

Nevsun Resources Ltd.

(NSU-T: C\$3.26)

BUY, High Risk

Dundee target: C\$5.50

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A Low Cost, Dividend-Paying Base Metals Producer? Believe it!

NSU-T	New	Last
Rating	--	BUY
Target Price	--	\$5.50
Risk	--	High
Projected return	--	68.7%
NAV/share	--	\$3.53
Target/NAV multiple	--	1.6x

Share Data		
Current price		\$3.26
52-week high/low	H-\$4.63	L-\$2.77
Market Cap (mm)		\$649
EV (mm)		\$359
Shares Outstanding - Basic (mm)		199.0
Shares Outstanding - FD (mm)		209.8
Avg. Trading Volume - One month (mm)		0.26
Net Debt (net cash) (mm)		(\$290)
Dividend per share		\$0.14
Dividend yield		4.3%

Operations		
Locations		Eritrea
Main commodity(ies)		Au, Cu, Zn
2P Reserve (kt ore)		26,510
Yrly Production (mm lbs Cu)		110
Avg. Cash Costs per lb Cu (C1)		\$1.00
NAV/share		\$3.53
P/NAV		0.9x
Discount Rate		10.0%

Forecast				
Year	2012A	2013E	2014E	
Copper Price (US\$/lb)	\$3.61	\$3.24	\$3.30	
Copper Prod. mm lbs	0.0	41.4	199.0	
Revenue (\$mm)	\$566.0	\$195.4	\$350.6	
EPS	\$0.72	\$0.15	\$0.57	
P/E	4.5x	22.5x	5.7x	
EBITDA (\$mm) (60%)	\$429.8	\$100.9	\$279.7	
EV/EBITDA	0.8x	3.6x	1.3x	
CF (\$mm)	\$193.8	\$51.4	\$174.8	
CF/share	\$1.0	\$0.3	\$0.9	
Capex (\$mm)	(\$75.2)	(\$107.0)	(\$54.1)	
FCF (\$mm)	\$140.7	(\$47.7)	\$159.2	

All figures are in US\$ unless otherwise stated
 Source: Factset, DCM, Company Documents

NSU-T: Price/Volume Chart



Source: Factset

Company Description

Nevsun Resources Ltd. is a Vancouver-based mining company whose shares trade on the TSX and NYSE under the symbol NSU. Nevsun is the 60%-owner and operator of the high grade Bisha Mine in Eritrea, northeast Africa.

We visited Nevsun in November of this year and were impressed with the quality of the Bisha Mine, the operations team, the site's infrastructure and with Eritrea, as a country in which to operate a mine. **We are initiating coverage on NSU with a BUY rating and a \$5.50/share target price based on a 3.0x EV/EBITDA multiple to our 2014 EBITDA estimate of \$280M. Our recommendation is grounded on the investment thesis we highlight below.** The low multiple reflects not only the fact that our target-setting EBITDA estimate is based on a year of higher-than-steady state production, but also the higher degree of risk associated with Eritrea.

Investment Thesis - Inexpensive Base Metal Production Growth with Yield

Nevsun's Bisha Mine in Eritrea is among the highest-grade and lowest-cost base metal mines in the world. We believe that NSU's stock has been in an "identity crisis" due to the company's transition from gold production to base metals production. As such we believe that NSU is currently undervalued based on the company's solid balance sheet, dividend yield of 4.3%, and production pipeline. The following aspects underline our positive investment rationale for NSU: **low opex, high grades, solid resource base, peer-leading dividend, expansion potential, inexpensive valuation and solid balance sheet (net cash of \$290M).**

Corporate Overview - Transitioning to Base Metals Production at Bisha

Nevsun Resources Ltd. is a Vancouver-based mining company whose shares trade on the TSX and NYSE under the symbol NSU. Nevsun is the 60%-owner and operator of the high grade Bisha Mine in Eritrea, northeast Africa (the remaining 40% is owned by the Eritrean National Mining Company, ENAMCO). Bisha started production in the first half of 2011 as a gold producer, mining the oxide cap of the ore deposit, and is now making the transition to base metal production as the deeper sulfide ore is exposed. NSU has been diligent in its focus on shareholder return; the company has twice increased its dividend since Q2/11, which now sits at \$0.14/share paid semiannually (two payments of \$0.07/sh or 4.3% yield), and remains untied to performance.

Risks to our Investment Thesis

Risk	Level	Details
Geopolitical/Country	High	Location in Eritrea. Allayed somewhat by our site visit
Q1/14 Resource Update	Medium	Expected to grow base metal reserve base
Zinc Expansion	Medium	Scheduled for completion in late 2015
Legal Proceedings	Medium	Based on resource re-statement that occurred in early 2012
Copper Ramp-up	Low	Commercial copper production was announced on Dec 2, 2013

Source: DCM, Company Documents

Nevsun Resources Ltd. (NSU)

BUY, High Risk	Basic Shares (MM) 199	Analyst: Joseph Gallucci, MBA	Associate: Iain Farmer, B.Eng
Share Price \$3.26	Diluted Shares (MM) 210	514-396-0330	514-396-0325
Target Price \$5.50	Basic Mkt Cap (C\$MM) 649	jgallucci@dundeecapitalmarkets.com	ifarmer@dundeecapitalmarkets.com
NAV \$3.53	Enterprise Value (C\$MM) 359		

COMPANY SUMMARY
 Nevsun Resources Ltd. is a Vancouver-based mining company whose shares trade on the TSX and NYSE under the symbol NSU. Nevsun is the 60%-owner and operator of the high grade Bisha Mine in Eritrea, northeast Africa (the remaining 40% is owned by the Eritrean National Mining Company, ENAMCO). Bisha started production in the second half of 2011 as a gold producer, mining the oxide cap of the ore deposit, and is now making the transition to base metal production as the deeper sulfide ore is exposed. NSU has been diligent in its focus on shareholder return; the company has twice increased its dividend which now sits at \$0.14/share.

INVESTMENT THESIS
 Nevsun's Bisha Mine in Eritrea is among the highest-grade and lowest-cost base metal mines in the world. We believe that NSU's stock has been in an "identity crisis" due to the company's transition from being a gold miner to being a base metals producer. As such we believe that NSU is currently undervalued based on the company's solid balance sheet, dividend yield and production pipeline. The following aspects underline our positive investment rationale for NSU: low opex, high grades, solid resource base, peer-leading dividend, expansion potential at Bisha, inexpensive valuation and solid balance sheet.

VALUATION DATA

	2012A	2013E	2014E	2015E	2016E
EV/EBITDA	0.8x	3.6x	1.3x	1.6x	3.1x
P/E	4.5x	22.5x	5.7x	7.0x	12.9x
P/CF	5.7x	NM	5.3x	4.9x	9.2x
P/S	1.2x	3.5x	1.7x	2.0x	2.9x
Div. Yield	4.3%	4.3%	4.3%	4.3%	4.3%
FCF Yield	17.6%	NM	19.0%	20.2%	10.8%

RESERVES AND RESOURCES

Category	Resources (M Tonnes)	Cu (%)	CuEq (%)	Cont. Cu (M Tonnes)	CuEq (M Tonnes)
Proven and Probable (Incl. Harena)	26510.0	1.84%	4.44%	488.3	1177.0
Resources*					
Measured and Indicated	29890.0	1.73%	4.45%	515.8	1330.1
Inferred	1630.0	1.21%	4.40%	19.8	71.7
Total Resources	31520.0	1.71%	4.45%	535.6	1401.8
Per Pound Valuation					
EV/Cu Eq Resource	\$0.12/lb				

*Resources are inclusive of reserves

INCOME STATEMENT

US\$MM, Year-end Dec.	2012A	2013E	2014E	2015E	2016E
Total Revenue	566.0	195.4	406.5	350.6	235.7
Growth y/y	156%	-65%	108%	-14%	-33%
Costs	162.0	110.3	138.8	137.4	132.9
Other income / expenses	(3.3)	-	-	-	-
EBITDA	429.8	100.9	279.7	225.2	114.8
EBITDA Margin	76%	52%	69%	64%	49%
Depreciation	29.0	15.8	12.0	12.0	12.0
EBIT	400.7	85.1	267.7	213.2	102.8
Unusual/Other Items	-	-	-	-	-
Net Interest Expense	-	(3.3)	(6.4)	(8.4)	(10.1)
Taxes	154.0	36.7	95.8	75.6	35.5
Minority Interest	101.4	22.9	65.1	52.7	27.2
Net Income (Reported)	246.7	51.8	178.3	146.0	77.4
EPS (Reported) (\$/sh)	0.73	0.15	0.57	0.47	0.25
Fully Diluted Shares (MM)	209.8	209.8	209.8	209.8	209.8

INPUT PRICES

Key Commodities	2012A	2013E	2014E	2015E	Long Term
Copper US\$/lbs	3.61	3.24	3.30	3.50	2.75
Zinc US\$/lbs	0.89	0.87	0.90	1.00	0.90
Lead US\$/lbs	0.94	0.98	1.00	1.00	0.90
Nickel US\$/lbs	7.95	6.83	6.85	8.50	8.50
Gold US\$/oz	1,668	1,423	1,373	1,430	1,325
Silver US\$/oz	31.13	24.17	22.88	23.83	22.00

NET ASSET VALUE

Assets US\$	NAV (MM)	/Share	% NAV
BISHA	\$420	\$2.00	57%
Total Mining and Investment Assets	\$420	\$2.00	57%
Working Capital	\$339	\$1.62	46%
Balance Sheet Items & Expenditures	-\$18	-\$0.09	-2%
Total	\$741	\$3.53	100%

CASH FLOW STATEMENT

US\$MM, except per share	2012A	2013E	2014E	2015E	2016E
Operating Income	400.7	85.1	267.7	213.2	102.8
Plus: D&A	29.0	15.8	12.0	12.0	12.0
EBITDA	429.8	100.9	279.7	225.2	114.8
Adjusted EBITDA	429.8	100.9	279.7	225.2	114.8
Less: Cash Taxes	-	36.7	95.8	75.6	35.5
Less: Capital Expenditures	75.2	107.0	54.1	11.3	5.3
Less: Δ in Working Capital	233.9	43.5	-	-	-
Free Cash Flow	140.7	(47.7)	159.2	167.7	103.4
Less: Interest Expense	-	-	-	-	-
Less: Dividend	(20.0)	(38.6)	(29.4)	(29.4)	(29.4)
FCF Less Int. & Div.	120.7	(86.3)	129.8	138.3	74.0
FCF Growth	189%	-134%	434%	5%	-38%
CF / Share	0.92	0.25	0.83	0.69	0.38

FINANCIAL RISK RATIOS 2013E (US\$MM)

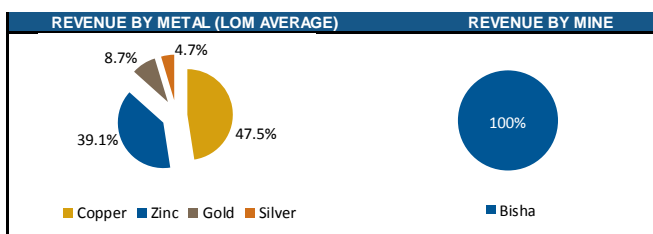
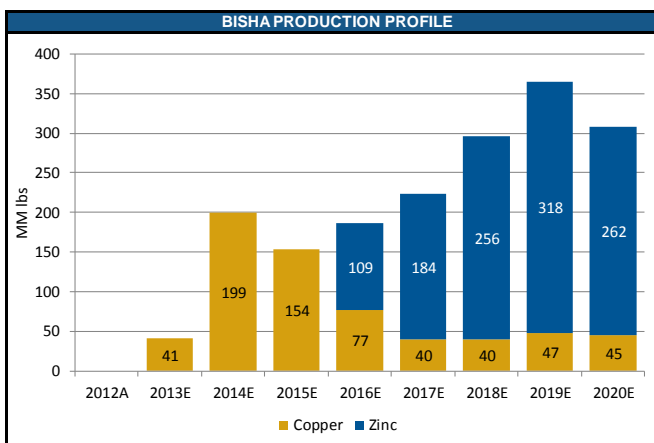
EBITDA	\$101	Total Debt / EBITDA	0.9x
EBIT / Int. Exp.	NM	Total Debt / Capital	0.1x
EBITDA / Int. Exp.	NM	Total Debt / Equity	0.1x

TOP 5 SHAREHOLDERS

Name	Shares	Percentage
M&G Investment Management Ltd.	38,590,000	19.3%
BlackRock Asset Management Canada Ltd.	35,394,658	17.8%
Franklin Advisers, Inc.	12,865,800	6.5%
Acadian Asset Management LLC	4,827,163	2.4%
Schroder Investment Management Ltd.	4,006,144	2.0%
Top 5 Shareholders	95,593,765	48.0%
Top 10 Shareholders	109,496,874	54.9%
Insider Ownership	2,918,993	1.5%

BALANCE SHEET

C\$MM	2012A	2013E	2014E	2015E	2016E
Cash	396.4	287.7	379.0	482.1	527.4
LT Assets	403.6	511.4	553.5	552.8	546.1
Total Assets	873.7	878.3	1,011.6	1,114.1	1,152.6
Short Term Debt	71.7	30.2	30.2	30.2	30.2
Long term Debt	38.7	61.6	61.6	61.6	61.6
Total Liabilities	110.4	91.7	91.7	91.7	91.7
Shareholders' Equity	763.3	786.5	919.9	1,022.3	1,060.9



Source: Company Documents, Factset, Iniierra, DCM

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INVESTMENT THESIS

Low Cost, Dividend-Paying Base Metal Producer in Eritrea

Nevsun's Bisha Mine in Eritrea is among the highest-grade and lowest-cost base metal mines in the world. We believe that NSU's stock has been in an "identity crisis" due to the company's transition from gold production to base metals production. As such we believe that NSU is currently undervalued based on the company's solid balance sheet, dividend yield of 4.3%, and solid production pipeline. Below we present our investment rationale for NSU:

- **Low cost** - We estimate that Nevsun's all-in costs are \$1.80/lb putting the company in the second quartile of global copper producers (C1 costs average ~\$1.00/lb LOM). This positions NSU to benefit from a competitive cost structure and higher margins at all points in the cycle.
- **High grade (4th Highest Grade Open-Pit Mine in the World)** - Bisha's high average grade contributes to the mine's low operating costs. Copper equivalent grade is ~4.37% at Bisha ranking it among the world's highest-grade copper producers.
- **Solid Resource Base** - It is estimated that Bisha has 11 years left of mine life. This provides Nevsun with a solid operating base on which to grow and the company should be under no pressure to acquire a growth project that doesn't fit with its current strategy. Additionally, we believe that NSU can grow resources at Bisha.
- **Expansion potential?** - NSU has significant exploration potential in Eritrea. Hambok, located just 16km away from Bisha could represent additional feed for the Bisha mill. (Recent drilling from exploration property Hambok returned 3 holes all with >45m intersects grading above 1.5% Cu and 2.0% Zn)
- **Dividend** - Nevsun is one of the rare companies in our universe that pays a dividend. The company maintains a \$0.14/share dividend, paid semiannually (two payments of \$0.07/share), and untied to performance. This equates to ~4.3% yield which is amongst the highest compared to other miners (such as Teck Resources with a 3.6% yield).
- **Undervalued** - Because NSU has just completed its transition from gold to base metals production, we believe the company remains undervalued on both an EV/EBITDA basis and on a P/CF basis when compared to its peers.
- **Solid Balance Sheet** - After just over two years of production at Bisha, Nevsun has built a solid financial position through prudent capital spending and strong operational performance. The company currently holds \$290M in cash and no debt.
- **Good infrastructure** - Although Bisha is located in northeastern Africa, the mine has good access to a Red Sea port, an airstrip and the mine and mill are already fully-built. The company also controls a brand new fleet of concentrate transport trucks (owned by the state-owned trucking company) and, at the port, the company operates a state-of-the-art Rotainer concentrate loading system.
- **High liquidity and solid major shareholder base** - NSU's stock is liquid (~2M shares per day) and the current shareholder base is mainly comprised of what we believe are long term holders.
- **Site Visit** - Although Eritrea may be considered risky by some, the November site visit increased our confidence in the Nevsun story and made us comfortable with Eritrea as an operating environment.
- **Inexpensive Comparative Valuation** - Compared to peers, NSU is inexpensive, trading below peers at 1.3x EV/EBITDA and 5.9x P/E (compared to the sector average of 5.1x EV/EBITDA and 12.3x P/E) in 2014. Looking at steady state earnings, NSU trades at 3.7x EV/EBITDA and 9.8x P/E, still below the sector.
- **Conservative Management** - NSU's management team is non-promotional and conservative in their public communications. The company fosters a culture of under promising and over delivering.

