



## Letter to Shareholders



A dissident shareholder is threatening to throw a wrench in the works and stall Sherritt's positive momentum

Please read the important information in the enclosed letter and vote only the **BLUE** proxy to preserve good governance and protect the value of your investment in Sherritt.



## Letter to Shareholders

April 14, 2014

Dear Fellow Shareholders,

Sherritt is making significant progress against its strategic objectives – and you can help ensure that momentum continues by voting the **BLUE** proxy before the proxy voting deadline on May 2, 2014.

Over the past six months, Sherritt has announced the sale of its coal business for total consideration of \$946 million, which was greater than analyst consensus expectations, committed to use proceeds of that sale to pay down debt, achieved commercial production at our flagship Ambatovy nickel operation in Madagascar, and conducted a highly-successful analyst trip to Ambatovy that led to universally positive comments and three upgrades of our stock.

We have cut costs, continued to add strong, qualified and independent directors to our Board as part of a long-standing program of Board renewal, and we have significantly enhanced our

corporate governance based on investor feedback, including through an investor survey we conducted last Fall.

In addition, Sherritt and our shareholders are being rewarded for our long-term belief in nickel – and our steadfast commitment to developing Ambatovy – as we have seen nickel move from being the worst-performing base metal on the London Metal Exchange in 2013 to the best-performing metal in 2014, just as production at this world-class asset comes online.

The result is that Sherritt has positive momentum, our share price is up by more than 16% year-to-date and the analyst community is recognizing the progress we are making:

*“Positive momentum indicators piling up. Sherritt has been challenged in recent years by a weak nickel market, uncertainty about the ramp-up at Ambatovy, senior management changes, and an ongoing tight balance sheet. But momentum is swinging in the company’s favour...”*

*Patrick Morton, RBC Capital Markets,  
March 31, 2014*

*“The tour of Ambatovy impressed us – we expect that Ambatovy will be the first large-scale HPAL nickel operation to achieve design capacity... This would be a remarkable achievement and is well timed given the recent improvements in the nickel market...”*

*Greg Barnes, TD Securities Inc.,  
March 31, 2014.*

This momentum is the product of your Board and management team, led by CEO David Pathe, executing on a coherent strategic plan which is delivering results.

That’s the good news.

The bad news is that a dissident shareholder with approximately 5% ownership is threatening to throw a wrench into the works and disrupt this momentum. This shareholder is persisting with a costly and disruptive proxy fight, despite the positive momentum Sherritt is developing, and despite Sherritt’s repeated good faith attempts to reach a settlement that doesn’t compromise the quality of its Board.

The dissident shareholder, George Armoyan, has no experience in mining, metals, international companies, or companies of Sherritt’s size and complexity. What he does have is a history of poor governance, regulatory sanctions, related-party transactions and value-destruction at companies under his control, erratic and needlessly disruptive behavior, and a penchant for partial – if not false and misleading – disclosure. And when it comes to Sherritt, he has failed to put forward a single strategic initiative that is not already being undertaken by management.

It is very important for Sherritt and for the value of your investment that you vote only the **BLUE** proxy in favour of Sherritt’s nominees. You would have received a copy of the **BLUE** proxy with Sherritt’s management information circular

sent to you within the past few weeks. Another copy is being provided along with this letter for your convenience.

If you have any questions or require assistance in voting your proxy, please contact Kingsdale Shareholder Services at 1-800-749-9197 (toll-free), 416-867-2272 (outside North America), or by email at [contactus@kingsdaleshareholder.com](mailto:contactus@kingsdaleshareholder.com) or go to [www.sherritt.com](http://www.sherritt.com).

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On April 9, 2014, Mr. Armoyan appeared on Canada’s leading business news network, BNN, and said (of Sherritt’s Board): “I guess they don’t like me, I don’t know what it is...”

The issue is not whether we like Mr. Armoyan. The issue, as we have explained to Mr. Armoyan many times, is whether he is a qualified or suitable candidate for Sherritt’s Board. We do not believe he is.

This is not personal, and we are not the only ones with concerns regarding Mr. Armoyan’s approach to corporate governance. In fact, in 2013 alone, two leading proxy advisory firms – Institutional Shareholder Services and Glass, Lewis – recommended that shareholders not vote to re-elect Mr. Armoyan on three separate boards: Royal Host Inc., Supremex Inc. and TerraVest Capital Inc.

