382	(382)	-	-	-	-	-
Repurchase and cancellation of shares	(1,732,600)	(6,272)	-	-	-	(6,272)	-	(6,272)
Share-based payments	-	-	1,791	-	-	1,791	-	1,791
Income for the year	-	-	-	-	145,262	145,262	101,434	246,696
Dividends declared (note 13)	-	-	-	-	(19,947)	(19,947)	-	(19,947)
Distribution to non-controlling interest (note 10)	-	-	-	-	-	-	(68,000)	(68,000)
December 31, 2012	198,982,815	\$ 404,960	\$ 13,145	\$ -	\$ 201,698	\$ 619,803	\$ 143,482	\$ 763,285

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

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

---

## 1. Nature of business

Nevsun Resources Ltd. and its subsidiaries (collectively, Nevsun or the Company) are in the mineral property exploration, development, extraction and processing business in Africa. The Company's principal operation is the Bisha Mine, held via the Eritrean registered corporation, Bisha Mining Share Company (BMSC or the Bisha Mine), in which Nevsun has a 60% interest. Nevsun is incorporated in Canada and maintains its head office and registered office at Suite 760 – 669 Howe Street, Vancouver, British Columbia, Canada, V6B 0C4.

Nevsun achieved commercial production at the Bisha Mine on February 22, 2011. As of that date, the Company commenced recording income related to revenues from metals sales and the costs incurred to produce those revenues in profit or loss. Prior to February 22, 2011, the Company capitalized proceeds from gold sales and the related costs to produce those revenues to construction-in-progress.

The Company's continuing operations and the underlying value and recoverability of amounts shown for its mineral properties, plant and equipment are dependent upon continuing 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 metals 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, certain of these factors are beyond its control. The Company has not entered into derivative financial instruments to manage foreign exchange or commodity price exposure.

## 2. Basis of preparation

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### (b) Approval of the financial statements

The consolidated financial statements of Nevsun for the year ended December 31, 2012 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on March 20, 2013.

## 3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

### (a) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except that liabilities for cash settled share-based payment arrangements are measured at fair value. In addition these consolidated financial statements have been prepared using the accrual basis of accounting.

### (b) Currency translation

The functional and reporting currency of the Company and its subsidiaries is the United States dollar. Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Foreign currency translation differences are recognized in profit or loss.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

## 3. Summary of significant accounting policies (continued)

### (c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany transactions and balances are eliminated on consolidation. For partially owned subsidiaries, the interest attributable to non-controlling shareholders is reflected in non-controlling interest. Adjustments to non-controlling interests are accounted for as transactions with owners and adjustments that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Significant subsidiaries of Nevsun Resources Ltd. are as follows:

Name	Country of incorporation	Principal activity	Nevsun's effective interest (%)
Nevsun (Barbados) Holdings Ltd.	Barbados	Holding company	100
Nevsun Africa (Barbados) Ltd	Barbados	Holding company	100
Nevsun Resources (Eritrea) Ltd.	Barbados	Holding company	100
Bisha Mining Share Company	Eritrea	Mining	60

### (d) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Revenue is recognized when persuasive evidence, usually in the form of an executed sales agreement, of an arrangement exists, indicating there has been a transfer of risks and rewards of ownership to the customer, no further work or processing is required by the Company, the quantity and quality of the goods has been determined with reasonable accuracy, the price can be measured reliably, and collectability is probable. For gold and silver sales, this is generally on receipt of a shipment by a refiner.

### (e) Earnings per share

Earnings per share calculations are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method. The weighted average number of common shares outstanding for the calculation of diluted earnings per share assumes all in-the-money stock options and stock appreciation rights are exercised at the beginning of the period and that the proceeds to be received on their exercise are used to repurchase common shares at the average market price during the period.

### (f) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposit with banks and highly liquid short-term investments having maturities at the date of purchase of 90 days or less.

### (g) Inventories

Inventories are valued at the lower of cost and net realizable value, on a weighted average cost basis. Average costs are calculated by reference to the cost levels experienced in the current month together with those in opening inventory. Cost for raw materials and supplies is purchase price and freight, and for partly processed and finished goods is the cost of production. For this purpose, the costs of production include:

- (i) fuel, power, labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of ore;
- (ii) the depreciation of mineral properties and plant and equipment used in the extraction and processing of ore; and
- (iii) production overheads.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

---

## 3. Summary of significant accounting policies (continued)

### (g) Inventories (continued)

Work-in-progress inventory includes ore stockpiles and other partly processed material. Stockpiles represent ore that has been extracted and is available for further processing. Quantities are assessed primarily through surveys and assays.

### (h) Mineral properties, plant and equipment

#### (i) Exploration and evaluation

Once the legal rights to explore an area have been secured, expenditures on exploration and evaluation activities are capitalized to exploration and evaluation, and are included within mineral properties, plant and equipment. Costs incurred prior to the Company obtaining the legal rights are expensed. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential. Obligations for removal and restoration as a result of undertaking the exploration and evaluation are capitalized. Management reviews the carrying value of capitalized exploration costs at least annually. The review is based on the Company's intentions for development of the undeveloped property. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

#### (ii) Development

When economically viable reserves have been determined and the decision to proceed with development has been approved, exploration and evaluation assets are first assessed for impairment, then reclassified to construction-in-progress or mineral properties. The expenditures related to development and construction are capitalized as construction-in-progress and are included within properties, plant and equipment. Costs associated with the commissioning of new assets incurred in the period before they are operating in the way intended by management, are capitalized. Development expenditure is net of the proceeds of the sale of metals from ore extracted during the development phase. Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

The costs of removing overburden to access ore are capitalized as pre-production stripping costs and are included within mineral properties, plant and equipment.