Bottom Line - Initiating Coverage with a BUY

We visited Nevsun in November of this year. We were impressed with the quality of the Bisha Mine, the operations team, and the site's infrastructure as well as with the country.

Based on the reasons we highlight above we are initiating coverage on NSU with a BUY rating and a \$5.50/share target price based on a 3.0x EV/EBITDA multiple to our 2014 EBITDA estimate of \$280M. Our low multiple reflects not only the fact that our target-setting EBITDA estimate is based on a year of higher-than-steady state production, but also the relative higher degree of country risk associated with Eritrea.

VALUATION - INNEXPENSIVE ON EARNINGS-BASED METRICS

We estimate that over the next three years, when Bisha is in the middle of its highest copper production phase, Nevsun will generate substantial operating cash flow of \$110M/yr and ~\$80M/yr while in steady state production for the LOM at an EBITDA margin of over 50%. NSU is trading at 1.3x EV/EBITDA in 2014, but at 3.7x when the steady state LOM EBITDA of ~\$100M is considered (this compares favorably to the sector trading at 5.1x EV/EBITDA).

Below we show what our implied target price would be based on various EV/EBITDA multiples for our EBITDA estimates in different years.

EV/EBITDA Valuation - Peak EBITDA in 2014

Year	2013E	2014E	2015E	2016E	2019E	2020E	2021E
EBITDA C\$ to NSU	\$100.9	\$279.7	\$225.2	\$114.8	\$97.7	\$84.6	\$118.4
3.0x	\$2.83	\$5.38	\$4.60	\$3.02	\$2.78	\$2.59	\$3.08
3.5x	\$3.07	\$6.05	\$5.14	\$3.30	\$3.01	\$2.79	\$3.36
4.0x	\$3.31	\$6.71	\$5.68	\$3.57	\$3.25	\$3.00	\$3.64
4.5x	\$3.55	\$7.38	\$6.21	\$3.84	\$3.48	\$3.20	\$3.92
5.0x	\$3.79	\$8.05	\$6.75	\$4.12	\$3.71	\$3.40	\$4.20
5.5x	\$4.03	\$8.71	\$7.29	\$4.39	\$3.94	\$3.60	\$4.49
6.0x	\$4.27	\$9.38	\$7.82	\$4.66	\$4.18	\$3.80	\$4.77
6.5x	\$4.51	\$10.05	\$8.36	\$4.94	\$4.41	\$4.00	\$5.05
7.0x	\$4.75	\$10.71	\$8.90	\$5.21	\$4.64	\$4.21	\$5.33
7.5x	\$4.99	\$11.38	\$9.43	\$5.49	\$4.88	\$4.41	\$5.61
8.0x	\$5.23	\$12.05	\$9.97	\$5.76	\$5.11	\$4.61	\$5.90

Source: Company Documents, DCM

Below we present our NAV estimate for NSU. It comprises the Bisha asset and attributes value to the company's strong balance sheet. At NSU's current stock price the company is trading at 0.9x NAV, above peers at 0.6x (note, we do not include exploration or expansion potential in our NAV).

NAV Estimate for NSU - Split between Bisha and Cash

Asset	\$mm	\$/sh	%
BISHA	\$420	\$2.00	57%
Subtotal - Assets (US\$)	\$420	\$2.00	57%
Working Capital	\$339	\$1.62	46%
Other Liabilities - Total debt	\$0	\$0.00	0%
Asset Retirement	(\$18)	(\$0.09)	(2%)
Subtotal - B/S items (US\$)	\$321	\$1.53	43%
Net Asset Value - Basic (C\$)	\$741	\$3.72	
Net Asset Value - FD (C\$)	\$741	\$3.53	

Source: Company Documents, DCM

The following is included in our NAV estimate for NSU:

- The Bisha mine with 11 years left of production at \$420M or \$2.00/share
- Working capital of \$339M, or \$1.62/share, includes \$290M in cash
- An asset retirement obligation of \$18.2M or \$0.09/share
- A basic share count of 199M or 210M on a fully-diluted basis
- No debt
- **Note:** We use a 10% discount rate and base all cash flows off our Dundee Base Metals Price Commodity Price Forecast

Dundee Commodity Price Forecast

		2011A	2012A	Forecast					LT
		2013	2014	2015	2016	2017	2018		
Copper	US\$/lb	4.00	3.61	3.24	3.30	3.50	3.50	3.50	2.75
Zinc	US\$/lb	0.99	0.89	0.87	0.90	1.00	1.00	1.00	0.90
Lead	US\$/lb	1.09	0.94	0.98	1.00	1.00	1.00	1.00	0.90
Nickel	US\$/lb	10.37	7.95	6.83	6.85	8.50	8.50	8.50	8.50
Cobalt	US\$/lb	17.61	13.65	12.23	12.50	14.00	14.00	14.00	14.00
Molybdenum	US\$/lb	15.83	12.78	10.38	11.00	11.00	11.00	11.00	11.00
HCC	US\$/t	293	206	157	160	180	180	180	180
RB Thermal	US\$/t	121	93	81	80	100	100	100	100

Source: DCM

Commodity Price Sensitivity

Being a relatively low cost producer, NSU is less sensitive to our commodity price assumptions compared to many of its peers. We estimate a ~1% change in our NAV for both a \$0.25/lb change in our long term copper price and a \$0.05/lb change in our zinc price estimate. Notably, our long term price deck only starts in 2018. If we consider a price change in 2014, we estimate that in altering our copper price assumption of \$3.30/lb by \$0.25/lb would produce a change in our NAV closer to 2%. Below we show our NAV sensitivity to changes in commodity prices and discount rates.

NSU's Commodity Price Sensitivity - Low costs result in low price sensitivity

NAV											NAV											
Long-term copper price (US\$/lb)											Long-term zinc price (US\$/lb)											
SPOT											2016 Futures											
											\$0.70	\$0.75	\$0.80	\$0.85	\$0.90	\$0.95	\$1.00	\$1.05	\$1.10	\$1.15	\$0.85	
Discount rate (%)	7%	\$1.75	\$2.00	\$2.25	\$2.50	\$2.75	\$3.00	\$3.25	\$3.50	\$3.75	\$3.18	7%	\$3.48	\$3.55	\$3.62	\$3.68	\$3.75	\$3.82	\$3.89	\$3.95	\$4.02	\$3.68
	8%	\$3.45	\$3.51	\$3.56	\$3.62	\$3.67	\$3.73	\$3.78	\$3.84	\$3.89	\$3.77	8%	\$3.42	\$3.48	\$3.55	\$3.61	\$3.67	\$3.74	\$3.80	\$3.86	\$3.93	\$3.61
	9%	\$3.39	\$3.45	\$3.50	\$3.55	\$3.60	\$3.65	\$3.70	\$3.75	\$3.81	\$3.69	9%	\$3.36	\$3.42	\$3.48	\$3.54	\$3.60	\$3.66	\$3.72	\$3.78	\$3.84	\$3.54
	10%	\$3.34	\$3.39	\$3.43	\$3.48	\$3.53	\$3.58	\$3.63	\$3.68	\$3.72	\$3.61	10%	\$3.31	\$3.37	\$3.42	\$3.48	\$3.53	\$3.59	\$3.64	\$3.70	\$3.75	\$3.48
	11%	\$3.29	\$3.33	\$3.38	\$3.42	\$3.47	\$3.51	\$3.56	\$3.60	\$3.65	\$3.54	11%	\$3.26	\$3.31	\$3.36	\$3.41	\$3.47	\$3.52	\$3.57	\$3.62	\$3.67	\$3.41
	12%	\$3.23	\$3.28	\$3.32	\$3.36	\$3.41	\$3.45	\$3.49	\$3.53	\$3.58	\$3.48	12%	\$3.21	\$3.26	\$3.31	\$3.36	\$3.41	\$3.45	\$3.50	\$3.55	\$3.60	\$3.36
	13%	\$3.19	\$3.23	\$3.27	\$3.31	\$3.35	\$3.39	\$3.43	\$3.47	\$3.51	\$3.42	13%	\$3.16	\$3.21	\$3.26	\$3.30	\$3.35	\$3.39	\$3.44	\$3.49	\$3.53	\$3.30

% Chg											% Chg											
Long-term copper price (US\$/lb)											Long-term zinc price (US\$/lb)											
SPOT											SPOT											
											\$0.70	\$0.75	\$0.80	\$0.85	\$0.90	\$0.95	\$1.00	\$1.05	\$1.10	\$1.15	\$0.85	
Discount rate (%)	7%	(0.3%)	1.3%	3.0%	4.6%	6.3%	7.9%	9.6%	11.2%	12.9%	9.1%	7%	(1.3%)	0.6%	2.5%	4.4%	6.3%	8.2%	10.1%	12.0%	13.9%	4.4%
	8%	(2.1%)	(0.6%)	1.0%	2.5%	4.1%	5.6%	7.2%	8.7%	10.3%	6.7%	8%	(3.1%)	(1.3%)	0.5%	2.3%	4.1%	5.8%	7.6%	9.4%	11.2%	2.3%
	9%	(3.8%)	(2.4%)	(0.9%)	0.5%	2.0%	3.4%	4.9%	6.4%	7.8%	4.5%	9%	(4.7%)	(3.0%)	(1.4%)	0.3%	2.0%	3.7%	5.3%	7.0%	8.7%	0.3%
	10%	(5.4%)	(4.1%)	(2.7%)	(1.3%)	0.0%	1.4%	2.8%	4.1%	5.5%	2.4%	10%	(6.2%)	(4.7%)	(3.1%)	(1.5%)	0.0%	1.6%	3.2%	4.7%	6.3%	(1.5%)
	11%	(6.9%)	(5.7%)	(4.4%)	(3.1%)	(1.8%)	(0.5%)	0.8%	2.0%	3.3%	0.4%	11%	(7.7%)	(6.2%)	(4.8%)	(3.3%)	(1.8%)	(0.3%)	1.1%	2.6%	4.1%	(3.3%)
	12%	(8.4%)	(7.2%)	(6.0%)	(4.7%)	(3.5%)	(2.3%)	(1.1%)	0.1%	1.3%	(1.5%)	12%	(9.1%)	(7.7%)	(6.3%)	(4.9%)	(3.5%)	(2.2%)	(0.8%)	0.6%	2.0%	(4.9%)
	13%	(9.7%)	(8.6%)	(7.4%)	(6.3%)	(5.2%)	(4.0%)	(2.9%)	(1.8%)	(0.6%)	(3.2%)	13%	(10.4%)	(9.1%)	(7.8%)	(6.5%)	(5.2%)	(3.9%)	(2.6%)	(1.3%)	0.0%	(6.5%)

NAV											NAV											
Long-term gold price (US\$/oz)											Long-term gold price (US\$/oz)											
SPOT											SPOT											
											\$1,225	\$1,300	\$1,375	\$1,450	\$1,525	\$1,600	\$1,675	\$1,750	\$1,825	\$1,900	\$1,220	
Discount rate (%)	7%	\$3.73	\$3.74	\$3.74	\$3.75	\$3.75	\$3.76	\$3.76	\$3.76	\$3.77	\$3.73	7%	5.8%	5.9%	6.0%	6.2%	6.3%	6.4%	6.5%	6.7%	6.8%	5.8%
	8%	\$3.66	\$3.66	\$3.67	\$3.67	\$3.67	\$3.68	\$3.68	\$3.69	\$3.69	\$3.66	8%	3.6%	3.7%	3.8%	3.9%	4.1%	4.2%	4.3%	4.4%	4.5%	3.6%
	9%	\$3.58	\$3.59	\$3.59	\$3.60	\$3.60	\$3.60	\$3.61	\$3.61	\$3.62	\$3.58	9%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	1.5%
	10%	\$3.52	\$3.52	\$3.52	\$3.53	\$3.53	\$3.53	\$3.54	\$3.54	\$3.55	\$3.52	10%	(0.4%)	(0.3%)	(0.2%)	(0.1%)	0.0%	0.1%	0.2%	0.3%	0.4%	(0.4%)
	11%	\$3.45	\$3.46	\$3.46	\$3.46	\$3.47	\$3.47	\$3.47	\$3.48	\$3.48	\$3.45	11%	(2.2%)	(2.1%)	(2.0%)	(1.9%)	(1.8%)	(1.7%)	(1.6%)	(1.5%)	(1.4%)	(2.2%)
	12%	\$3.39	\$3.40	\$3.40	\$3.40	\$3.41	\$3.41	\$3.41	\$3.41	\$3.42	\$3.39	12%	(3.9%)	(3.8%)	(3.7%)	(3.6%)	(3.5%)	(3.4%)	(3.4%)	(3.3%)	(3.2%)	(3.9%)
	13%	\$3.34	\$3.34	\$3.34	\$3.34	\$3.35	\$3.35	\$3.35	\$3.36	\$3.36	\$3.33	13%	(5.5%)	(5.4%)	(5.3%)	(5.3%)	(5.2%)	(5.1%)	(5.0%)	(4.9%)	(4.8%)	(5.5%)

NAV Sensitivity:

- A \$0.25/lb change in Cu price = ~1.4% change in NAV
- A \$0.05/lb change in Zn price = ~1.6% change in NAV
- A \$75/oz change in Au price = ~0.1% change in NAV
- A 1% change in discount rate = ~2.0% change in NAV

Source: DCM

Resource-Based Valuation - Only appears expensive because all resources are "paid for" in current mine plan and exploration assets are limited

Because almost all of Bisha's resources have already been converted into reserves, and a quantity of these reserves have already been mined out, NSU appears expensive on an EV/lb metric. Another reason for the apparently high valuation of NSU on this metric is the relatively short mine life. We believe that the mine life can be extended through exploration and further, once the new resource estimate comes out early next year, we will see if additional resources are added which would temper the valuation.