We hope you will read the following pages and decide for yourself.

## “Schedule A”: The Real George Armoyan



Mr. Armoyan’s true business history is not evident from the biographies he has published on pages 13 and 20 of Clarke’s dissident circular. His real history (at least some of it) can only be found in the fine print at the back of Clarke’s circular under the non-descriptive heading, “Schedule A.”

Here is a summary of what Mr. Armoyan hoped you wouldn’t notice:

### **Regulatory Issues.**

In 2009, two companies under Mr. Armoyan’s control, Clarke Inc., and Geosam Investments, admitted to having *“acted contrary to the public interest” and paid a \$400,000 penalty, plus \$30,000 in investigation costs*, after the Nova Scotia Securities Commission brought enforcement proceedings against them. According to the Canadian Securities Administrators’ year end enforcement report for 2009, Clarke and Geosam became aware of an unsolicited takeover bid for all outstanding units of Advanced Fiber Technologies Fund and subsequently acquired “significant positions” in AFT before the bid was announced and without having exercised due diligence “in determining whether or not the undisclosed information about the bid was material prior to trading in AFT units”.

### **False and Misleading Disclosure.**

Not only has Mr. Armoyan buried this troubling disclosure regarding the Nova Scotia Securities Commission enforcement proceedings at the back of Clarke’s dissident circular, but he has repeatedly omitted this disclosure in other proxy circulars for Clarke Inc., Royal Host, Holloway and other companies, and has falsely claimed in those circulars that he has not been the subject

of a settlement agreement with a Canadian securities regulator.

### **Bankruptcy and Insolvency.**

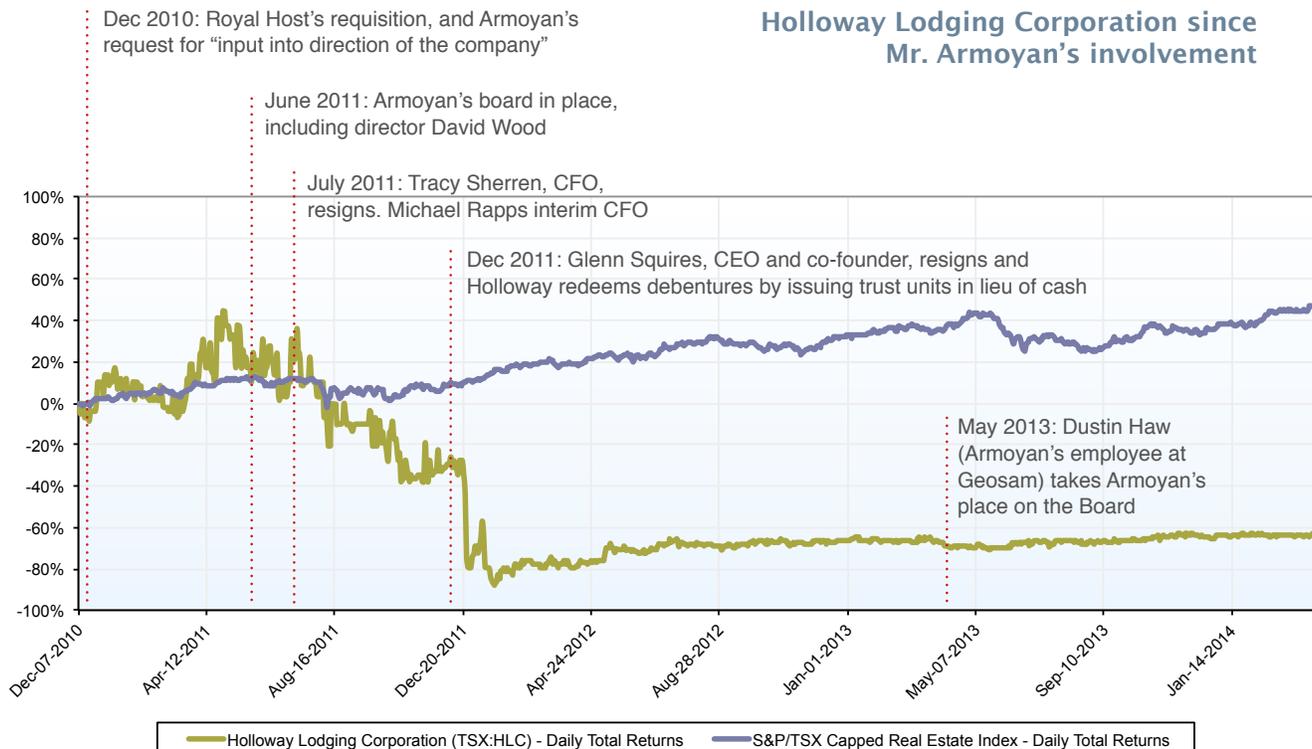
Mr. Armoyan’s featured biographies don’t mention that he served as a director of two Canadian public companies, Shermag Inc. and HIP Interactive Corp., which became bankrupt or insolvent. While being a director of a company that declares bankruptcy isn’t necessarily concerning, Mr. Armoyan’s attempt to hide this history is.