When developed or constructed assets are operating in the way intended by management, construction-in-progress costs are reclassified to mineral properties or plant and equipment.

#### (iii) Plant and equipment

Plant and equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use, along with the future cost of dismantling and removing the asset.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items, i.e. major components, of plant and equipment.

The cost of major overhauls of parts of plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the routine servicing of plant and equipment are recognized in profit or loss as incurred.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

---

## 3. Summary of significant accounting policies (continued)

### (h) Mineral properties, plant and equipment (continued)

#### (iv) Depreciation

Mineral properties, plant and equipment associated with mining operations are depreciated over the estimated useful lives of the assets, either on a units-of-production basis or declining balance basis at rates of 20% to 30% per annum, as appropriate. All other equipment is depreciated over the estimated useful life of the assets using the declining balance method at rates of 20% to 30% per annum, as appropriate. Depreciation methods and useful lives are reviewed at each reporting date and adjusted as required.

#### (v) Stripping costs in the production phase

Where production stripping activity does not result in inventory produced, but does provide improved access to the ore body, the costs are deferred when the stripping activity meets the following criteria: (1) it is probable the Company will be the future beneficiary of the stripping activity; (2) the Company can identify the component of the ore body for which access has been improved; and (3) the costs relating to the stripping activity associated with that component can be measured reliably. Deferred stripping costs are capitalized to mineral properties or construction-in-progress and are depreciated on a units-of-production basis over the expected useful life of the identified component of the ore body to which access has been improved as a result of the stripping activity.

### (i) Impairment of non-financial assets

Non-financial assets are evaluated at least annually by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit (CGU), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in profit or loss to the extent the carrying amount exceeds the recoverable amount.

In calculating recoverable amount, the Company uses discounted cash flow techniques to determine value in use when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement. The determination of discounted cash flows is dependent on a number of factors, including future metal prices, the amount of reserves, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and site closure, restoration and environmental rehabilitation costs and the discount rate used. Additionally, the reviews take into account factors such as political, social and legal, and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques require management to make estimates and assumptions concerning reserves and expected future production revenues and expenses.

### (j) Reserve estimates

The Company estimates its ore reserves and mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101 *Standards for Disclosure of Mineral Projects* (NI 43-101). Reserves are used in the calculation of depreciation, impairment assessment and for forecasting the timing of payment of mine closure, reclamation and rehabilitation costs.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecasted prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

---

## 3. Summary of significant accounting policies (continued)

### (k) Provision for mine closure and reclamation

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate. The liability is recognized at the time environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for mine closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports prepared by third-party industry specialists and discounted at a pre-tax rate specific to the liability. The capitalized amount is depreciated on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

Additional disturbances and changes in mine closure and reclamation estimates are accounted for as incurred with a change in the corresponding capitalized cost. Costs of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred, most of which are incurred at the end of the life of mine.

### (l) Financial instruments

#### (i) Financial assets

The Company initially recognizes loans and receivables on the date that they originate. All other financial assets are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Loans and receivables are comprised of cash and cash equivalents and trade and other receivables.

#### Available-for-sale financial assets

Available-for-sale (AFS) financial assets are non-derivative financial assets that are either designated as available-for-sale or not classified in any of the other financial asset categories. AFS financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at fair value. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity. AFS assets include investments in listed equity of other entities.

Management assesses the carrying value of AFS financial assets at least annually and any impairment charges are recognized in profit or loss. When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit and loss.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

---

## 3. Summary of significant accounting policies (continued)

### (l) Financial instruments (continued)

#### (ii) Financial liabilities

The Company classifies all of its financial liabilities as other financial liabilities. Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method.

Other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include trade accounts payable, other payables, liability associated with stock appreciation rights and loans.

### (m) Share capital

Common shares are classified as equity. The Company records proceeds from share issuances net of issue costs and any tax effects. When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Common shares issued for consideration other than cash are valued based on their market value on the date of issuance.

### (n) Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The Company uses the balance sheet method of accounting for deferred income taxes. Under the balance sheet method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets also result from unused loss carried forward, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expenses in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

---

## 3. Summary of significant accounting policies (continued)

### (o) Share-based payments

The Company has a stock option plan that is described in note 16(c). Share-based payments to employees are measured at the grant date fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the grant date fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from share-based payment reserve. For those options that expire or are forfeited after vesting, the recorded value is transferred to retained earnings.

### (p) Stock appreciation rights

Stock appreciation rights (SARs) allow the holder to receive cash or common shares of the Company in the amount of the underlying value of the associated stock option. When the holder has the option of settling in cash or shares, the SAR is recorded at the fair value of the debt component of the SAR while assigning nil value to the equity component. Changes to the fair value of the liability are recognized in profit or loss.

Where the holder elects to take common shares instead of cash, the value of the related liability is transferred directly to retained earnings; where the holder elects to settle SARs in cash instead of common shares, the value of the related liability is extinguished when the cash is paid.

## 4. Changes in accounting standards

The following accounting standards that may be relevant to the Company have been introduced or revised by the IASB:

### (a) Consolidation

In May 2011, the IASB issued IFRS 10 – *Consolidated Financial Statements* (IFRS 10), which supersedes SIC 12 – *Consolidation – Special Purpose Entities* and the requirements relating to consolidated financial statements in IAS 27 – *Consolidated and Separate Financial Statements*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 10 establishes control as the basis for an investor to consolidate its investees and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee.