NSU Appears Expensive on the EV/lb Metric...And Rightfully So

Name	Ticker	Analyst	Key Operations Country	Key Shareholders	Development Stage	Price	Price (US\$)	Shares o/s	Market Cap	EV	Resources	Cu	Cont. CuE	EV/CuEq
						Local Curr.	16-Dec-13	(mm)	(US\$ mm)	(US\$ mm)	(Mt)	Grade (%)	(mm lbs)	(US\$/lb)
Producers														
Altona Mining Limited	AOH-ASX	-	Finland, Australia	L1 Capital, Perpetual L	Prodn	\$0.15	\$0.13	529	\$71	\$70	289	0.59%	11,208	€0.63
Antofagasta plc	ANTO-LON	-	Chile	Lukic family	Prodn	\$7.68	\$12.52	986	\$12,339	\$12,633	11,933	0.43%	249,602	€5.06
Capstone Mining Corp.	CS-TSX	JG	Mexico, Canada	Pala, Korea Resource	Prodn	\$2.85	\$2.69	380	\$1,023	\$798	489	0.46%	16,049	€4.97
Copper Mountain Mining Corporati	CUM-TSX	-	Canada	FMR LLC	Prodn	\$1.57	\$1.48	116	\$173	\$522	410	0.34%	6,823	€7.64
Discovery Metals Limited	DML-ASX	-	Bolswana	Blackrock, Cathay	Prodn	\$0.05	\$0.05	487	\$24	\$135	209	1.25%	14,909	€0.91
First Quantum Minerals Ltd.	FM-TSX	DC	Zambia, Finland, Australia		Prodn	\$16.99	\$16.06	591	\$9,489	\$13,234	3,795	0.54%	165,847	€7.98
Freeport-McMoRan Copper & Gold	FCX	-	Global		Prodn	\$34.60	\$34.60	1,038	\$35,920	\$59,861	27,803	0.45%	817,906	€7.32
Hillgrove Resources Limited	HGO-ASX	-	Australia		Prodn	\$0.09	\$0.08	1,023	\$80	\$100	33	0.80%	1,480	€6.79
Hudbay Minerals Inc.	HBM-TSX	DC	Canada, Peru		Prodn	\$7.71	\$7.29	172	\$1,254	\$1,119	1,218	0.29%	36,311	€3.08
Imperial Metals Corporation	III-TSX	-	Canada	EDCO, Fairholme Cap	Prodn	\$14.98	\$14.16	75	\$1,057	\$1,318	3,951	0.28%	101,267	€1.30
Katanga Mining Limited	KAT-TSX	DC	DRC	Glencore	Prodn	\$0.39	\$0.37	1,907	\$703	\$2,629	356	3.41%	94,635	€2.78
Kazakhmys PLC	KAZ-LON	-	Kazakhstan	K.Vladimir, Gov. Kazal	Prodn	\$1.96	\$3.19	524	\$1,672	\$2,938	6,081	0.50%	177,160	€1.66
Lundin Mining Corporation	LUN-TSX	DC	DRC, Europe	Lundin family	Prodn	\$4.09	\$3.87	584	\$2,260	\$2,332	408	2.13%	72,542	€3.22
Mawson West Ltd	MWE-TSX	-	DRC	Anvil Mining	Prodn	\$0.52	\$0.49	168	\$83	\$50	9	3.21%	1,469	€3.43
Mercator Minerals Ltd.	ML-TSX	JG	US, Mexico	Nevada Copper, IG In	Prodn	\$0.10	\$0.09	316	\$28	\$140	1,118	0.17%	15,982	€0.88
Nevsun Resources Ltd.	NSU-TSX	JG	Eritrea	Gov't of Eritrea	Prodn	\$3.26	\$3.08	199	\$614	\$490	32	4.01%	3,956	€12.39
OZ Minerals Limited	OZL-ASX	-	Australia	M&G Investment	Prodn	\$3.00	\$2.69	303	\$816	\$419	563	1.13%	42,477	€0.99
Panaust Limited	PNA-ASX	-	Laos	Province of Guangdong	Prodn	\$1.55	\$1.39	595	\$827	\$1,081	699	0.46%	23,109	€4.68
Taseko Mines Limited	TKO-TSX	JG	Canada	RS Investment	Prodn	\$1.95	\$1.84	193	\$355	\$532	1,723	0.27%	37,437	€1.42
Teck Resources Limited Class B	TCK.B-TSX	DC	Canada	Fullbloom Investment	Prodn	\$24.58	\$23.24	576	\$13,391	\$18,660	9,920	0.44%	296,222	€6.30
											Average	1.06%	109,319	€4.36

Source: Company Documents, Intierra, Factset, DCM

Peer Group Valuation Multiple Comparison

Looking at consensus valuation multiples, NSU appears inexpensive on all metrics. In 2014 when the copper phase is expected to be at its peak, NSU's revenue-based valuation multiples are expected to be at their lows. Further, the 4.3% dividend yield for a small-capitalization copper producer is unique to NSU in our coverage universe.

NSU is Inexpensive Versus Sector on Consensus Metrics

Copper & Zinc																		
Name	Ticker	Commod	Exch. Curr.	Price 13-Dec	Mcap (US\$m)	EV (US\$m)	EV/EBITDA			P/E			P/CFPS			Net Debt		Analyst
							2012	2013	2014	2012	2013	2014	2012	2013	2014	\$mm	% Mcap	
Producers																		
OZ Minerals Limited	OZL-AU	Cu, Au, Ag	AUD	\$2.95	\$802	\$118	0.3x	1.8x	0.6x	5.1x	nmf	nmf	2.4x	6.4x	4.1x	(\$219)	(27%)	--
Tiger Resources Limited	TGS-AU	Cu	AUD	\$0.32	\$219	\$221	4.8x	2.7x	1.2x	nmf	6.4x	2.8x	6.3x	3.7x	1.6x	\$41	19%	--
Nevsun Resources Ltd.	NSU-CAN	Cu, Au, Zn	CAD	\$3.30	\$620	\$495	1.2x	6.4x	1.5x	4.3x	nmf	4.7x	2.4x	10.0x	2.8x	(\$325)	(52%)	JG
Capstone Mining Corp.	CS-CAN	Cu, Ag, Au	CAD	\$2.82	\$1,009	\$785	5.4x	6.1x	2.7x	13.3x	28.8x	8.0x	8.9x	8.9x	4.7x	\$159	16%	JG
Kazakhmys PLC	KAZ-LON	Cu, Zn, Au	GBP	1.91	\$1,389	\$2,102	2.2x	3.2x	3.5x	3.7x	8.6x	24.4x	2.4x	4.5x	5.3x	\$1,475	106%	--
Sandfire Resources NL	SFR-AU	Cu, Zn, Pb	AUD	\$5.92	\$825	\$1,014	nmf	4.2x	4.1x	nmf	10.3x	7.7x	nmf	4.6x	4.2x	\$185	22%	--
Panaust Limited	PNA-AU	Cu, Au	AUD	\$1.52	\$841	\$989	3.0x	3.8x	4.5x	5.7x	9.5x	13.2x	4.0x	6.3x	5.1x	\$99	12%	--
Antofagasta plc	ANTO-LON	Cu, Au, Mo	GBP	7.61	\$12,212	\$11,464	3.0x	4.5x	4.6x	9.3x	14.6x	14.7x	4.6x	7.6x	7.0x	(\$1,266)	(10%)	--
Taseko Mines Limited	TKO-CAN	Mo, Cu, Au	CAD	\$2.03	\$368	\$543	16.4x	11.3x	4.8x	nmf	nmf	7.5x	8.3x	6.9x	3.9x	\$159	43%	JG
Freeport-McMoRan Copper & Katanga Mining Limited	FCX-USA	Cu, Au, Mo	USD	\$34.34	\$35,650	\$59,423	8.6x	7.2x	5.6x	10.8x	13.1x	10.9x	7.4x	5.3x	4.6x	\$18,698	52%	--
Copper Mountain Mining Corp.	CUM-CAN	Cu, Au	CAD	\$0.40	\$710	\$2,636	nmf	11.6x	5.7x	18.6x	12.4x	5.3x	nmf	3.7x	1.9x	na	na	DC
Hudbay Minerals Inc.	HBM-CAN	Cu, Au	CAD	\$1.55	\$170	\$545	9.0x	10.4x	6.0x	7.3x	28.8x	4.6x	3.0x	3.6x	2.5x	\$239	141%	JG
Lundin Mining Corporation	LUN-CAN	Cu, Zn, Au	CAD	\$7.83	\$1,270	\$1,134	6.2x	13.3x	6.1x	nmf	nmf	27.4x	9.1x	nmf	12.0x	\$23	2%	DC
Lundin Mining Corporation	LUN-CAN	Cu, Zn, Pb	CAD	\$4.11	\$2,264	\$2,335	8.4x	7.0x	7.1x	12.1x	16.4x	13.1x	11.7x	9.5x	7.7x	\$156	7%	DC
First Quantum Minerals Ltd.	FM-CAN	Cu, Ni, Au	CAD	\$17.00	\$9,465	\$13,211	11.5x	9.2x	7.2x	13.7x	17.1x	14.2x	10.8x	8.0x	7.1x	\$2,740	29%	DC
Southern Copper Corporation	SCCO-USA	Cu, Mo, Ag	USD	\$25.48	\$21,403	\$23,481	6.3x	8.0x	7.7x	11.2x	13.5x	13.7x	6.4x	10.8x	10.2x	\$2,192	10%	--
Imperial Metals Corporation	IIM-CAN	Cu, Au, Mo	CAD	\$14.87	\$1,046	\$1,298	15.8x	16.4x	14.2x	27.9x	26.0x	24.9x	12.3x	15.4x	16.7x	\$305	29%	--
Producers Average					\$5,310	\$7,164	6.8x	7.5x	5.1x	11.0x	15.8x	12.3x	6.7x	7.2x	6.0x		24.9%	

Source: Factset, Bloomberg

Comparing our estimates to the consensus estimates for 2014 we note that our numbers are largely in line and that NSU appears inexpensive regardless.

Estimates, Dundee versus Consensus

NSU-T	2014					
	EBITDA	EV/EBITDA	CF	P/CF	EPS	P/E
Consensus	\$353.7	1.0x	\$227.0	2.9x	\$0.71	4.8x
Dundee	\$279.7	1.3x	\$174.8	3.9x	\$0.57	5.7x

Source: Factset, DCM

We note the low EV/EBITDA multiple that NSU is trading at is largely due to the fact that 2014-2017 will be years of higher-than-average earnings for the company. When using steady state earnings we see that NSU is still trading below peers at 3.7x EV/EBITDA and 9.8x P/E (compared to the sector average of 5.1x EV/EBITDA and 12.3x P/E).

RISKS

Risk	Level	Details
Geopolitical/Country	High	Location in Eritrea. Allayed somewhat by our site visit
Q1/14 Resource Update	Medium	Expected to grow base metal reserve base
Zinc Expansion	Medium	Scheduled for completion in late 2015
Legal Proceedings	Medium	Based on resource re-statement that occurred in early 2012
Copper Ramp-up	Low	Commercial copper production was announced on Dec 2, 2013

Source: Company Documents, DCM

As with all mining companies, Nevsun is subject to: commodity price uncertainty, unforeseen operational issues, general market threats, and other business risks generally present in the global marketplace. Beyond generic risks, company-specific risks for Nevsun include but are not limited to the following:

- Geopolitical Risk (HIGH):** Given that Bisha is located in Eritrea, where there is poor track record of human rights and issues with corruption, NSU has an elevated degree of social and political risk associated with its operation. We believe that this risk is somewhat mitigated for NSU shareholders by having the government as their partner, but nonetheless we remain wary of what is the company's only operating environment for now. **Note we discuss NSU's country risk at length in the section on Eritrea below.*
- Copper Phase Ramp-up (LOW):** Although Bisha has already achieved commercial copper production, full production levels have yet to be attained. We believe that Bisha's high grades provide operating flexibility, but the market may punish the stock if ramp-up to full production takes longer than expected. Worth noting is that some investors may remain skeptical due to NSU's resource estimation issues experienced in 2012.
- Zinc Phase Expansion (MEDIUM):** The last capital project that is scheduled for Bisha is the ~\$50M zinc expansion where a zinc flotation circuit will be added to the existing mill. To account for capex drift, we have increased the projected capital in our estimate to \$80M, so we view the zinc expansion to be of lower risk to our valuation given that our estimate is already conservative.
- Legal Proceedings (MEDIUM):** Legal proceedings concerning the fall in NSU's stock price after the revised gold reserve estimate came out in February 2012 are still ongoing. Plaintiffs seek unspecified damages, interest, costs and attorneys' fees. The hearings have been put on hold pending a mediation that was scheduled for December 9, 2013. There has been no further update but management believes that insurance available under current policies is adequate to cover any potential costs.
- Q1/14 Resource Update (MEDIUM):** NSU is to release an updated resource estimate for Bisha early in 2014. We expect that the new report will add at-depth reserves to the mine life but any perceived disappointment from the market could hurt the stock.
- One Asset Company (MEDIUM) -** Since Bisha is NSU's only operating asset, NSU's stock price is more susceptible to operational shortcomings at its mine.
- Acquisition (LOW) -** We believe that NSU is looking at M&A opportunities but given management's disciplined growth strategy, we see it as unlikely that NSU will overpay.

CORPORATE OVERVIEW - GROWTH DRIVEN BY HIGH GRADE BISHA OREBODY

Nevsun Resources Ltd. is a Vancouver-based mining company whose shares trade on the TSX and NYSE under the symbol NSU. Nevsun is the 60%-owner and operator of the high grade Bisha Mine in Eritrea, northeast Africa. Bisha started production in the second half of 2011 as a gold producer, mining the oxide cap of the ore deposit, and is now making the transition to base metal production as the deeper sulfide ore is exposed. NSU has been diligent in its focus on shareholder return; the company has twice increased its dividend since Q2/11, which now sits at \$0.14/share paid semiannually (two payments of \$0.07/sh or 4.3% yield), and remains untied to performance.

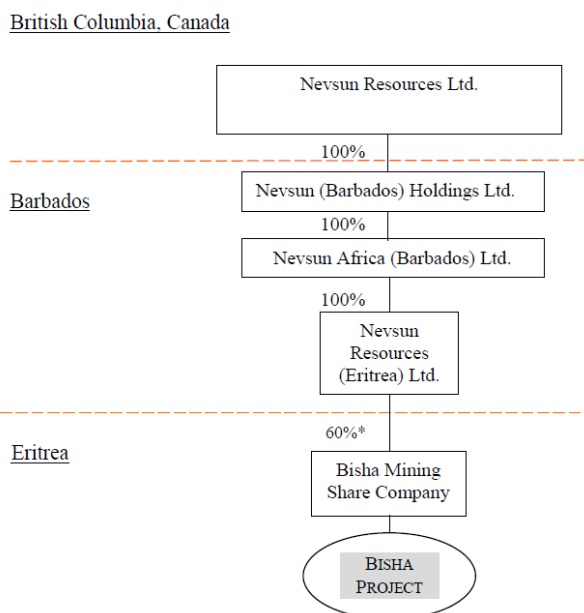
NSU's Operation: Bisha is Located in Eritrea, NE Africa

Source: Company Documents

Company Ownership/Structure

The Bisha Mine is held through Nevsun’s 60%-owned Eritrean-registered subsidiary, Bisha Mining Share Company (BMSC); the remaining 40% is held by Eritrean National Mining Corp. (ENAMCO). NSU's 60% share in BMSC is held by Nevsun Holdings Ltd., a Barbados-domiciled holding company, which in turn is held by Nevsun Resources Ltd. the parent company.

NSU's Corporate Structure



Source: Company Documents

ENAMCO's 40% ownership in Bisha includes a 10% free carried interest and a 30% paid participating interest whereby the Eritrean Government pays its 30% share of all capital invested in the project. This has resulted in ENAMCO contributing \$80-90M for Bisha to date. (see section on Eritrea below for more details on ENAMCO)

Shareholders - Solid Institutional Base

Institutional shareholders own about 72% of NSU with the top ten institutional holders owning over 65% of the company. Insiders and management only hold about 2% of the stock. Nevsun counts Blackrock (17.8%), M&G Investments out of London (19.3%), and Franklin Templeton (6.5%) as their top holders.