### **Value Destruction Omissions.**

Mr. Armoyan has selectively told you about his good investments. He has not told you about the numerous instances where he pushed himself onto a board only to oversee substantial destruction of shareholder value. An example is Halifax-based hotel company, Holloway Lodging Corporation, where Mr. Armoyan previously served as Chair and where he controls 29.5% of the direct voting rights. Holloway is instructive because it involves not only Mr. Armoyan but also his longtime business associate and one of his Sherritt dissident nominees, Mr. David Wood. Mr. Wood’s only public company board experience has been at companies where he followed Mr. Armoyan. This includes Holloway, where he serves as one of Mr. Armoyan’s handpicked directors on a board chaired by Michael Rapps, one of Mr. Armoyan’s initial nominees for Sherritt’s Board.

Having demanded “input into the direction of the company,” Mr. Armoyan and his employee, Mr. Rapps, were appointed to the Holloway Board in December 2010. Since then, Holloway’s stock has plunged by 63% while the relevant peer index has increased by 48%. The chart below tells the rest:

## Holloway Lodging Corporation since Mr. Armoyan's involvement



Mr. Armoyan's other new dissident nominee, Ashwath Mehra, has experience as a commodity trader in the mining industry. What he lacks is a track record of value creation. Mr. Mehra sits on the Board of four publicly-listed mining companies. Each of these has lost significant shareholder value, ranging from a loss of 15% to a loss of 89% and a loss, on average, of 49%.

### Conflicts and Related-Party Transactions.

Mr. Armoyan is the President, CEO and controlling shareholder of Clarke Inc., a publicly-listed company. He is also the controlling shareholder of Geosam Investments Ltd., a private investment company.

- In September 2006, Mr. Armoyan joined the board of Granby Industries Income Fund. At that time, Granby's units traded at \$5.19. In May 2007, while still a trustee of the fund, Mr. Armoyan ran a proxy fight against the board. The fund's performance suffered over the following seven months and in December 2007 Clarke Inc. made a bid to acquire Granby for \$0.17 per unit. From the time Mr. Armoyan joined the board to the day prior to Clarke's offer to acquire Granby, the trust's unit price declined by approximately 95%.

- On October 5, 2007, Mr. Armoyan replaced the President and CEO of Shermag, Inc. as a member of that company's board. During his tenure as a director, Shermag's shares declined in value by approximately 99%. In May 2008, Shermag filed for protection from its creditors under CCAA. In March 2009, Mr. Armoyan's private company, Geosam Investments Ltd. made a proposal that would have wiped out the equity of existing investors and had Shermag issue new shares to Geosam. That proposal was rejected by a Quebec court and Mr. Armoyan resigned from the Board.
- On October 2, 2007, all of the directors of Art in Motion Income Fund resigned and Mr. Armoyan and three others (including David Wood) took their place. At the time, the Fund's units traded at \$1.45 per unit. The Fund suffered poor performance until Mr. Armoyan's resignation from the board, with its unit price declining by approximately 66% during his tenure. Following his resignation, on July 30, 2008, Clarke, Inc. made a bid to acquire the fund for \$0.75 per unit.
- In 2007, in response to criticism for having "two masters" in Geosam Capital and Clarke, Mr. Armoyan acknowledged the conflict of

interest and said, *“When you are running a public company, you shouldn’t be doing this stuff on the side. I agree 110%”*. Mr. Armoyan promised to distance himself from Geosam Capital to focus solely on Clarke Inc., but has not done so.