In addition, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities* (IFRS 12) which combines and enhances the disclosure requirements for the Company's subsidiaries and associates. The requirements of IFRS 12 include enhanced reporting of the nature of risks associated with the Company's interests in other entities, and the effects of those interests on the Company's consolidated financial statements. IFRS 12 is also effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

The Company does not anticipate the application of IFRS 10 and IFRS 12 to have a significant impact on its consolidated financial statements.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

---

## 4. Changes in accounting standards (continued)

### (b) Financial instruments

The IASB intends to replace IAS 39 – *Financial Instruments: Recognition and Measurement* (IAS 39) in its entirety with IFRS 9 – *Financial Instruments* (IFRS 9) in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit and loss, financial guarantees and certain other exceptions. In response to delays to the completion of the remaining phases of the project, on December 16, 2011, the IASB issued amendments to IFRS 9 which deferred the mandatory effective date of IFRS 9 from January 1, 2013, to annual periods beginning on or after January 1, 2015. The amendments also provided relief from the requirement to restate comparative financial statements for the effects of applying IFRS 9.

The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

### (c) Fair value measurement

In May 2011, the IASB issued IFRS 13 - *Fair Value Measurement* (IFRS 13) as a single source of guidance for all fair value measurements required by IFRS to reduce the complexity and improve consistency across its application. The standard provides a definition of fair value and guidance on how to measure fair value as well as a requirement for enhanced disclosures. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

The Company does not anticipate the application of IFRS 13 to have a significant impact on its consolidated financial statements.

## 5. Critical judgments in applying accounting policies

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations (note 6), that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

### (a) Commercial production

Costs incurred to construct and develop mineral properties, plant and equipment are capitalized until the assets are brought into the location and condition necessary to be capable of operating in the manner intended by management. Proceeds from mineral sales realized during this period are offset against costs capitalized. Depletion of capitalized costs for mineral properties and related plant and equipment begins when operating levels intended by management have been reached. The results of operations of the Company during the periods presented in these audited consolidated financial statements have been impacted by management's determination that the Bisha Mine reached the operating levels intended by management on February 22, 2011.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

---

## 5. Critical judgments in applying accounting policies (continued)

- (b) Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs

Management has determined that exploration drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

- (c) Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined the functional currency of each entity is the US dollar. Assessment of functional currency involves certain judgements to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

## 6. Key sources of estimation uncertainty

The preparation of consolidated financial statements requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Actual future outcomes could differ from present estimates and assumptions; potentially having material future effects on the Company's consolidated financial statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

- (a) Impairment of mineral properties, plant and equipment

The Company considers both external and internal sources of information in assessing whether there are any indications that mineral properties, plant and equipment are impaired. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mineral properties, plant and equipment. Internal sources of information the Company considers include the manner in which mineral properties, plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

In determining the recoverable amounts of the Company's mineral properties, plant and equipment, the Company's management makes estimates of the discounted future after-tax cash flows expected to be derived from the Company's mineral properties using an appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties, plant and equipment.

- (b) Operating expenses and costing of work-in-progress inventory

In determining operating expenses recognized in the Consolidated Statements of Comprehensive Income, the Company's management makes estimates of quantities of ore on stockpiles and in process and the recoverable gold in this material to determine the cost of finished goods sold during the period. Changes in these estimates can result in a change in operating expenses in future periods and carrying amounts of inventories.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

---

## 6. Key sources of estimation uncertainty (continued)

### (c) Deferred stripping costs

In determining whether stripping costs incurred during the production phase of a mineral property relate to reserves and resources that will be mined in a future operating period and therefore should be capitalized, the Company estimates whether it is probable the future economic benefit associated with the stripping activity will flow to the Company.

Where production stripping activity does not result in inventory produced, but does provide improved access to the ore body, the costs are deferred when the stripping activity meets the following: (1) it is probable the Company will be the future beneficiary of the stripping activity; (2) the Company can identify the component of the ore body for which access has been improved; and (3) the costs relating to the stripping activity associated with that component can be measured reliably. Deferred stripping costs are capitalized to mineral properties, plant and equipment and are depreciated on a units of production basis.

### (d) Estimated recoverable gold ounces and ore reserve tonnes

The carrying amounts of the Company's mineral properties, plant and equipment are depleted based on recoverable gold ounces and ore reserve tonnes. Changes to estimates of recoverable gold ounces, ore reserve tonnes and depletable costs, including changes resulting from revisions to the Company's mine plans and changes in metals prices forecasts, can result in a change to future depletion rates and impairment analysis.

### (e) Estimated mine closure and reclamation costs

The Company's provision for mine closure and reclamation cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company.

Changes to mine closure and reclamation cost obligations are recorded with a corresponding change to the carrying amounts of related mineral properties, plant and equipment for the period. Adjustments to the carrying amounts of related mineral properties, plant and equipment can result in a change to future depletion expense.

### (f) Income taxes

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted income from operations and the application of existing tax laws in each jurisdiction. Forecasted income from operations is based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

## 7. Cash and cash equivalents

	December 31, 2012	December 31, 2011
Cash	\$ 64,404	\$ 284,582
Short-term deposits	332,000	63,000
	<u>\$ 396,404</u>	<u>\$ 347,582</u>

Cash and cash equivalents deposited with financial institutions located outside of Africa at December 31, 2012 equal \$376,129 (December 31, 2011 - \$339,869).