Principal Holders of NSU

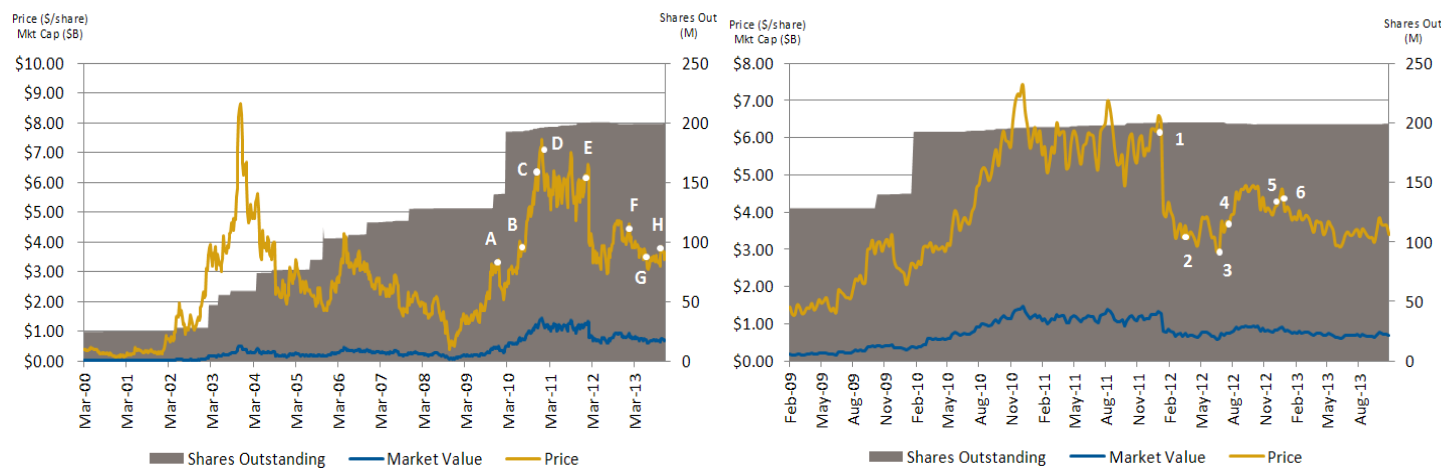
Top Ten Holders - Institutions	% O/S Shares	Top 10 Holders - Insiders	% O/S Shares
M&G Investment Management Ltd.	19.3%	DAVIS CLIFFORD T	0.78%
BlackRock Asset Management Canada Ltd.	17.8%	MUNERA GERARD E	0.29%
Franklin Advisers, Inc.	6.5%	ANGUS ROBERT STUART	0.20%
Acadian Asset Management LLC	2.4%	GERMAN GARY E	0.15%
Schroder Investment Management Ltd.	2.0%	GAYTON ROBERT J	0.03%
Guggenheim Funds Investment Advisors LLC	1.7%	GUIFFRE JOSEPH P	0.01%
US Global Investors, Inc. (Asset Management)	1.4%	HARDIE PETER J	0.00%
Investec Asset Management Ltd.	1.3%		
Aegis Financial Corp.	1.3%		
Wellington Management Co. LLP	1.3%		
	54.94%		1.46%

Source: Factset, DCM

Stock Price Performance - Marked by 2012 Resource Revision

It is notable that after NSU raised the original \$117M in equity for the construction of Bisha, there has been no other major dilution event for shareholders. Further, with a strong operating cash flow and a cash balance of ~\$290M, we believe that base metals expansion can be funded internally and any additional funds required for M&A would be minimal. We note that if external funds are required for Bisha (they most probably will not be), ENAMCO would provide 40% of the sum (the 10% free-carry was only for pre-production capital).

Shares Outstanding and Stock Price - No Habit of Large Equity Issues Since Production



Source: DCM, Factset

Looking at NSU's stock price above we put events in context with the following timelines detailing corporate milestones and key operational dates:

Corporate Milestones and Events:

- A - February 16, 2010:** NSU completes C\$117M equity financing at \$2.25/share in order to complete construction of Bisha
- B - October 25, 2010:** Plant commissioning begins at Bisha
- C - January 4, 2011:** First gold poured
- D - February 22, 2011:** Commercial gold production announced. At the time Bisha was producing over 1,000 ozs per day
- E - May 18, 2011:** Inaugural semi-annual dividend is announced. Initial dividend was \$0.03/share which would later be raised to \$0.05/share and then \$0.07/share
- F - March 8, 2013:** NSU is removed from GDXJ index (14M shares) indicating transition to base metals production
- G - June 14, 2013:** NSU is removed from GDX index (another 14M shares).
- H - September 20, 2013:** NSU is moved from S&P Global Gold index to S&P Global Base Metals with minimal impact and unknown quantity sold. There was significant shareholder migration over the period when NSU was being deleted from major gold indexes. During this time the stock was under downward pressure selling came from gold-tracking ETFs, gold-focused funds and gold investors generally.

Key Operational Dates

- 1 - February 7, 2012:** Production guidance revised down significantly due to poor resource model. Oxide gold reconciliation in 2011 resulted in the conclusion that the initial resource over-estimated gold quantities in the oxide portion of the reserve. Although the restated production estimates resulted in a mere 4% reduction in total reserves, the drop affected tonnes that were to be mined over the near-term resulting in what was believed to be a large impact on project economics.

- 2 - May 9, 2012:** Gold production guidance is raised 25%. Subsequent to the decline in production estimates due to the oxide reconciliation issue, NSU raised the 2012 gold production forecast to account for higher-than-expected gold grades encountered at the interface between the gold oxide and copper supergene zones, termed the acid domain.
- 3 - July 24, 2012:** Base metals reserves are increased. Total copper and zinc reserves were increased by 6% and 38% respectively after a new NI 43-101 study was published. The new study was based on 27,000 meters of diamond drilling in 2011 and from adjustments made to the mine plan based on the new resource model.
- 4 - August 8, 2013:** Gold production guidance is raised a second time. 2012 gold production was raised another 16% from the previously-revised estimate. The increase was again attributable to higher-than-expected gold grades in the acid domain.
- 5 - January 9, 2013:** 2012 Gold production guidance exceeded. Even after raising guidance twice, NSU finished 2012 having produced nearly the amount predicted prior to the reserve reduction.
- 6 - January 23, 2013:** 2013 production guidance is released. Guidance contains first base metals estimate.

Financial situation - Strong Balance Sheet, Poised for Growth

After just two years of production at Bisha, Nevsun has built a solid financial position through prudent capital spending and strong operational performance. The company currently holds \$290M in cash and no debt. We estimate that total capital expenditures over the next two years for the copper and zinc expansions, including sustaining capital, should amount to under \$100M. Operating cash flow over the same period is estimated to total \$320M which would leave NSU with ~\$480M in cash at the end of 2015 when all expansion capital is sunk.

If an appropriate M&A opportunity presents itself, we believe that it could be funded through a mix of cash-on-hand and debt. We believe that equity, as a major portion of any financing package is less likely.

Management and Board - Experienced and Very Conservative

We believe that NSU has good governance policies and a strong management team. The company has established a Code of Ethics applicable to all employees, officers and directors of the company. The code focuses on honest, lawful and ethical conduct, conflicts of interest, compliance and disclosure, corruption, and health and safety.

Cliff Davis, CEO and Director: Mr. Davis was appointed Chief Executive Officer in August 2008 after having served as Executive VP and Chief Financial Officer since 2002 and CFO from 1994 to 2000. During the period from 2000 - 2002 he was the Chairman and CEO of a public chemical manufacturing company. Mr. Davis is a Chartered Accountant and a member of the Institute of Corporate Directors. Prior to joining Nevsun in 1994, he was a partner in the international accounting firm, KPMG where he provided services predominantly to public companies in the resource, industrial and financial sectors. Mr. Davis has had experience as a director of a number of other Canadian public companies in the industrial and mining industries.

Frazer W. Bouchier, COO: Mr. Bouchier has over 22 years of industry experience, working with Placer Dome and Barrick operations for the first 16 years, including significant international experience in South Africa and Papua New Guinea. His operational positions have included Mining Manager, Operations Manager and Mine General Manager. Before joining Nevsun in January 2012 as Chief Operating Officer, Mr. Bouchier was the Vice

President Business Development and Technical Services for Silver Wheaton and previously the Vice President Operations and Business Development for Intrepid Mines. Mr. Bouchier is a Professional Engineer with Bachelor's and Master's degrees in Applied Science & Engineering from the University of Toronto.

R. Stuart (Tookie) Angus, Independent Chairman: Mr. R. Stuart "Tookie" Angus is an independent business advisor to the mining industry. He was formerly Head of the Global Mining Group for Fasken Martineau. For the past 30 years, Mr. Angus has focused on structuring and financing significant international exploration, development and mining ventures. More recently, he was managing Director of Mergers & Acquisitions for Endeavour Financial and was responsible for merger and acquisition mandates. Prior to joining Endeavour Financial, Mr Angus is the former Chairman of the Board of BC Sugar Refinery Limited, he was a Director of First Quantum Minerals until June 2005, a Director of Canico Resources Corporation until its takeover by CVRD in 2005, a Director of Bema Gold until its takeover by Kinross Gold in 2007, a Director of Ventana Gold until its takeover by AUX Canada Acquisition in 2011 and a Director of Plutonic Power until its merger with Magma Energy in 2011.

At the ground level, Bisha personnel report to the country General Manager who is in charge of mine production, exploration programs, and future operations of the Bisha Mine. Nevsun notes that the Bisha Mine is the first modern mining operation in Eritrea so training and re-training of local staff to attain and maintain the requisite skills in all aspects of mining operations has been a priority for the company.

ERITREA - POSITIVE BUSINESS ENVIRONMENT AND GOVERNMENT PARTNERSHIP

Eritrea, bordering Ethiopia to the south and Sudan to the north, is a North African country located in the horn of Africa on the western side of the Red Sea across from Saudi Arabia and Yemen. The country's major religions are Islam (~50%), and Christianity (~45%) with minor religions accounting for the balance. Since declaring independence from Ethiopia in 1993, Eritrea has been a single party state.

Nevsun has been operating in Eritrea since 1998 and there are approximately 17 other junior companies pursuing mineral exploration projects in the country (gold, copper, zinc and potash). The Bisha Mine is located roughly 180km by road from the country's capital at Asmara and about 340km by road to the main port city of Massawa.

A Safe, Hardworking Country with Good Infrastructure (Eritrea's Capital Asmara below)



Source: DCM

Solid Local Partner ENAMCO:

The Eritrean National Mining Corp. (ENAMCO) is a state-owned mining company used by the Eritrean government to partner with mining projects in Eritrea. On August 23, 2011 ENAMCO paid \$253.3M for 40% of Bisha; which included a 10% free-carried interest and a 30% paid participating interest. So far the Eritreans have proven to be a solid partner for NSU, reliably putting up their share of capital for the initial build (we estimate roughly \$90M to date). Notably, the funds for the copper and zinc expansions (as well as sustaining capital requirements) are being taken out of project cash flows so neither NSU nor ENAMCO will theoretically have to put up capital out of their own coffers. Nevsun's share of cash generated by Bisha is transferred directly out of the country (to Barbados) without restriction from the Eritrean Government.

Although the most high profile, Nevsun is not ENAMCO's only partner in Eritrea. At least three other companies have signed deals similar to the agreement Nevsun signed on Bisha.

Both Chalice Gold (an ASX-listed exploration company focused on the Mogoraib North gold project who sold their Eritrean Zara project to China SFECO Group) and Sunridge Gold (a TSX-listed exploration company focused on the Asmara gold project) have partnered with ENAMCO. Chalice Gold signed practically the same agreement as NSU did; selling a 10% free carried interests and a 30% paid interest in their project to ENAMCO. Sunridge has also agreed to sell a 30% interest in their project (price yet to be determined) and has given ENAMCO a 10% "non-accessible" carried interest (whereby ENAMCO is 2/3's carried by Sunridge). South Boulder Mines (an ASX-listed exploration company focused on the Colluli potash project) has signed a joint venture agreement with ENAMCO whereby each member owns 50% of the project under which a joint board will make operating decisions and ENAMCO will bear the risk of any change to the Eritrean fiscal regime for 10 years.

We view the agreements above as fair and mutually beneficial to both Eritrea and the mining interests involved. We believe that ENAMCO is a solid partner and note that the entity has not reneged or changed terms of these deals to date.

We also note that Eritrea has a healthy tax rate of 38%. Tax revenue is another way in which the country realizes significant benefits from mining. Taxes, along with their prorated profits are not revenue streams that we believe Eritrea is not willing to give up. The only way to keep the revenue flowing is to keep foreign mining companies operating since we don't believe that Eritrea has the know-how or access to capital to operate mines on their own.

Although we believe ENAMCO is a Solid Partner, Risks Remain

Undoubtedly one of the main risks for Nevsun is Bisha's location in Eritrea. Although the company has managed very well in its first three years of operation in the country, we believe that geopolitical risk is still relevant to the Nevsun story. Eritrea scores poorly in terms of corruption both on a global scale and compared to its African neighbors. Eritrea ranks 150th out of 172 countries worldwide on the perceived level of public sector corruption. The 2012 Ibrahim index of African Governance (IIAG) ranks Eritrea 49th out of 52 African countries, ahead of only Chad, the DRC and Somalia, when assessing governance performance based on the rule of law, human rights, economic opportunity, and human development. This said, **NSU notes that the company has not experienced any corruption at any level in the country and that any form of misdealing is not tolerated by management.**

Additional risk from political unrest in Egypt, Libya, Syria, Yemen, Saudi Arabia and Somalia has negatively impacted investor sentiment in the surrounding the region. Although Eritrea itself has not been directly affected by similar social unrest, investors in the country remain wary of any carryover effects from conflicts in the proximity.

In order to mitigate potential socio-political issues Nevsun has put an extensive corporate and social responsibility (CSR) program in place meant to ensure local operating environment and employees are conducive to business operations.

Our site visit put these risks at ease however. The country is safe, the population hardworking, and Eritrea has good infrastructure from our point of view.

Good CSR Program in Eritrea - An important geopolitical risk mitigation measure:

Nevsun aims to generate sustainable economic benefit for the native population while respecting human rights and the safety of its employees. To this end NSU's board established the Social, Environmental, Health and Safety Committee ("SEHS"). The company promotes best practices in human rights, environmental sustainability, community involvement, and responsible operations at Bisha. Specific CSR measures implemented by Nevsun include (extract from NSU's 2012 AIF):

- *Actively promoting understanding by all employees of the culture, language and history of the communities, regions and countries in which it operates*
- *Working to protect cultural heritage resources potentially affected by the Company's activities; conducting activities in a manner that respects traditional-use rights, cultures, customs and social values*
- *Promoting job equity and equal access to employment opportunities for women*
- *Maintaining formal human resources practices and procedures to ensure that conscripted labour is prohibited at Bisha, including inspection of national service discharge documentation for all Eritrean workers at Bisha*
- *Building capacity by sharing environmental and social experiences and solutions with local communities and regional and national governments; actively consulting with local communities to identify and resolve environmental and social issues*
- *Procuring materials, goods and services in a manner that enhances local benefits and protects against unethical practices such as child labour and forced labour*
- *Establishing social responsibility performance criteria*
- *Monitoring and reporting performance to senior management through periodic audits.*

Additionally Nevsun has focused on:

- **Human rights:** The Government of Eritrea and Nevsun Resources have commissioned an independent human rights lawyer to assess the Bisha Mine. A final report will be published in late January 2014 outlining results and recommendations
- **Governance:** NSU has completed external review of Bisha's social and environmental management plans and is working towards future alignment with the International Finance Corporation Performance Standards
- **Community:** Over 90% of the workforce is local Eritrean
- **Training:** The Bisha Training Centre now has a fully operational apprentice workshop where local Eritrean workers will have hands-on training with respect to welding and electrical skills
- **Environment:** planting endemic species for erosion control and biological assessments has been completed. NSU notes that additional conservation strategies will be implemented to further protect the local ecosystems.