- In late 2013 and early 2014, Clarke Inc. sought the consent of holders of its convertible debentures to eliminate the conversion rights of the debentures. Clarke Inc.’s plan met with resistance from debentureholders and was ultimately withdrawn due to a failure to achieve the requisite support. The Financial Post subsequently reported that one of the largest purchasers of debentures during the period that Clarke Inc. was soliciting the debentureholders’ consent had been Clarke Inc.’s own pension plan, of which a Clarke employee is one of two managers.

These examples appear to indicate that Mr. Armoyan is either not as savvy an investor as he claims, is a poor corporate director, and/or has difficulty acting in the best interests of others.

#### **False and exaggerated claims about Sherritt Director Compensation.**

This pattern of selective and misleading disclosure is also evident in Mr. Armoyan’s attacks on Sherritt’s director compensation. In discussing Sherritt’s past director compensation, he omits the fact that Sherritt directors are subject to the U.S. Helms-Burton law, which can result in these directors or their family members being banned from traveling to the United States at any time and for any reason. This creates real risk and hardship, yet directors have committed to stay on Sherritt’s Board even if they are made personally subject to this ban. Sherritt instituted a director pay allowance to compensate for this risk and to mitigate the impact this risk could have had on the company’s ability to recruit and retain qualified directors. This risk does not apply to Sherritt’s peer group, or to directors of any of the companies mentioned by Mr. Armoyan.

Mr. Armoyan also omits the fact that Sherritt has discontinued the Helms-Burton allowance for

unbanned directors in light of shareholder feedback and in light of reduced enforcement of the law’s provisions in recent years. By ignoring this fact, Mr. Armoyan then manufactures a sensational and misleading claim about director compensation at Sherritt that overstates by double the actual pay Sherritt directors receive.

Here are the facts: Sherritt targets director pay in relation to its peer group. Sherritt’s independent compensation advisor estimates that Sherritt’s 2013 director pay (excluding Helms Burton) is well below the median at the 35th percentile of its peer group, and just by way of example, is between 25% and 50% less than director compensation at Eldorado Gold, Crescent Point Energy, Talisman Energy, Yamana Gold and Agnico Eagle.



#### **Actions Speak Louder Than Words: Mr. Armoyan’s Erratic and Disruptive Behaviour.**

Sherritt operates complex businesses in Madagascar and Cuba in partnership with governments and other highly-sophisticated partners. Success requires diligence, consistency, care and relationships built on trust. Mr. Armoyan has not exhibited these traits. In fact, he has acted in an erratic and disruptive manner throughout his engagement with Sherritt that raises further concerns about his intentions and suitability. To cite just a few examples:

- Mr. Armoyan initially demanded that as a 5% shareholder he should be made Chairman and be given more than 40% of the seats on Sherritt’s Board. Mr. Armoyan persists in seeking Board representation out of proportion to his ownership stake.
- Mr. Armoyan says he values good governance but refused to participate in Sherritt’s standard process for evaluating the backgrounds and qualifications of potential director candidates.
- He submitted a meeting requisition naming two of his employees as dissident director nominees. He then waited over 100 days, and



until after Sherritt mailed its proxy circular, to claim that his two employees are not actually nominees, even though to this day he has not withdrawn his requisition, which states that they are.

- Mr. Armoyan has since abandoned his employees and put forward two other nominees that in all his dealings with Sherritt had never been suggested as potential candidates.
- He told the media Sherritt should use the proceeds of the coal transaction to buy back stock, even though Sherritt's publicly disclosed debt covenants prevent using the proceeds for that purpose.
- Mr. Armoyan insisted on BNN that "he only wants three of nine board seats" but his own meeting requisition proposed to reduce the Board from nine individuals to seven by removing four directors and replacing them with Mr. Armoyan and his two employees. On this point, Mr. Armoyan has been both inconsistent and nonsensical.

recommendation with respect to that resolution in his circular. This creates needless confusion for shareholders and leaves them to wonder about Mr. Armoyan's true intentions and/or his seriousness.