## 8. Accounts receivable and prepaids

	December 31, 2012	December 31, 2011
Trade receivables	\$ 4,736	\$ 3,470
Advances to vendors	20,808	15,408
Prepaid expenses	1,829	923
VAT receivable	289	251
Other receivables	208	438
	<u>\$ 27,870</u>	<u>\$ 20,490</u>

## 9. Inventories

	December 31, 2012	December 31, 2011
Materials and supplies	\$ 36,950	\$ 23,101
Work-in-progress	6,368	6,777
Finished goods	2,546	2,221
	<u>\$ 45,864</u>	<u>\$ 32,099</u>

Depreciation of \$1,526 is included in work-in-progress and finished goods inventories at December 31, 2012 (December 31, 2011 - \$764).

## 10. Due from non-controlling interest

The Company's principal operation, the Bisha Mine, is held via the Eritrean registered corporation, BMSC, in which Nevsun has a 60% interest. The non-controlling interest in BMSC is held by the State owned Eritrean National Mining Corporation (ENAMCO).

In October 2007, the Company entered into an agreement with ENAMCO whereby the State increased its interest in BMSC by 30%, to add to its 10% free carried interest provided by Eritrean mining legislation, resulting in a total participation of 40%.

Purchase price settlement:

During August 2011 the Company finalized its arrangements with ENAMCO for the purchase of the 30% participating interest in BMSC. After the parties mutually engaged independent expert valuation advice, the parties agreed to a purchase price of \$253,500, resulting in a gain to the Company, net of income taxes, of \$149,657. The gain, net of income taxes, was recorded directly to retained earnings in the third quarter of 2011 as it represented a change in Nevsun's interest in a subsidiary that did not result in a change in control.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

## 10. Due from non-controlling interest (continued)

The resulting amount receivable from ENAMCO bears interest at 12 month US dollar LIBOR plus 4% and the receivable and interest is collected from cash flow from the Bisha Mine that would otherwise be distributed to ENAMCO in accordance with its share ownership. Interest of \$3,677 has been accrued on this receivable and recorded for the year ended December 31, 2012, as finance income (year ended December 31, 2011 - \$3,625).

The Company collected \$34,223 of the purchase price receivable and \$1,773 of related interest during the year ended December 31, 2012. The Company collected \$26,490 of the purchase price receivable and \$598 of related interest during the year ended December 31, 2011.

During 2011 the Company's subsidiary repaid all shareholder advances that had been received in connection with the development of the Bisha Mine, including those advances provided by ENAMCO.

During the year ended December 31, 2012, the Company distributed \$68,000 to the non-controlling interest.

	December 31, 2012	December 31, 2011
Current asset – due from non-controlling interest	\$ -	\$ 11,137
Non-current asset – due from non-controlling interest	63,130	84,312
<b>Due from non-controlling interest</b>	<b>\$ 63,130</b>	<b>\$ 95,449</b>
	Equity (deficit) attributable to non- controlling interest	Due from (to) non-controlling interest
Provisional purchase price payment (deferred credit)	\$ -	\$ (25,000)
Loan to Nevsun from non-controlling interest	-	(20,000)
Advances to BMSC from non-controlling interest	-	(74,995)
Interest on advances to BMSC from non-controlling interest	-	(4,132)
Cumulative share of losses	(3,915)	-
December 31, 2010	(3,915)	(124,127)
2011 activity:		
Nevsun payment on loan from non-controlling interest	-	3,261
Disposition of interest in BMSC		
Purchase price	\$ 253,500	-
Less carrying amount	(10,994)	10,994
Less income taxes settled	(92,849)	-
<b>Net gain to retained earnings</b>	<b>\$ 149,657</b>	
Interest on advances to BMSC by non-controlling interest	-	(2,282)
BMSC repayment of interest and advances from non-controlling interest	-	81,409
Accrued interest on purchase price	-	3,625
Principal and interest received by Nevsun from non-controlling interest	-	(27,088)
Share of income for the year	102,969	-
December 31, 2011	110,048	95,449
2012 activity:		
Accrued interest on purchase price	-	3,677
Principal and interest received by Nevsun from non-controlling interest	-	(35,996)
Share of income for the year	101,434	-
Distribution to non-controlling interest	(68,000)	-
<b>December 31, 2012</b>	<b>\$ 143,482</b>	<b>\$ 63,130</b>

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

## 11. Mineral properties, plant and equipment

Year ended December 31, 2012	Exploration and evaluation	Construction-in-progress	Mineral properties	Plant and equipment	Total
<b>Cost</b>					
December 31, 2011	\$ 8,158	\$ 25,202	\$ 29,630	\$ 248,893	\$ 311,883
Additions	11,263	62,053	-	17,323	90,639
Disposals	-	-	-	(28)	(28)
Transfers	(11,112)	-	9,058	2,054	-
December 31, 2012	8,309	87,255	38,688	268,242	402,494
<b>Accumulated depreciation</b>					
December 31, 2011	-	-	1,818	30,459	32,277
Charge for the year	-	-	1,805	28,005	29,810
Disposals	-	-	-	(21)	(21)
December 31, 2012	-	-	3,623	58,443	62,066
Net book value					
December 31, 2012	\$ 8,309	\$ 87,255	\$ 35,065	\$ 209,799	\$ 340,428
<b>Cost</b>					
December 31, 2010	\$ 2,053	\$ 263,886	\$ -	\$ 26,459	\$ 292,398
Additions	6,105	24,050	-	37,946	68,101
Pre-production gold sales	-	-	-	(48,613)	(48,613)
Disposals	-	-	-	(3)	(3)
Transfers	-	(262,734)	29,630	233,104	-
December 31, 2011	8,158	25,202	29,630	248,893	311,883
<b>Accumulated depreciation</b>					
December 31, 2010	-	-	-	3,780	3,780
Charge for the year	-	-	1,818	26,682	28,500
Disposals	-	-	-	(3)	(3)
December 31, 2011	-	-	1,818	30,459	32,277
Net book value					
December 31, 2011	\$ 8,158	\$ 25,202	\$ 27,812	\$ 218,434	\$ 279,606