Although significant country risk will remain, we believe that, considering the above measures and NSU's strong CSR focus, the company has done a good job to mitigate potentially-adverse socio-political eventualities.

BUSINESS MODEL - A HIGH YIELD MINING COMPANY WITH EXCELLENT MARGINS

Nevsun's business model centers on operating and developing projects with high rates of return, fast payback periods and high margins. Further, with a dividend yield of 4.3% and payout ratio of ~25%, Nevsun is clearly focused on returning capital to shareholders. We believe that these are very desirable attributes for prospective investors. We see NSU as being careful stewards of capital and as having a disciplined growth strategy divided between progressing internal projects and methodical M&A. NSU's measured growth is underscored by its high dividend which the company intends to maintain. We believe that any future growth projects will be carefully planned to not overextend the company's financials and will allow NSU the ability to continue paying its peer-leading dividend.

Below we show NSU's ROE and margins for Q3/13. NSU exhibits the second best ROE (behind only First Quantum) and the best gross and EBITDA margins in its class.

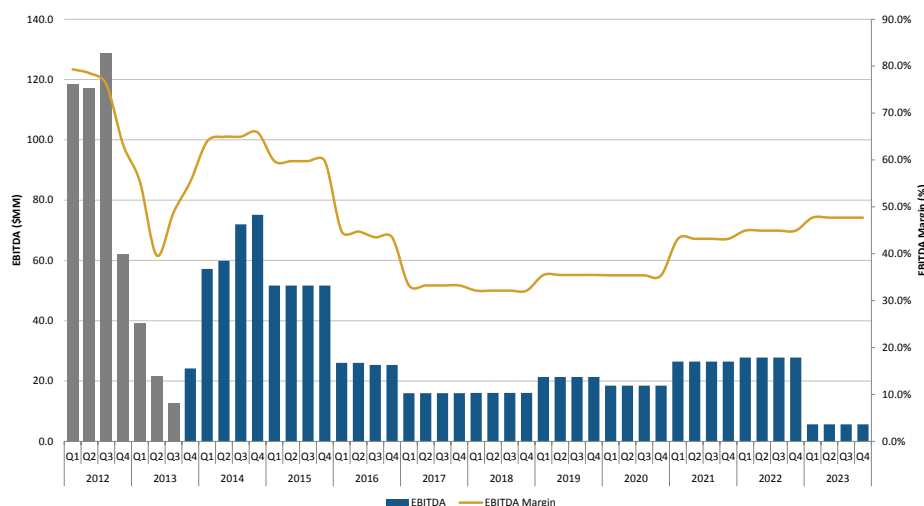
NSU is Top of the Class on Q3/13 Margins and ROE

Company	EV (\$M)	ROE	Gross Margin	EBITDA Margin	Dividend Yield
Capstone Mining Corp.	\$833	2.8%	25.1%	37.7%	0.00%
Copper Mountain Mining Corporation	\$567	1.0%	13.3%	24.7%	0.00%
First Quantum Minerals Ltd.	\$14,219	8.0%	30.9%	39.4%	0.67%
Hudbay Minerals Inc.	\$1,187	(2.3%)	13.0%	18.6%	0.00%
Lundin Mining Corporation	\$2,510	2.3%	11.7%	26.2%	0.00%
Taseko Mines Limited	\$572	(6.8%)	9.5%	14.3%	0.00%
Teck Resources Limited Class B	\$19,961	4.8%	25.9%	35.6%	3.57%
Average	\$5,693	1.4%	18.5%	28.1%	0.64%
Median	\$1,187	2.3%	13.3%	26.2%	0.00%
Nevsun Resources Ltd.	\$359	6.2%	52.2%	54.4%	4.27%

Source: DCM, Factset

We expect that NSU's margins will remain robust going forward. The company's impressive margins are principally attributable to the high grade nature of the Bisha polymetallic orebody which greatly reduces per-tonne operating costs. As the copper phase ramps up to peak production in 2014/15 we expect that EBITDA margins could be as high as 60% over a period of time. After this period of high copper production, and during the transition to the more zinc-rich phase, we still predict that NSU will be able to sustain an EBITDA margin above 35%. We present a chart highlighting our estimates below.

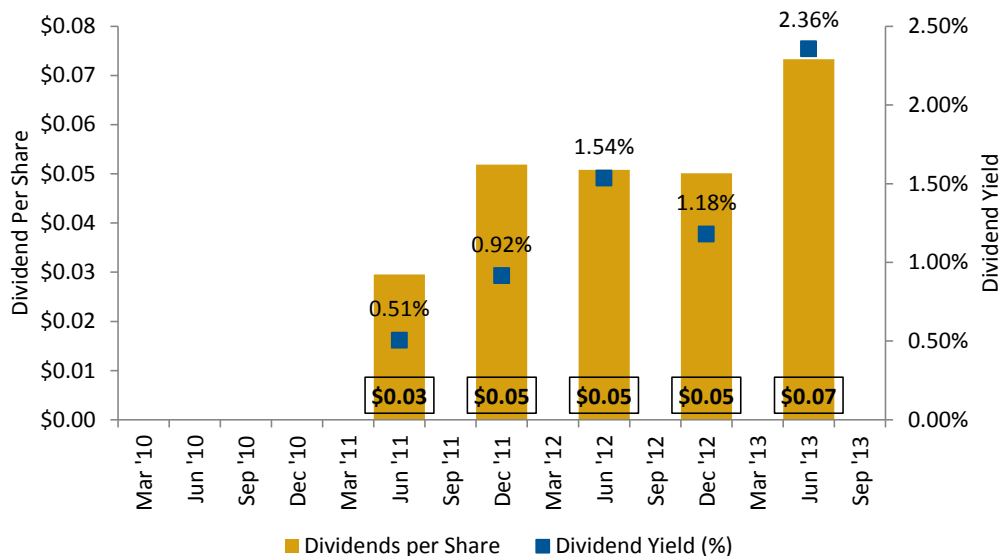
NSU is expected to Maintain Very Strong Margins with High Grades at Bisha



Source: Company Documents, DCM

Nevsun's high margins, low capex requirements, strong cash flow and measured growth strategy all contribute to a peer-leading (small capitalization producers) dividend yield, which in turn contributes to the company's solid ROE. Nevsun has increased its semi-annual dividend twice since it was paid for the first time in Q2/2011. Initially \$0.03/share, NSU's semi-annual dividend has subsequently been increased to \$0.05/share and then \$0.07/share where it now sits. We note that NSU's dividend is not tied to financial performance or commodity prices. Using NSU's current stock price, and assuming the annual dividend totals \$0.14/share, produces a current annual dividend yield of 4.3% for the stock. We believe that NSU's dividend is sustainable and could grow further.

NSU's Past Dividends and Semi-Annual Dividend Yields



Source: DCM, Factset

A COMPANY IN TRANSITION - GOLD → COPPER → COPPER-ZINC

The Bisha polymetallic mine has 3 main phases of production relating to three dominant ore types. Oxide ore is gold-rich, supergene ore is copper-rich and primary ore is rich in copper and zinc. The gold-producing oxide phase is over, having lasted from 2011 to the end of 2013, the secondary (supergene) phase which lasts from 2014 until 2016 will see copper account for 65% to over 90% of revenues and in the primary phase, from 2017 until 2024, zinc and copper will contribute 60% and 40% to the revenue mix respectively.

NSU's Transition to Base Metals Production

Years	2012 ⁽¹⁾	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Oxide Phase	Supergene Phase	Supergene & Primary Overlap ⁽²⁾			Primary Phase ⁽²⁾							

Source: Company Documents

Copper plant

From 2011 through 2013 Nevsun will have sold approximately 830,000 ozs of gold from the oxide ore reserves in the shallowest part of the Bisha deposit. With commercial copper production announced on December 2, 2013, the company completed its transition from gold production to copper production at Bisha as the deeper sulfide ore is mined. Copper production at Bisha is to last until the end of the ~11yr mine life with higher production levels from 2014-2017. The mine's copper plant was completed on time and under budget and commissioning was finished on schedule in Q4/13. NSU had originally estimated that the cost of the expansion would be \$125M, but the total capital expense upon completion was only \$110M. The copper expansion is projected to add 753M lbs of copper production profile as gold production winds down to a much lower level for the remainder of Bisha's mine life. With the expansion the mine's processing capacity will be increased from 1.8Mtpa (or 5,000tpd) to 2.4M tpa (or 6,000tpd).

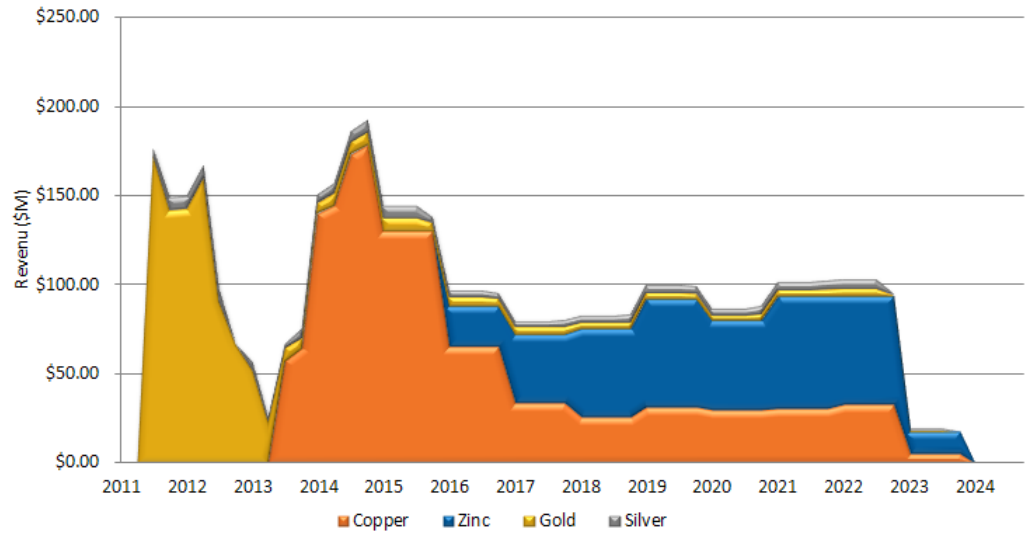
Zinc plant late 2015 - Just in Time

Once mining moves through the copper-rich secondary ore at Bisha, zinc-rich primary ore will be the principal mill feed for the mine. This will necessitate the construction of a zinc circuit by late 2015 at a cost (100% basis) of ~\$80M (NSU estimates \$50M). The zinc circuit will allow Bisha to maintain processing capacity a 6,000tpd. We estimate that, once fully ramped up, the mine should be able to produce approximately 230M lbs of zinc per year starting in 2016 and lasting for the rest of the mine life. We note that NSU will likely enter its zinc-producing phase just in time to reap maximum benefit of improving zinc market fundamentals (see our section below on the zinc market).

Revenue Transition - Base Metals to Take Over from Gold

Below we show NSU's transition from gold revenue to mainly copper and zinc revenue. We estimate, based on our commodity price forecast, that as copper production increases, revenue from copper could reach approximately \$180M in the highest quarters and average about \$150M per quarter from 2014 through the beginning of 2016. Once mining descends into the primary ore we estimate that a ~60/40 zinc-copper split will generate an average of \$90M per quarter for the remainder of the mine life.

Bisha Revenue (100%) - Transitioning from Gold to Base Metals

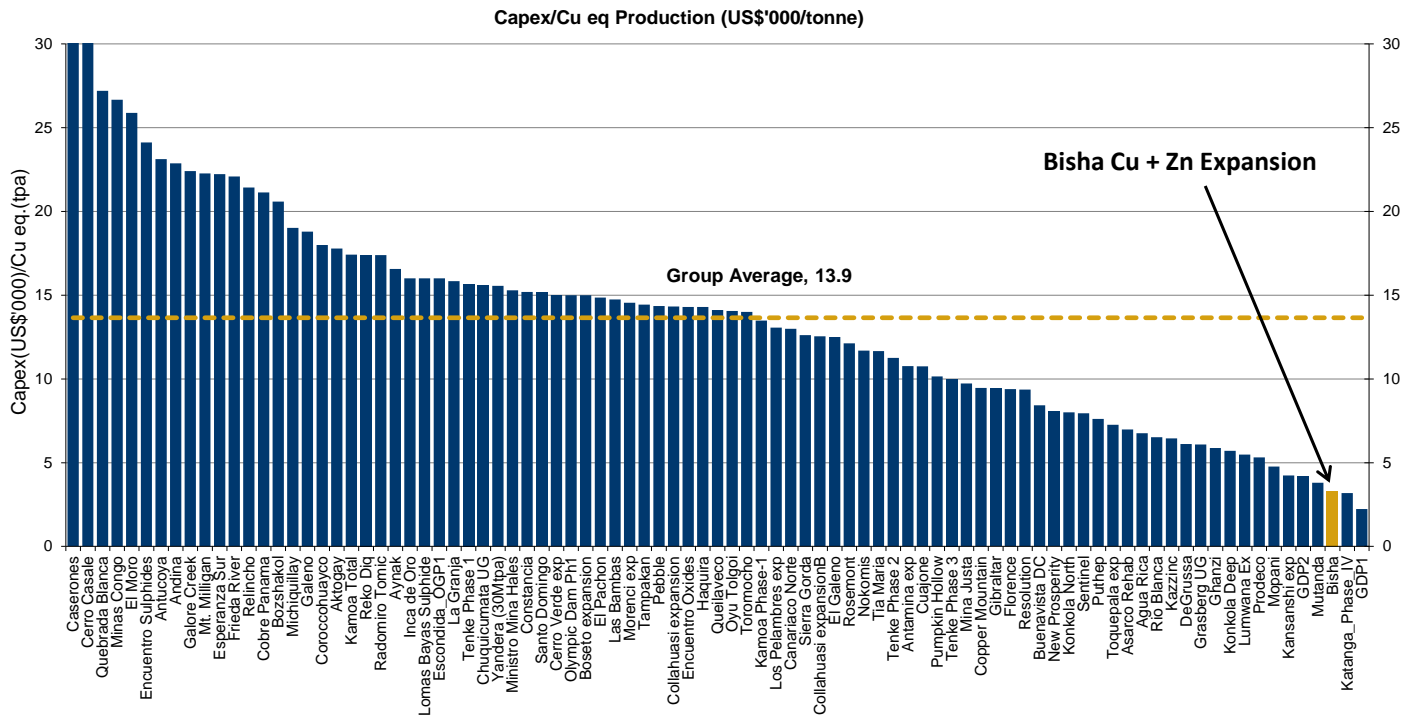


Source: Company Documents, DCM

Capex Intensity - Very Low as Expansion Projects are all that Remain

Compared to other large mining projects NSU's base metal expansion (copper and zinc) was inexpensive. Looking at the capex intensity of the expansion at Bisha, we estimate that the project will cost \$3,200/tonne of copper-equivalent production. This figure includes the \$110M spent on the copper expansion and an estimated \$80M for the zinc expansion. We note that our estimate (\$80M) for the zinc circuit is above the company's estimate of \$50M as we remain conservative while it is still to be built.