- Mr. Armoyan put forward yet another resolution that would give him (and every director) a veto over the will of the Board with respect to certain growth initiatives. This is unprecedented, fundamentally at odds with good governance and may well be contrary to law in any event.
- Mr. Armoyan claims that Sherritt's Board has rejected every Clarke nominee that he has put forward. This is not true. In fact, in an effort to avoid the distraction and costs of an unnecessary proxy contest, the Board has offered at different times to nominate one or another specific individual proposed by Mr. Armoyan only to then have Mr. Armoyan reject the offer.
- Mr. Armoyan claims that nothing improved at Sherritt until he started agitating for change. This is plainly not true. The coal transaction was in the works long before Mr. Armoyan identified himself as a shareholder, as was a Sherritt-commissioned investor survey that solicited shareholder feedback on areas such as strategy, governance and communication. Enhancements in all three areas flowed from the results of the survey. Likewise, board renewal has been a very public multi-year process at Sherritt, and the recent performance gains at Ambatovy are surely not a result of Mr. Armoyan's efforts.

shares of Sherritt that have the right to vote at the meeting hereinafter referred to, hereby requisition the directors of Sherritt to call and hold forthwith a special meeting of shareholders of Sherritt (the "Meeting") for the purposes of:

- (i) removing as directors of Sherritt each of R. Peter Gillin, Adrian Loader, John R. Moses and Lisa Pankratz; and
- (ii) reducing the size of the board of directors from nine individuals to seven individuals; and
- (iii) electing as directors of Sherritt each of George Armoyan, Dustin Haw and Michael Rapps; and

- Then, having requested that shareholders consider a resolution reducing the size of Sherritt's Board, Mr. Armoyan makes no

- Mr. Armoyan claims that the Board and management have “no skin in the game.” In fact, as disclosed on pages 66 and 73 in the management information circular, your Board and management hold over \$8.4 million worth of Sherritt common shares, restricted stock, deferred share units and restricted share units. This represents a meaningful – and growing – investment for these individuals.
- Finally, Mr. Armoyan claims that Sherritt, either directly or through a third party, committed to put him and another nominee

on its Board and then reneged on its offer. To be clear, this is simply not true. At no time did Sherritt commit to put Mr. Armoyan on its Board, and the third party in question has confirmed to Sherritt, in writing, that from its perspective Sherritt made no such offer. Mr. Armoyan’s claim is either based on a misunderstanding on his part, or it is a fabrication. Either way, Sherritt did not renege on any offer.

*This is the real George Armoyan.*

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## Sherritt Has A Strong Board And Good Corporate Governance.

Sherritt welcomes fresh perspectives and independent voices on its Board. To this end, the company has maintained an active and ongoing program of board renewal. Nearly half of Sherritt’s independent directors, including the Chair, have joined the Board within the past two years and each is highly qualified, experienced and fits within the Board’s skills matrix. In addition, the Board has adopted say-on-pay resolutions for executive and director pay and made other enhancements to its governance in response to investor feedback that long predates Mr. Armoyan.

### Don’t Be Fooled.

Your Board continues to convey the facts as they are. Sherritt has momentum. And George Armoyan is a threat to value creation at your Company. Don’t overlook his reckless misconduct. Don’t overlook his erratic behaviour. Don’t overlook his poor governance record. Don’t overlook his lack of relevant experience. Don’t be taken in by his rhetoric and hollow attacks. Don’t let George Armoyan and his hand-picked nominees onto Sherritt’s Board.

We thank you for your continued support,

Sincerely,



Harold (Hap) Stephen  
Chairman  
Sherritt International Corporation

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**You now have all of the required facts. It’s up to you to protect your investment in Sherritt by voting only the BLUE proxy no later than: Friday May 2nd at 5:00 p.m. (Toronto time)**

If you have voted a green proxy, you can still change your vote, simply by voting your **BLUE** proxy today. Your later dated **BLUE** proxy will replace any prior dated green proxy you may have voted.

If you have any questions or require assistance in voting your **BLUE** proxy, please contact Kingsdale Shareholder Services at 1-800-749-9197 (toll-free in North America), 416-867-2272 (outside North America), or by email at [contactus@kingsdaleshareholder.com](mailto:contactus@kingsdaleshareholder.com) or go to [www.sherritt.com](http://www.sherritt.com).