The Company's properties are located in western Eritrea, a country located in north-eastern Africa. The mineral properties include the Bisha Mine, the Harena mining license and the Mogoraib River exploration license. The Bisha Mine consists of a 39 km<sup>2</sup> mining agreement area that is inclusive of a 16.5 km<sup>2</sup> mining license. The mining license for the gold-silver-copper-zinc Bisha Mine was granted in 2008 for an initial period of 20 years. The Harena mining license is a 7.5 km<sup>2</sup>, 10 year license that was conditionally granted, pending final approval of application materials by the Ministry of Energy and Mines of Eritrea. The Mogoraib River exploration license is 97.4 km<sup>2</sup> and expires on July 3, 2013. The Company is seeking an extension to the Mogoraib River exploration license.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

## 11. Mineral properties, plant and equipment (continued)

Development of the Bisha Mine commenced in early 2008, commissioning commenced in the fourth quarter of 2010 and commercial production was achieved in the first quarter of 2011. As a result, the Company transformed into an operating mining company and allocated construction-in-progress amounts to appropriate categories of mineral properties, plant and equipment and commenced depreciating based on their useful lives.

Mining commenced on the Harena mining license in the fourth quarter of 2012.

Costs classified as mineral properties represent historic exploration, evaluation and development costs at the Bisha Mine and Harena mining license. Construction-in-progress at December 31, 2012, and 2011, represent costs associated with the copper phase expansion at the Bisha Mine.

## 12. Accounts payable and accrued liabilities

	December 31, 2012	December 31, 2011
Trade accounts payable	\$ 5,675	\$ 6,014
Accrued royalties	4,964	8,528
Accrued liabilities	7,491	10,109
	<u>\$ 18,130</u>	<u>\$ 24,651</u>

The Company incurs a 5% precious metals royalty payable to the State of Eritrea. Total royalties paid to the State of Eritrea as of March 19, 2013, are \$57,611.

## 13. Dividends

On May 15, 2012, the Company declared a dividend of \$0.05 per share for shareholders of record on June 30, 2012. Dividends of \$9,976 were paid on July 16, 2012. On November 15, 2012, the Company declared a \$0.05 per share dividend for shareholders of record on December 31, 2012. Dividends of \$9,949 were paid on January 15, 2013.

On May 18, 2011, the Company declared a dividend of \$0.03 per share for shareholders of record on June 30, 2011. Dividends of \$5,935 were paid on July 15, 2011. On November 21, 2011, the Company announced an increased semi-annual dividend of \$0.05 per share for shareholders of record on December 31, 2011. Dividends of \$10,013 were paid on January 16, 2012.

## 14. Income taxes

### (a) Income tax expense

Income tax expense was recorded for income earned in the period February 22, 2011, to December 31, 2011, and for the year ended December 31, 2012.

	December 31, 2012	December 31, 2011
Current income tax expense	\$ (149,532)	\$ (150,209)
Deferred income tax expense	(4,517)	(5,648)
Income tax expense	<u>\$ (154,049)</u>	<u>\$ (155,857)</u>

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

## 14. Income taxes (continued)

### (b) Reconciliation of income taxes

A reconciliation of the income tax expense to the amount calculated using the Company's statutory tax rate is as follows:

	December 31, 2012	December 31, 2011
Income tax expense at statutory rate of 25.0% (2011 – 26.5 %)	\$ (100,186)	\$ (107,561)
Tax effect of:		
Difference in tax rates of foreign jurisdictions <sup>(1)</sup>	(52,431)	(46,881)
Other	(1,432)	(1,415)
	<u>\$ (154,049)</u>	<u>\$ (155,857)</u>

(1) The Eritrean statutory mining income tax rate is 38%.

The Company commenced payment of quarterly income tax instalments in Eritrea in the fourth quarter of 2011. In the year ended December 31, 2012, the Company paid \$209,586 of income tax (year ended December 31, 2011 - \$36,000).

### (c) Recognized deferred tax assets and liabilities

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are as follows:

	December 31, 2012	December 31, 2011
Deferred tax assets		
Losses carried forward	\$ 1,766	\$ 3,261
Mineral properties, plant and equipment	259	1,379
	2,025	4,640
Deferred tax liabilities		
Mineral properties, plant and equipment	(22,729)	(20,827)
	<u>(22,729)</u>	<u>(20,827)</u>
Net deferred tax liabilities	<u>\$ (20,704)</u>	<u>\$ (16,187)</u>

### (d) Unrecognized tax losses and tax assets

At December 31, 2012, the Company has available losses for income tax purposes in Canada totaling approximately \$35,754 (2011 - \$30,959) and losses carried forward in foreign jurisdictions of approximately \$5,687 (2011 - \$5,869) which, if not utilized to reduce income in future periods, expire through 2027. The benefits of these available tax losses and tax assets have not been recognized. Access to the losses carried forward in the future may be restricted.