Copper-Equivalent Capex Intensity for Major Copper Projects - Bisha Expansion is Low-Cost



Source: Company Documents, DCM

We note that most of the projects listed above are not expansion projects. This highlights that expanding the project for base metals production was an inexpensive way to grow operations.

Migration of shareholders

In the section above that discussed Nevsun's share price performance we highlighted the dates on which NSU was removed from important gold indexes. Over this time the company's shareholder base migrated from shareholders looking for exposure to gold to shareholders that want exposure to base metals (~30M shares sold out of gold-tracking ETFs). This rearrangement of ownership caused downward pressure on the stock as gold-tracking ETFs, gold-focused funds and gold investors generally sold their positions. We believe that as NSU continues its progress with the copper ramp up, this pressure should continue to subside, as new long term shareholders build positions in the stock.

Valuation Multiples for Gold Stock are Historically Higher than for Base Metals

Historically gold and precious metals producers have traded at higher valuation multiples than base metals companies. This means that, ceteris paribus, one would expect NSU's multiples to decline as it transitions towards base metals production. In the chart below we show that, on a full-year 2014 consensus basis, base metals stocks trade at lower multiples than their gold-producing counterparts. We also highlight that NSU is trading well below both gold and base metals producers, so we believe that the stock should get a re-rating once steady-state copper production is reached.

NSU Trading below both Gold and Base Metal Consensus Equity Valuation Multiples

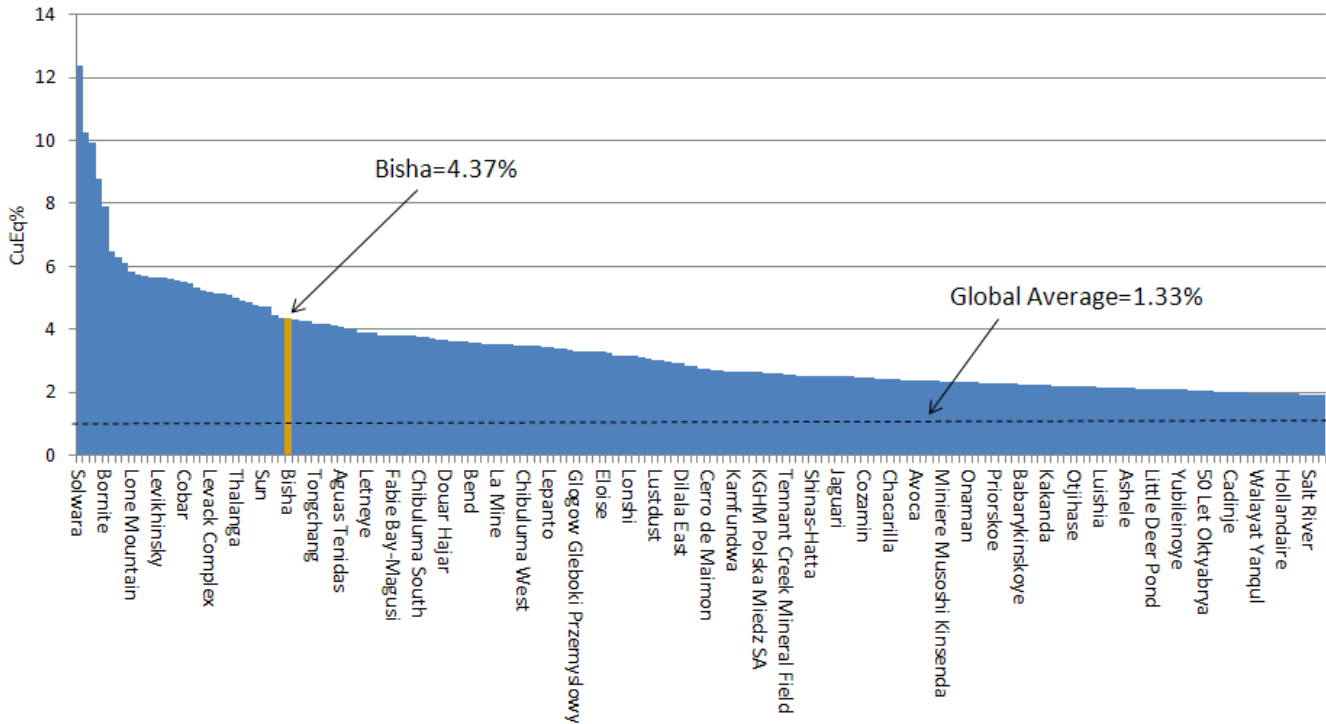
2014 Consensus Multiple	Gold Equities	Base Metals	NSU-T
P/NAV	0.8x	0.6x	0.9x
P/CF	6.8x	6.0x	3.9x
EV/EBITDA	5.6x	5.1x	1.3x
P/E	17.0x	12.3x	5.7x

Source: DCM, Factset, Bloomberg

Grade comparison - One of the Highest Grade Copper Operations

The metric that really sets Nevsun apart from its peers is grade. Bisha's high grades resource allows Nevsun to minimize costs and achieve high margins. The average copper-equivalent grade (copper plus byproducts) of Bisha's reserves is 4.37% (this compares to the average of 1.33% CuEq for all copper projects) making it one of the highest grade open pit copper mines in the world. Below we provide a chart showing the top 250 highest-grade production and development stage copper projects in the world. Notably Bisha sits in the top quartile of even this elite group (33rd highest grade project).

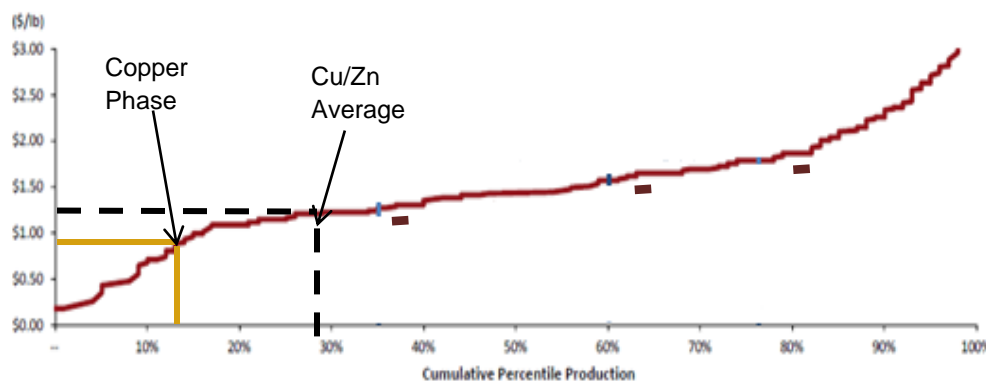
Top 250 Highest CuEq Grade Copper Mines and Projects



Source: Intierra, DCM, Company Documents

Bisha's high grades translate into lower operating costs as more metal is extracted for every tonne of rock mined, moved and milled. During the height of Bisha's copper phase (~2014-2016) we estimate that C1 copper cash costs will average \$0.90/lb, positioning Bisha well within the first quartile of producers. After this period, and for the remainder of Bisha's mine life, we estimate that cash costs will rise to \$1.30/lb, which would put this phase in the lower end of the second quartile. All-in costs are expected to average \$1.80/lb over LOM.

High Grades at Bisha Mean Low Cash Costs



Source: Company Documents, DCM

If we include sustaining capital, taxes, interest payments and royalties, we estimate that all-in copper cash costs average a very healthy \$1.80/lb for Bisha, below all the other copper producers we cover.

M&A - What is next?

Nevsun is looking at external growth opportunities, but we believe that any M&A activity will fall into the company's strategy of returning capital and measured growth. NSU is focused on high-return investments with an internal hurdle rate of 15-30% IRR as the only metric used for decision making (NSU uses \$2.70/lb Cu and \$1,280/oz Au in their forecasts). The company is looking to diversify their operations from both a geographical and political standpoint, looking at projects elsewhere in Africa as well as the Middle East, Eastern Europe and Turkey. Management has said that they are not in any rush to acquire assets, instead they intend on waiting for one that fits with their strategic plans. Commodity type is not a concern and the company will look at both precious metal and base metal projects, with gold and copper as preferred metals.

In the current atmosphere of postponements and divestitures by the majors as they focus on core operations, we believe that the pickings are ripe for Nevsun to find a good asset at a good price. Below we present a table highlighting recent M&A transactions and note that if NSU were to follow through with an acquisition they could be paying about 1x NAV and \$0.25/lb of resource.

Copper M&A Transactions

Announcement Date	Acquirer	Target	Value (US\$MM)	Consensus P/NAV	Resource (US\$/lb)
18-Nov-06	Freeport -McMoRan	Phelps Dodge	\$24,732	1.3x	\$0.35
27-Jun-07	Yamana	Northern Orion	\$891	1.2x	\$0.02
3-Jul-07	Teck Cominco	Aur Resources	\$4,091	1.9x	\$0.92
1-Apr-09	Minmetals	OZ Minerals	\$1,354	0.5x	\$0.03
30-Nov-09	Sojitz	25% of Gibraltar (Taseko)	\$183	1.6x	\$0.08
25-Apr-11	Barrick	Equinox	\$7,842	1.3x	\$0.47
15-Jun-11	Nyrstar	Breakwater	\$601	0.9x	\$0.19
6-Dec-11	KGHM Polska	Quadra FNX	\$2,363	0.7x	\$0.07
26-Oct-12	First Quantum	Inmet	\$4,713	0.9x	\$0.08
28-Apr-13	Capstone	Pinto Valley (BHP)	\$650	0.8x	\$0.09
13-Jun-13	Lundin	Eagle (Rio)	\$725	0.9x	\$0.47
			Average	1.1x	\$0.25

Source: Company Documents, DCM

If NSU does not find an asset that fits its criteria, we believe that a share buyback could be an option. Below we present two scenarios 1) a \$100M buyback and 2) a \$200M buyback.

Under scenario 1, using \$100M in cash would result in NSU's share count being reduced by 31M shares and the company's NAV rising 1.4% to \$3.58/share. Under scenario 2, using \$200M in cash would result in NSU's share count being reduced by 62M shares and the company's NAV rising 3.4% to \$3.65/share.

Share Buyback: Two Scenarios

	Scenario 1	Scenario 2
Size (M)	\$100	\$200
Price/sh	\$3.25	\$3.25
Shares (M)	30.8	61.5
NAV	\$3.58	\$3.65
%Change	1.4%	3.4%

Source: DCM

In terms of NSU's dividend sustainability over the period of an acquisition, we believe that there is little risk the dividend will be reduced. Over the next five years NSU's free cash flow payout to dividends will remain, for the most part below 50% meaning that the company should be able to continue to add to its strong cash position. If the company were to undergo M&A we believe that its cash balance, matched with FCF from Bisha would be sufficient to support its current dividend.

NSU's Dividend can be maintained with FCF and strong cash balance

	2014	2015	2016	2017	2018	2019	2020
Projected Cash Balance	\$379.0	\$482.1	\$527.4	\$547.1	\$597.2	\$662.4	\$723.0
FCF	\$159.2	\$167.7	\$103.4	\$75.5	\$47.0	\$62.4	\$55.3
Dividend	\$29.4	\$29.4	\$29.4	\$29.4	\$29.4	\$29.4	\$29.4
Free Cash Payout	18.5%	17.5%	28.4%	38.9%	62.5%	47.1%	53.1%

Source: Company Documents, DCM

BISHA OPERATIONS

Nevsun's 60%-owned Bisha Mine is located 150 kilometers west of Eritrea's capital Asmara, and 43 kilometers southwest of the nearest major town of Akurdat in the country's Gash-Barka District. The mine is accessible via a gravel road which is currently being upgraded to accommodate concentrate transport trucks. Onsite project infrastructure includes: an open pit, process plant, tailings and waste rock storage facilities, offices, maintenance and laboratory facilities, fuel storage areas, on-site power plant, and an airstrip. The airstrip is used to bring in supplies and is also used to fly out gold dore bars.

Bisha Mine Description - Base Metals Phase

Bisha Mine Description	
Ownership	60%
Location	Eritrea
Status	Production
Commodity	Cu/Zn/Au
Mine Type	Open Pit
Mine Life	11yrs
Ore Resource	22.4Mt
CuEq Grade	4.30%
Zn Grade	6.33%
Cu Production	100M lbs
Zn Production	230M lbs
Strip Ratio	6.5:1
Cu Recovery	92%
Total Cu Cash Cost	\$1.80/lb
Sustaining Capex	\$3.5M

Source: Company Documents, DCM

Bisha is a traditional truck and shovel owner-operated open pit mine. The mine's fleet consists of: 4 production drill rigs, 4 RH-40 excavators, 15 CAT 775 haul trucks, and 29 auxiliary units. Below we show the Bisha open pit and mine site complete with copper and gold circuits, and surface infrastructure.

Bisha Mine Site



Source: Company Documents

The Bisha orebody, for which NSU holds a 20-yr mining license since 2008, is a copper-gold-zinc VMS deposit. The deposit has been mined by NSU since 2011. Initially the gold-rich oxide ore cap was mined out and recently, the mine has moved into the supergene phase where copper ore is dominant. Starting in 2017, Zn/Cu-rich primary ore becomes dominant. As noted above, Bisha is a very high grade mine with an average CuEq grade of 4.3%. Under the current plan, the mine has an estimated 11-yr mine life which will produce ~200Mlbs of copper equivalent production for the LOM. Copper recovery is estimated to be 92% at an average total cash cost of \$1.80/lb Cu.

Reserves and Mine Plan

Below we present Bisha's most up-to-date reserve estimate from May 2012. We expect an updated reserve to be released early next year which should add tonnes from Hambok to the existing resource. The table below outlines reserves in the Bisha main pit as well as in the Harena satellite pit.

Bisha Reserves - May 31, 2012

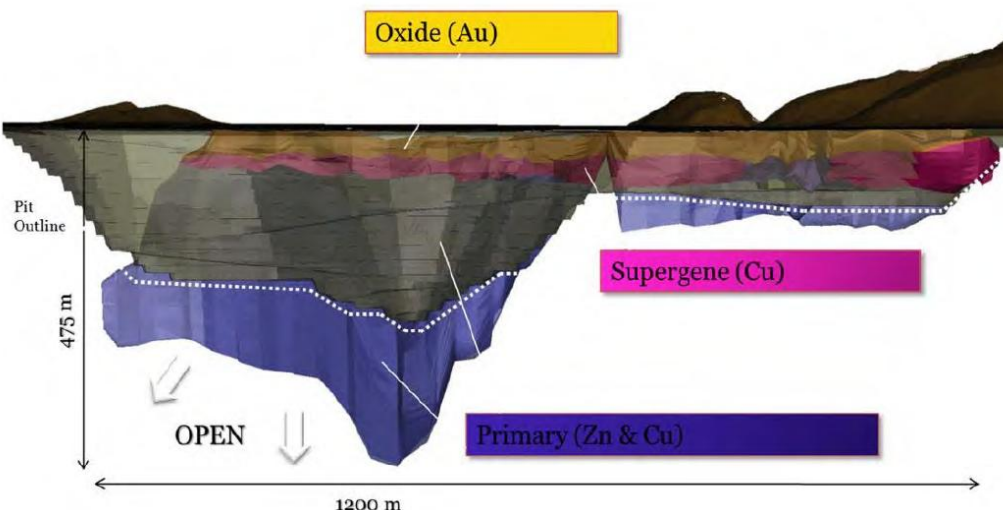
Probable Zone	Tonnes ('000's)	Copper %	Zinc %	Gold g/t	Silver g/t	Contained Metal			
						Cu ('000 lbs)	Zn ('000 lbs)	Au ('000 Oz)	Ag ('000 Oz)
Oxide Phase	900			5.79	35	-	-	167	1,020
Supergene Phase	6,420	4.09		0.67	28	578,880	-	138	5,780
Primary Phase	19,190	1.09	6.33	0.72	47	461,540	2,679,500	441	28,950
Total						1,040,420	2,679,500	746	35,750

Reserves based on \$1,175/oz gold, \$2.80/lb copper and \$0.92/lb zinc

Source: Company Documents

Bisha's reserves are open for expansion at depth and the updated estimate expected in Q1/14 could expand ore tonnage at depth. Below we present a cross-section of the Bisha orebody model showing the three ore types as well as a rough schedule as to when each phase will be mined and in what quantities.

Bisha Orebody Model Cross Section and Mining Schedule

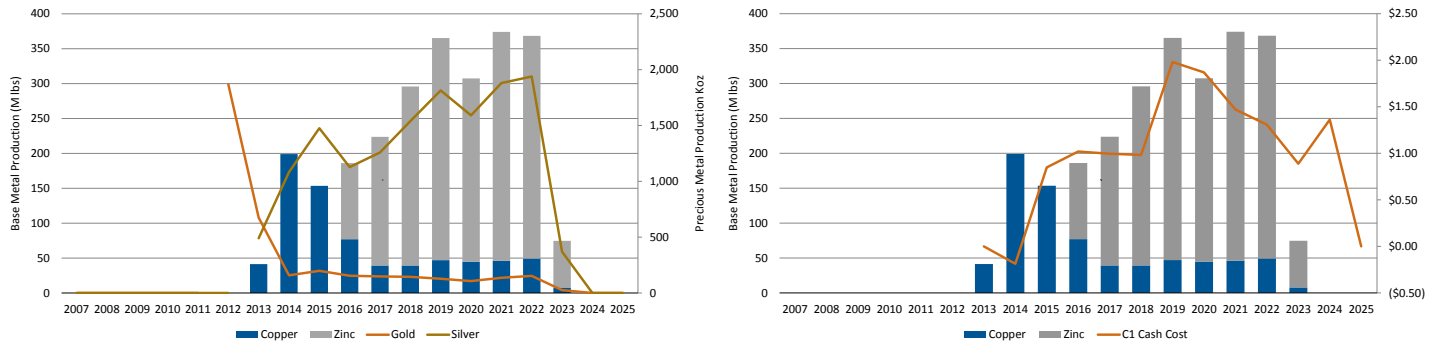


Years	2012 ⁽¹⁾	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Oxide Phase	Supergene Phase		Supergene & Primary Overlap ⁽³⁾		Primary Phase ⁽²⁾							
Gold	146,000 oz	36,000 oz		32,000 oz		121,000 oz							
Silver	221,000 oz	1,600,000 oz		1,560,000 oz		6,940,000 oz							
Copper		317 Mlbs		242 Mlbs		301 Mlbs							
Zinc				146 Mlbs		1,740 Mlbs							

Source: Company Documents

Based on the mine plan provided above and the grade/tonnage schedule from the latest technical report, we have estimated production volumes and costs for Bisha. Below we present our estimate for Bisha's production and cost profile. We note that Bisha will go through a phase of high copper production followed by increasing zinc output. Based on the current mine plan we estimate that peak copper production will occur in 2014 (at approximately 200M lbs for that year), this is expected to trail off to an average of about 54M lbs per year for the remainder of the current mine plan. Zinc production is expected to peak in the years spanning 2019 through 2022. We estimate that zinc production will average 225M lbs per year over the primary ore phase. As for precious metals, higher gold grades are associated with the supergene ore and higher silver grades are associated with primary ore. We expect Bisha to produce an average of 17,000 ozs of gold and 918,000 ozs of silver over the remainder of the mine's life.

Estimated Production and Cost Profile for Bisha

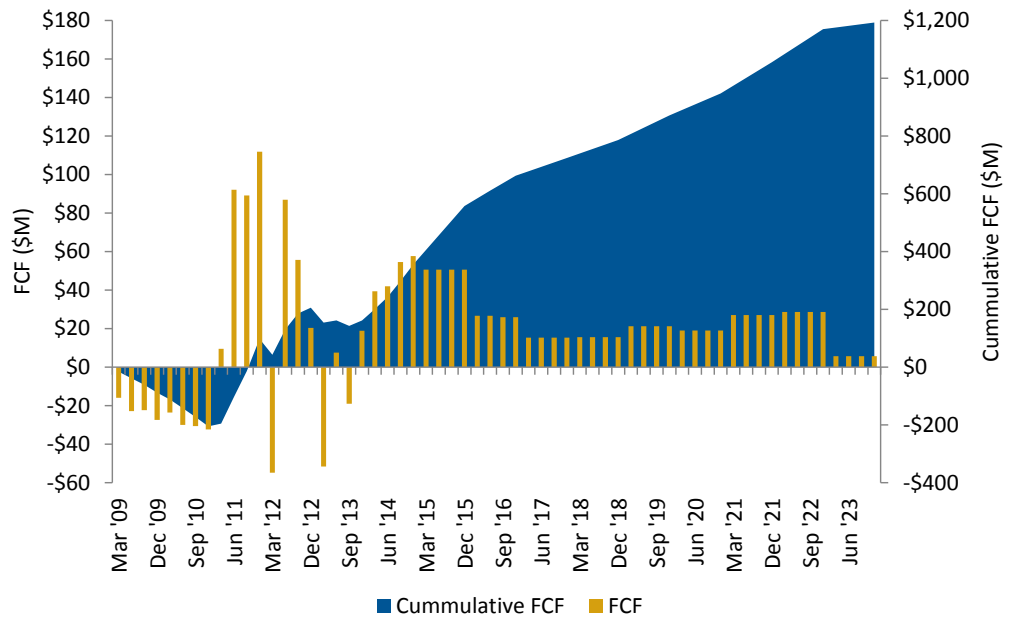


Source: Company Documents, DCM

Lower costs are also associated with the copper production phase. We expect that C1 cash costs will average around \$1.00/lb Cu until 2019, after which they will increase slightly to about \$1.50/lb. Looking at all-in cash costs which include sustaining capital, taxes and interest payments, we estimate an average around \$1.55/lb Cu until 2019, after which they will increase slightly to about \$1.90/lb (average of \$1.80/lb Cu for LOM).

Based on our Forecasts, and the mine's actual past performance, we provide our estimated free cash flow profile below. We note that although 2014 is the year of peak copper production, cash flow is somewhat muted in this year due to expenses related to the zinc plant's construction.

Bisha's Estimated Cash Flow Profile

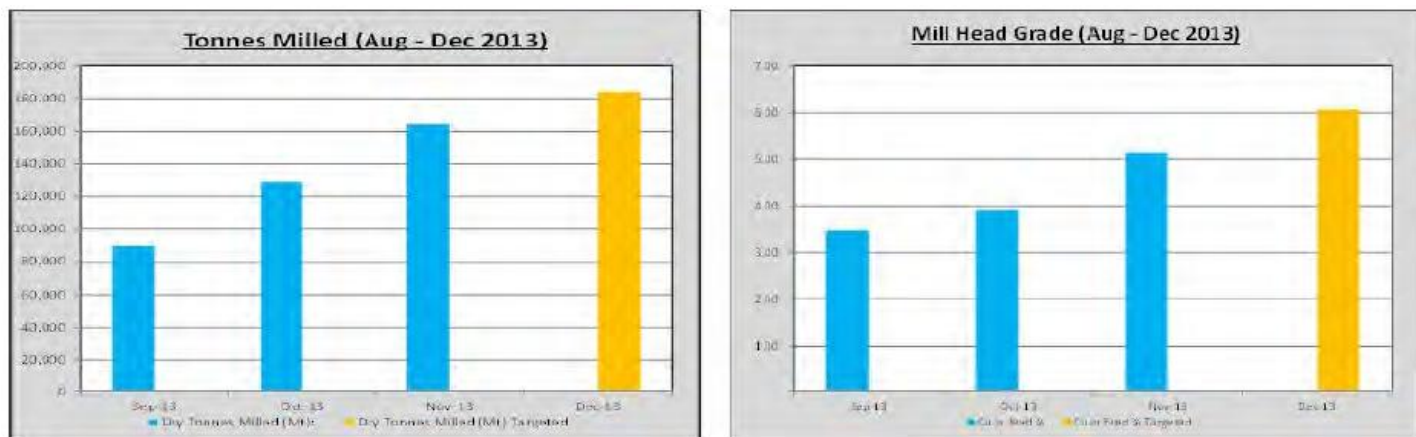


Source: Company Documents, Factset, DCM

Copper Circuit Commissioned on Schedule, Mining Continues Unabated

On December 2, 2013 Nevsun announced that the copper circuit at Bisha had entered commercial production. Since the first copper ore was sent through the new copper flotation circuit it mid-July 3013, the mine was able to successfully reach commercial production in less than five months. Below we show the steady ramp-up in both grades and mill throughput at Bisha since the time copper production was initiated.

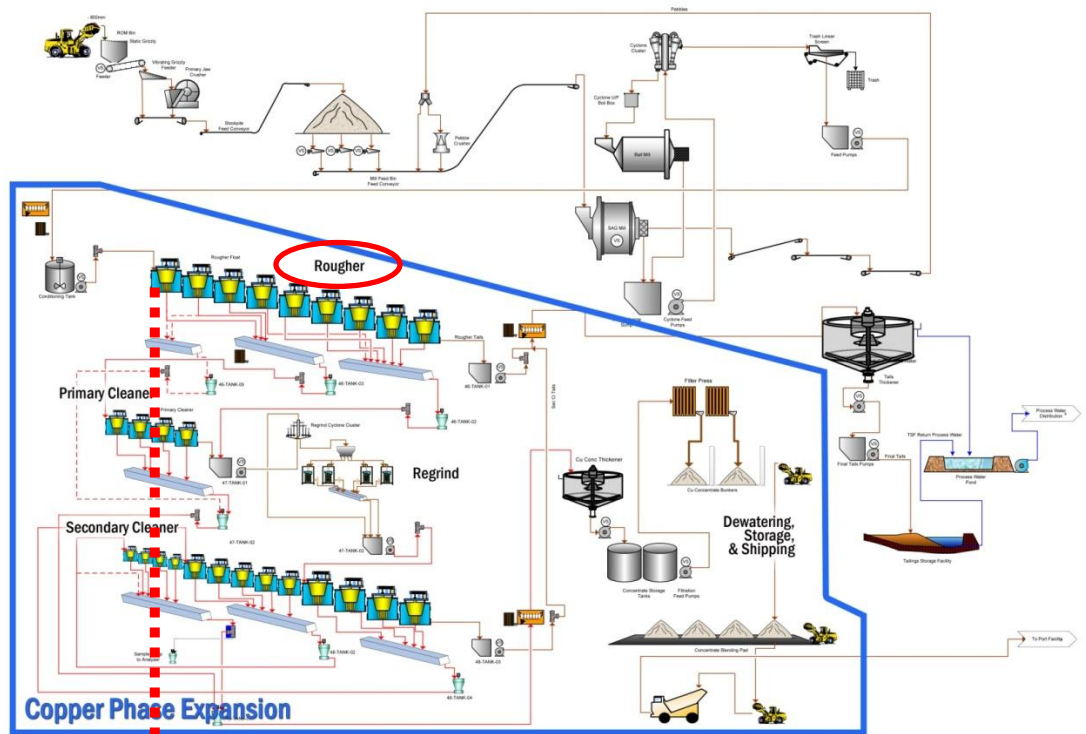
Copper Circuit is Ramping-up steadily at Bisha



Source: Company Documents

The copper circuit (outlined below in blue) comprises rougher flotation with a primary cleaner and a regrind/secondary cleaner loop. The circuit also has a traditional thickener and filter press system to reduce moisture content. Copper recoveries are estimated to total 92% in the supergene ore and 85% in the primary material, whereas zinc recoveries are predicted to be approximately 83%.

New Copper Phase Expansion at Bisha with Rougher Cells



Source: Company Documents

Gold Plant could be reopened

Nevsun continues to find material with high precious metal grades at Bisha. Should this material's presence continue, it is possible that the company will reopen the gold circuit which consisted of a CIL circuit and a cyanide detox plant. A reopening could potentially add additional ounces of gold to NSU's annual profile at a minimal cost.

Products and Transport

Currently Bisha produces copper in the form of a 28-30% copper concentrate, and also has the ability to produce gold and silver in the form of dore bars with the reopening of the gold plant. The mine will also produce a 55% zinc concentrate starting in late 2015 when the zinc expansion is commissioned. Whereas Bisha's precious metal dore once was transported by air using the mine's airstrip, the bulk concentrates must be trucked to the port of Massawa for international shipment.

Concentrate Haulage - A brand new fleet of trucks that transport base metals concentrate to port



Source: DCM

From the mine site concentrate is loaded from the dewatered stockpile, sealed in custom half-height shipping containers and transported 340km via mostly-paved roads to the port of Massawa by truck. The mine only requires 22 trucks per day to leave from the Bisha site and truck transport does not represent a bottleneck for the operation (as NSU controls a fleet brand new concentrate transport trucks owned by the state-run trucking company in Eritrea). Once at the port, the sealed containers are stockpiled at the container facilities where the Rotainer crane system discharges them into bulk vessels. The containers are then returned to Bisha for re-loading. The bulk vessels deliver the concentrate to copper smelters worldwide including large customers like Sterlite and Aurubis.

Rotainer™ Crane Loading Bisha Concentrate onto Bulk Carrier



Source: Company Documents, DCM

In addition to the copper and zinc concentrates that NSU will produce, there is also the potential to produce direct-ship material with high precious metals grades from Bisha. At the mine site NSU currently has approximately 7,000 tonnes of precious metal concentrate containing around 7,000 ozs of gold and 800,000 ozs of silver; and approximately 200,000 tonnes of unprocessed pyrite sand ore at around 5-7 g/t gold. NSU is currently looking at options to realize value for this material over the next year. We believe that this material provides upside to our valuation and potential operational flexibility at Bisha going forward.