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2012	December 31, 2011
Mineral properties, plant and equipment	\$ 953	\$ 930
Tax losses carried forward	9,576	8,252
	<u>\$ 10,529</u>	<u>\$ 9,182</u>

## 15. Provision for mine closure and reclamation

	December 31, 2012	December 31, 2011
Balance, beginning of year	\$ 13,233	\$ 11,650
Accretion	612	509
Additional liability	4,168	1,074
Balance, end of year	<u>\$ 18,013</u>	<u>\$ 13,233</u>

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

---

## 15. Provision for mine closure and reclamation (continued)

The Company's provision for mine closure and reclamation consists of costs accrued based on the current best estimate of mine closure and reclamation activities that will be required at the Bisha and Harena sites upon completion of mining. These activities include costs for earthworks, including land re-contouring and re-vegetation, water treatment and demolition. The Company's provision for future site closure and reclamation costs is based on the level of known disturbance at the reporting date, known legal requirements and estimates prepared by a third party specialist. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

During 2012 estimates prepared by the third party specialist were updated to include the Harena mining license area as well as increases in cost estimates for certain reclamation activities. These updates increased the provision for mine closure and reclamation by \$4,168. Management used a pre-tax discount rate of 4.84% and an inflation factor of 3.0% in preparing the Company's provision for mine closure and reclamation. Although the ultimate amount to be incurred is uncertain, based on development, legal requirements and estimated costs as at December 31, 2012, the undiscounted inflation-adjusted liability for provision for mine closure and reclamation is estimated to be approximately \$29,600 (December 31, 2011 – \$25,100). The cash expenditures are expected to occur over a period of time extending several years after the Bisha Mine's and Harena's projected closure.

## 16. Share capital

- (a) Authorized share capital consists of an unlimited number of common shares without par value.
- (b) On March 19, 2012, the Company announced a common share repurchase program in accordance with the rules of the Toronto Stock Exchange. The program allowed for the purchase of up to 4,009,408 common shares of the Company. The purchases were authorized to commence no earlier than March 26, 2012, and continued until September 26, 2012. In total the Company repurchased 1,732,600 common shares for a cost of \$6,272.
- (c) Stock options

The Company's ability to grant stock options under its former stock option plan (the Former Plan) expired April 27, 2012. A new stock option plan (the New Plan) was approved by shareholders at a Special Meeting on September 5, 2012. The Former Plan will remain in existence until all outstanding options have been exercised, cancelled or otherwise expired.

In accordance with the Company's intention to reduce the cost of an equity based plan to shareholders, the New Plan is more restrictive than the Former Plan in the number of shares which can be issued (maximum 6.75% of issued and outstanding shares, versus 10% in the Former Plan) and the length of time before expiry (5 years, versus 10 years in the Former Plan).

The Company has recorded the fair value of all options granted using the Black-Scholes model. Share-based payment costs are amortized over vesting periods ranging between 6 and 24 months. During 2012, share-based payments costs were calculated using the following weighted average assumptions: expected life of option 2.3 years (2011 – 1.8 years), stock price volatility 64% (2011 – 69%), dividend yield 2.4% (2011 – 0.5%), and a risk-free interest rate yield of 1.0% (2011 – 1.2%). The fair value is particularly impacted by the Company's stock price volatility.

The year ended December 31, 2012, included \$1,791 (2011 - \$7,630) in share-based payment costs related to stock options, \$740 (2011 - \$6,642) of which were presented in administrative expenses, \$1,051 (2011 – \$712) in operating expenses and \$nil (2011 - \$276) capitalized to mineral properties, plant and equipment.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

## 16. Share capital (continued)

### (c) Stock options (continued)

	Number of options	Weighted average exercise price (CAD)
Outstanding, December 31, 2010	10,348,500	\$ 2.79
Granted	3,650,000	5.62
Exercised	(2,510,300)	2.93
Exercised as stock appreciation rights	(2,400,000)	1.96
Forfeited	(260,000)	5.69
Outstanding, December 31, 2011	8,828,200	4.06
Granted	2,865,000	4.21
Exercised	(460,700)	2.96
Forfeited	(375,000)	5.82
Outstanding, December 31, 2012	10,857,500	\$ 4.08

  

Type	Range of exercise price (CAD)	Number of options	Average remaining life in years
Vested (exercisable)	\$1.35 - \$1.70	600,000	1.2
Vested (exercisable)	\$3.14 - \$4.81	4,750,000	2.4
Vested (exercisable)	\$5.58 - \$6.34	2,307,500	3.2
Unvested	\$4.27 - \$4.81	2,915,000	4.8
Unvested	\$5.58 - \$6.34	285,000	3.8
Total	\$1.35 - \$6.34	10,857,500	3.2

The weighted average share price of the Company on the dates options were exercised in 2012 was CAD \$5.31 (2011 – CAD \$6.18). The weighted average price of options exercisable at the end of the year was CAD \$3.92 (December 31, 2011 – CAD \$3.52). The majority of options vest over a service period of one or two years.

### (d) Stock appreciation rights

In August 2011, 3,090,000 SARs associated with previously issued options were activated. These SARs allow for settlement in common shares of the Company or cash at the option of the holder. Of these, 2,400,000 were exercised in September 2011 in exchange for \$2,912 cash and 1,256,093 common shares of the Company, at a total value of \$11,363.

In December 2011, a further 6,000,000 SARs associated with previously issued options were activated. These SARs allow only for settlement in common shares of the Company and thus there is no liability associated with these SARs.

In November 2012, 1,016,000 cash-settled SARs were granted with no attachment to stock options.

At December 31, 2012, \$1,804 (December 31, 2011 - \$2,727) was recorded in accounts payable and accrued liabilities to account for the liability associated with cash-settled SARs and SARs which may be settled in cash at the option of the holder.

During the year ended December 31, 2012, the Company recorded a credit of \$795 against administrative expenses related to changes in the fair value of the stock appreciation rights during the year (2011 – expense of \$1,543).

### (e) Shares reserved for issuance (fully diluted)

	Number of shares
Issued and fully paid at December 31, 2012	198,982,815
Reserved for options and SARs (note 16(c)(d))	10,857,500
Shares reserved for issuance (fully diluted) at December 31, 2012	209,840,315

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

## 16. Share capital (continued)

### (f) Earnings per share

The calculations of earnings per share is based on the following data:

	December 31, 2012	December 31, 2011
Net income attributable to Nevsun shareholders	\$ 145,262	\$ 147,065
Effect of dilutive securities:		
Change in stock appreciation rights liability	(795)	-
Diluted net income attributable to Nevsun shareholders	144,467	
Weighted average number of common shares outstanding for the purpose of basic earnings per share (000s)	199,664	198,053
Dilutive options and SARs	1,347	2,764
Weighted average number of common shares outstanding for the purpose of diluted earnings per share (000s)	201,011	200,817
Earnings per share (in \$'s)		
Basic	\$ 0.73	\$ 0.74
Diluted	\$ 0.72	\$ 0.73

Basic earnings per share is computed by dividing the net income or net income attributable to Nevsun shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution of outstanding stock options in the weighted average number of common shares outstanding during the year, if dilutive.

## 17. Revenues

	December 31, 2012	December 31, 2011
Gold sales	\$ 535,945	\$ 543,153
Silver sales	30,094	4,617
Revenues	\$ 566,039	\$ 547,770

## 18. Operating expenses

	December 31, 2012	December 31, 2011
Materials and supplies	\$ 69,330	\$ 59,688
Salaries and employee benefits	25,428	15,821
Share-based payments	1,051	712
Contractors	7,511	3,944
Change in inventories	83	(6,419)
Other	29	3,066
	\$ 103,432	\$ 76,812

## 19. Administrative expenses

	December 31, 2012	December 31, 2011
Salaries and employee benefits	\$ 3,566	\$ 2,477
Share-based payments	(55)	8,186
Other	4,750	3,808
	\$ 8,261	\$ 14,471

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

## 20. Finance income

	December 31, 2012	December 31, 2011
Interest on due from non-controlling interest	\$ 3,677	\$ 3,625
Gain on sale of available-for-sale investment	-	1,166
Other	279	122
	\$ 3,956	\$ 4,913

## 21. Finance costs

	December 31, 2012	December 31, 2011
Accretion of reclamation liability	\$ 612	\$ 509
Interest on due to non-controlling interest	-	1,681
Other	12	144
	\$ 624	\$ 2,334

## 22. Supplemental cash flow information

	Note	December 31, 2012	December 31, 2011
Non-cash investing and financing transactions			
Dividends declared, paid after year end	13	\$ 9,949	\$ 10,013
Reclassification of share-based payments reserve to share capital upon exercise of options		382	2,737
Depreciation capitalized to mineral properties, plant and equipment	11	-	705
Share-based payments capitalized to mineral properties, plant and equipment	16(c)	-	276
Closure and reclamation increase in mineral properties, plant and equipment	15	4,168	1,074
Interest capitalized to mineral properties, plant and equipment	10,11	-	601
Stock appreciation rights liability settled with common shares	16(d)	-	8,451
Partial disposition of subsidiary recorded directly to retained earnings			
Due from non-controlling interest	10	-	(253,500)
Amounts related to non-controlling interest	10	-	41,739
Income taxes	10	\$ -	\$ 92,849

## 23. Commitments

As of December 31, 2012 the Company had the following contractual obligations:

	Total	Less than 1 year	2-3 years	4-5 years	Over 5 years
Purchase commitments and contractual obligations	\$ 35,534	\$ 35,534	\$ -	\$ -	\$ -
Minimum operating lease payments	4,348	4,348	-	-	-
Total contractual obligations	\$ 39,882	\$ 39,882	\$ -	\$ -	\$ -

The Company has arranged an annually renewable environmental bond for the Bisha Project for \$7,500 at a cost of 1% per annum.

## 24. Segment 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.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

---

## 25. 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 and accounts receivable are classified as loans and receivables and measured at amortized cost; short-term investments as available-for-sale and measured at fair value; accounts payable and accrued liabilities as other financial liabilities and measured at amortized cost.

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.

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.

The Company's Audit Committee oversees how management monitors compliance with the Company's financial 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) Accounts receivable

The Company's accounts receivable are due primarily from the refineries that the Company sells gold and silver to. Management does not expect these counterparties to fail to meet their obligations.

#### (iii) Due from non-controlling interest

Due from non-controlling interest is collected from cash flow from the Bisha Mine that would otherwise be distributed to ENAMCO in accordance with its share ownership. Management expects that Bisha Mine cash flow will be sufficient to allow collection from non-controlling interest.

#### (iv) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Cash and cash equivalents held by the Company have contractual maturities of less than 90 days. The maximum exposure to credit risk at the reporting date was:

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

## 25. Financial instruments and risk management (continued)

### (a) Credit risk (continued)

	December 31, 2012	December 31, 2011
Cash and cash equivalents	\$ 396,404	\$ 347,582
Due from non-controlling interest	63,130	95,629
Accounts receivable	5,233	4,159
	<u>\$ 464,767</u>	<u>\$ 447,370</u>

The Company does not have accounts receivable 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 hand to meet expected operational expenses 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 December 31, 2012, equal \$18,130 (December 31, 2011 - \$24,651). The undiscounted cash flows of the liabilities are equal to their contractual amounts. All of the liabilities presented as accounts payable and accrued liabilities are due within ninety days of December 31, 2012.