Direct-Ship Ore Ready for Transport

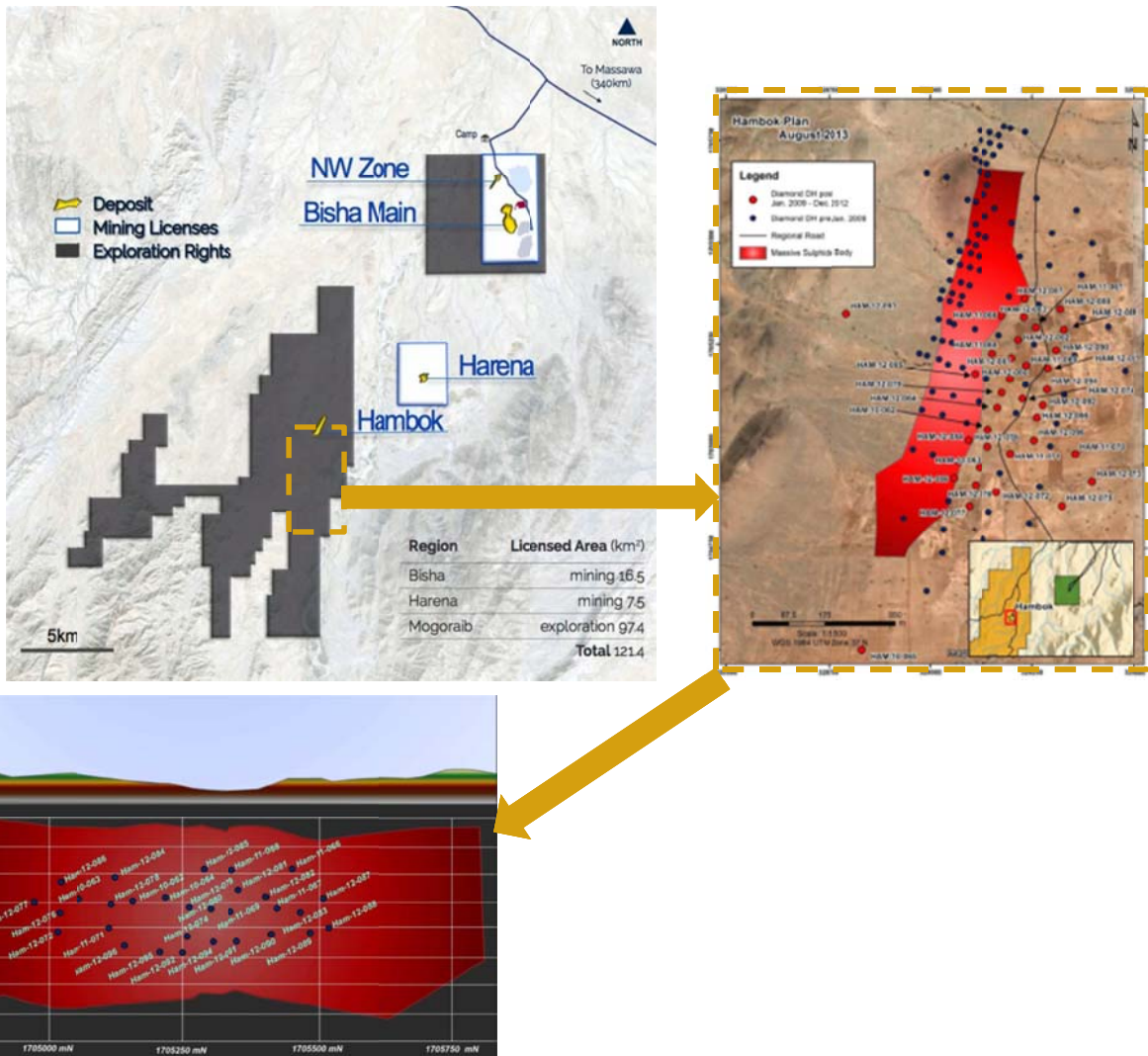


Source: DCM

Exploration and Organic Growth Potential - All in Eritrea

Bisha's current mine life is estimated to be 11 years, lasting to 2024. In order to continue mining past this time, the company will need to either find or purchase additional reserves. NSU expects that it can further expand its mineral resources, through drilling in the Northwest Zone of Bisha during 2013. These results will translate into an updated resource estimate expected in Q1/14. Nevsun also plans to explore new targets along strike from Bisha which could potentially provide additional near term resources for the Bisha mill. Both the Hambok and Harena targets are promising and represent mill feed that could be brought to Bisha by truck. The Hambok property is located 16km SW of Bisha. Mineralization is in the form of Cu-Zn massive sulphide lenses and represents the potential for additional feed for the Bisha mill. NSU has been drilling Hambok in 2013, below we present drilling locations and recent drill results from the exploration work.

Exploration at Hambok near Bisha



Source: Company Documents

It is worth mentioning that NSU's management is very conservative and tends to "under promise and over deliver". We believe that this is also true for the company's exploration potential in Eritrea. We believe that both Harena and Hambok could represent significant opportunities for resource expansion.

APPENDIX I: COPPER AND ZINC FUNDAMENTALS

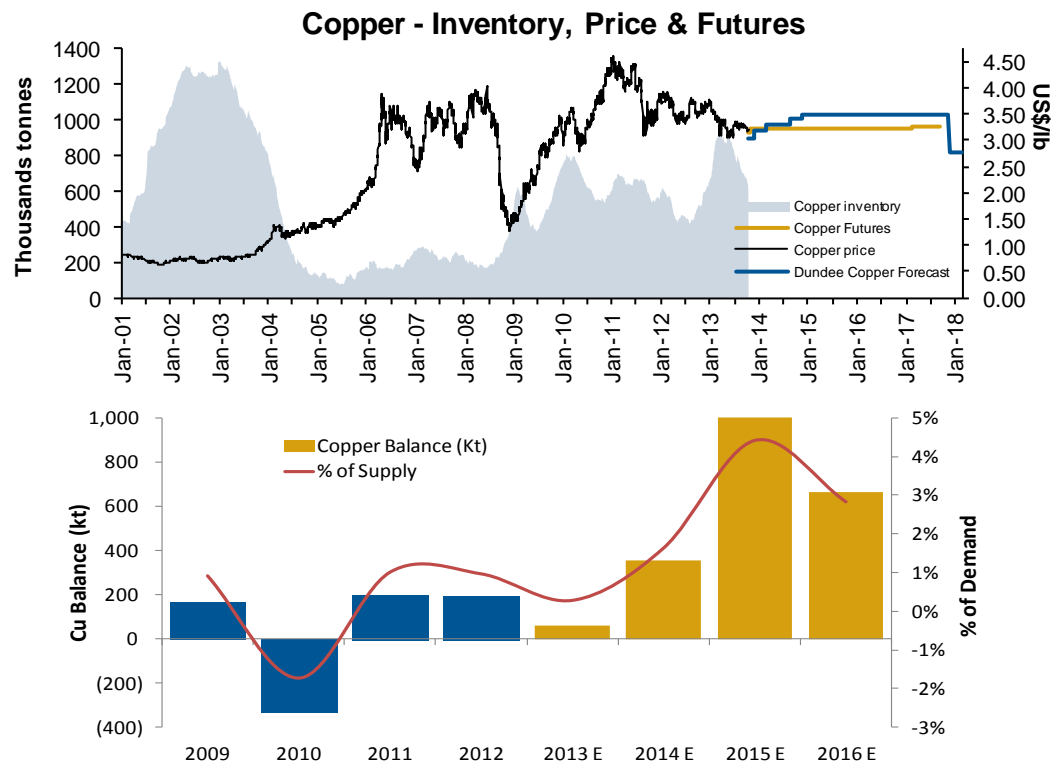
COPPER MARKETS - SUPPLY DISRUPTIONS AND FASTER GROWTH IN CHINA AND THE U.S. TO SUPPORT PRICES

Looking forward, we predict that copper inventories will be drawn down in 2013 resulting in a slight deficit (± 100 kt) by the end of the year and an average price of around US\$3.30/lb, in-line with our forecast.

Global copper markets have withstood the recent period of declining consumption very well in our view and prices have been ranged bound YTD in 2013. Considering that the main consumers i.e. China, the US and Europe have experienced slow economic growth, LME inventories declined 37% in 2013 since peaking in June. Although inventory levels have declined they have not supported copper prices which fell 7% over the same period. The inventory drawdown has been even more surprising as supply disruptions have averaged less than 2% of supply, well below the 5% of supply averaged in the last 8 years.

Despite the slow growth environment, consumption remains ahead of supply and the copper market will be balanced in 2013 (small 100-150kt deficit), before switching to a small surplus in 2014. We believe that much of the probable new supply will be delayed, especially as even the Top 40 miners appear to be under-spending on announced capital plans and divesting non-core assets. We believe copper prices have essentially bottomed for the cycle in the US\$3.00- 3.40/lb range. Inventories in weeks of supply are falling, but at a slower rate. Below we show copper's price performance and our estimate of the supply-demand balance going forward.

Copper Price, Inventories and Supply Balance



Source: DCM, Bloomberg

It is worth noting that +350kt of copper supply surplus was the consensus view for 2013 and it was not realized (surplus was less than half that). A similar surplus is forecasted again for 2014 but we expect that the surplus will once again be less than expected.

At the recent Asia Copper Conference, both Codelco and FCX highlighted the impact of low prices on copper scrap availability. Estimates suggest that at a floor price of \$3/lb copper scrap supply dries up.

Based on one view of improved economic outlook in 2014, but higher copper supply as new mines come on stream we see copper prices staying range bound again in 2014. We are comfortable with our \$3.30/lb forecast with copper prices showing improvement as the year progresses and the focus on Fed Tapering are discounted.

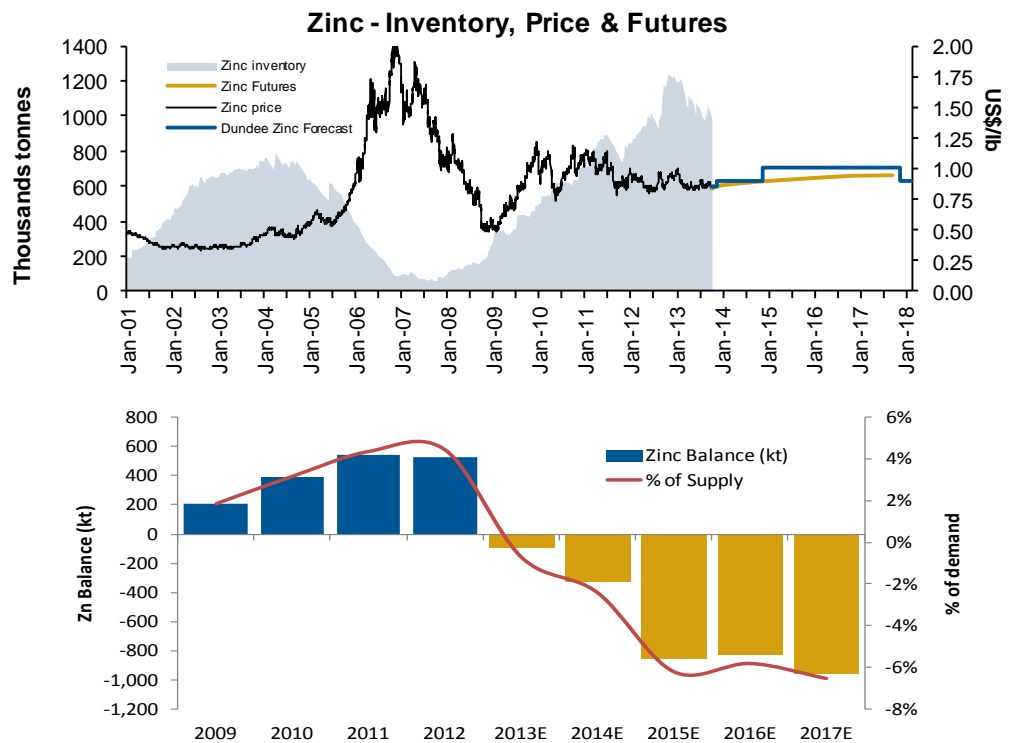
POSITIVE ZINC MARKET FUNDAMENTALS: S&D PICTURE AND PRICE FORECAST

We believe zinc mine shutdowns and structural issues in the mining industry support a shift upward in zinc's price levels. With structural/secular issues such as: capital cost escalation, resource nationalism, environmental challenges, lack of skilled labour and infrastructure deficiencies, we believe that zinc mining is becoming more challenging and that the industry will require a "new reality" of higher prices in order to keep margins positive.

Over the next 5 years we estimate that roughly 2.1 million tonnes of zinc production will be shutdown, representing about **15% of global supply**. Important mine shutdowns include Xstrata's **Brunswick Mine** in New Brunswick (complete), Minmetal's **Century Mine** (world's 3rd largest zinc mine) in Australia (2016), and Vedanta's **Lisheen and Skorpion Mines** in Ireland and Namibia respectively (2014).

We estimate that 2013 and 2014 will be important years for zinc shutdowns with a total of roughly 1.2mm tonnes of zinc coming off line, or just under **10% of global supply**; eventually leading to a zinc deficit by 2015. Furthermore, current ILZSG data shows a market that is essentially balanced so any further closures and/or increases in demand will tip this balance to deficit. MMG has recently announced significant technical issues experienced at **Dugald River** that appear to be leading to an indefinite delay to project commitment there as well.

Zinc Price, Inventories and Supply Balance - Moving Into Deficit



Source: DCM, Bloomberg

Our thesis that zinc prices will rise into 2015 is supported by the following points:

- Shutdowns are likely to amount to over 1M tonnes of metal in the coming 2-3 years
- Shutdowns have already begun with Brunswick and Century coming offline
- New supply will be more difficult to replace since Zn deposits are typically small (<100kt/y)

Fragmented Market

- No company except Glencore-Xstrata controls more than 10% of market, with even “large” players only controlling ~2% of annual production (Vedanta, Boliden, Sumitomo, Vulcan)
- Majors that account for largest proportion of zinc production attribute very little of their overall income from Zn (Glen, TCK, Minmetals).

As shown in the following figure, given the structure of the zinc market, junior zinc miners have a higher financing rate than copper or nickel juniors. This is supported by the fact that most of the zinc supply comes from smaller mines which are typically run by juniors.

New zinc supply will mainly come from Juniors who will find financing difficult

% of New Mine Supply Financed by Junior Mining Companies								
Metal	2013	2014	2015	2016	2017	2018	2019	2020
Zinc	29.8%	30.5%	25.6%	27.1%	34.0%	21.3%	20.5%	19.6%
Copper	1.4%	7.4%	7.8%	5.6%	11.3%	10.5%	10.0%	8.6%
Nickel	7.2%	6.0%	9.1%	18.5%	18.0%	17.7%	17.5%	17.7%

Source: Bloomberg

We are forecasting 2014 zinc prices at \$0.90/lb, but expect to see zinc prices rise above \$1.00/lb by 2015.

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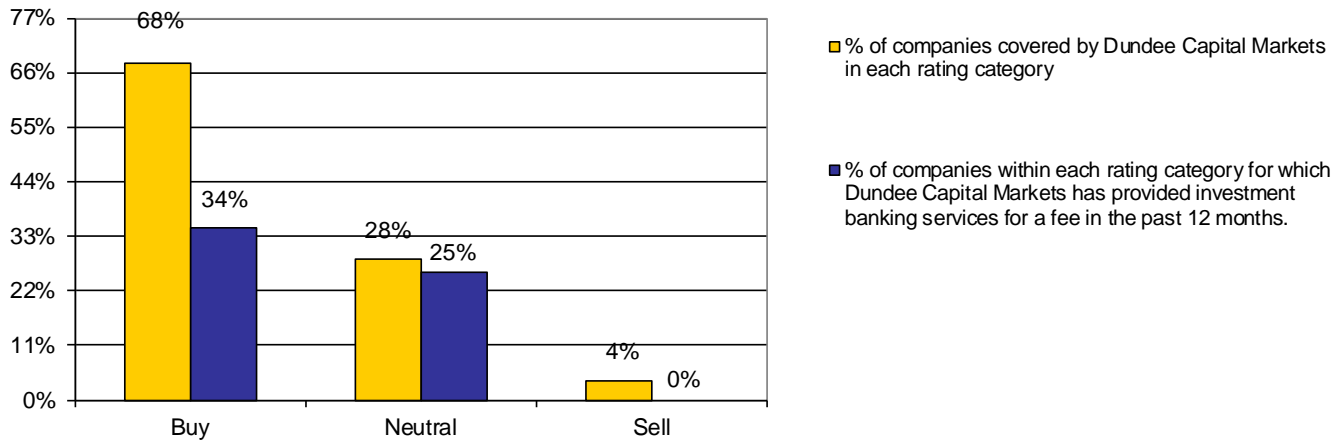
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