### (c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, 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 Canadian dollar (CAD) and 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:

	December 31, 2012	
	CAD	ZAR
Cash and cash equivalents	223	2,010
Accounts receivable	295	20,318
Payables and accruals	(2,662)	(2,066)
Net financial assets (liabilities)	(2,144)	20,262
USD foreign exchange rate	0.99	8.47
Balance sheet exposure in equivalent USD	<u>\$ (2,165)</u>	<u>\$ 2,392</u>

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

## 25. Financial instruments and risk management (continued)

### (c) Market risk (continued)

#### (i) Currency risk

	December 31, 2011	
	CAD	ZAR
Cash and cash equivalents	1,015	4,411
Accounts receivable	78	7,667
Payables and accruals	(2,992)	(13,158)
Net financial liabilities	(1,899)	(1,080)
USD foreign exchange rate	1.02	8.12
Balance sheet exposure in equivalent USD	\$ (1,862)	\$ (133)

#### Currency risk sensitivity analysis

A 10 percent strengthening of the US dollar against the above currencies at December 31 would have decreased net income by the amounts shown below. A 10 percent weakening of the US dollar against the above currencies would have had an equal and opposite effect. This analysis assumes that all other variables, in particular interest rates, remain constant:

2012	Gain (loss)
CAD	\$ 196
ZAR	(217)

  

2011	Gain (loss)
CAD	\$ 170
ZAR	12

#### (ii) Price risk

The Company is subject to price risk fluctuations in market prices of gold and silver and the profitability of the Company's operations is highly correlated to the market prices of these metals. Historically gold and silver prices have fluctuated widely and are affected by numerous factors outside the Company's control. The Company has not hedged any of its precious metals sales. As at December 31, 2012, the Company's trade receivables are not exposed to commodity price risk, as final metal prices for these sales have been determined.

#### (iii) Interest rate risk

Interest rate risk arises on interest accruing on the due from non-controlling interest balance (note 10).

#### (d) Fair value versus carrying amounts

The carrying amount of financial assets and liabilities carried at amortized cost is a reasonable approximation of fair value.

## 26. Capital management

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. The capital of the Company consists of equity attributable to NevSun shareholders and amounts related to non-controlling interest.

The Company manages its capital structure and makes adjustments in light of the changes in its economic environment and the risk characteristics of the Company's assets. To effectively manage the Company's capital requirements, the Company has in place a planning, budgeting and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

# NEVSUN RESOURCES LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of United States dollars, unless otherwise stated)

Years ended December 31, 2012 and 2011

## 27. Key management personnel compensation

Key management personnel compensation is as follows:

	December 31, 2012	December 31, 2011
Short-term employee benefits	\$ 3,515	\$ 2,725
Share-based payments	981	6,022
Total key management personnel compensation	\$ 4,496	\$ 8,747

## 28. Related party transactions

Except for those transactions with the non-controlling interest disclosed in note 10, there were no material transactions with related parties during the years ended December 31, 2012 and 2011.

## 29. Contingencies

Putative class action complaints

Two putative class actions were filed in the United States District Court for the Southern District of New York, on March 13, 2012, and March 28, 2012, respectively, naming the Company and certain officers of the Company as defendants (hereafter the US Actions). The plaintiffs assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, based on alleged misrepresentations and omissions relating to the amount of gold reserves at the Bisha Mine. The plaintiffs purport to bring suit on behalf of all purchasers of the Company's publicly traded securities between March 31, 2011, and February 6, 2012. Plaintiffs seek unspecified damages, interest, costs and attorneys' fees on behalf of the putative class. By order of court, the two cases have been consolidated, and a consolidated amended complaint was filed on August 21, 2012. The consolidated amended complaint expanded the purported class period to run from March 28, 2011 until February 6, 2012 and asserted alleged misrepresentations and omissions relating the Bisha Mine's "strip ratio" throughout 2011, the omission of "material negative trends", allegedly in violation of a disclosure duty under U.S. Regulation S-K, and the departure of certain senior executives at the Bisha Mine. On September 20, 2012, the Company filed a motion to dismiss all claims against the Company and its officers. The legal briefing of that motion was completed on November 7, 2012, and the Company is awaiting a ruling from the courts.

A putative class action also was filed in the Ontario Superior Court of Justice on July 12, 2012, naming the Company and certain officers of the Company as defendants (hereafter the Canadian Actions). The plaintiff's Statement of Claim asserts claims for (i) violation of certain provisions of the Ontario Securities Act, as well as the equivalent statutes of other provinces; (ii) negligent misrepresentation; and (iii) vicarious liability of the Company, based on alleged misrepresentations and omissions relating to the amount of gold reserves, and the grade of the mineable gold reserves, at the Bisha Mine. The plaintiffs purport to bring suit on behalf of all purchasers of the Company's publicly traded securities between March 31, 2011, to and including February 6, 2012, including purchasers of the Company's stock on the Toronto and American Stock Exchanges. The plaintiffs amended their claim on February 13, 2013, to add further detail to their factual allegations. The Canadian Actions are based on essentially the same set of facts and the same alleged misrepresentations as the U.S. Actions. The plaintiff seeks damages in the sum of \$100 million plus interest and costs, on behalf of the putative class. The Canadian Actions are expected to proceed more slowly than the US Actions, due to differences between US and Canadian procedural rules.

It is not possible at this time to estimate the ultimate outcome of the US and Canadian Actions. The Company believes the allegations are without merit and will vigorously defend itself in these actions.