



June 29, 2020

Board of Directors

Sherritt International Corporation

22 Adelaide Street West, Suite 4220
Toronto, Ontario
M5H 4E3

To the Board of Directors:

Paradigm Capital Inc. ("**Paradigm Capital**", "**we**" or "**us**") understands that Sherritt International Corporation ("**Sherritt**" or the "**Company**") and certain subsidiaries are pursuing a recapitalization transaction to be implemented by way of a plan of arrangement (the "**Arrangement**") under Section 192 of the *Canada Business Corporations Act* (the "**CBCA**").

Paradigm Capital understands that the Arrangement provides for, among other things, the following terms:

Notes Terms

- The Company's currently outstanding unsecured notes with an aggregate principal amount of \$588 million and maturity dates of November 15, 2021, September 24, 2023, and October 11, 2025 (the "**Existing Notes**", and the holders of the Existing Notes the "**Noteholders**") will be exchanged for new second lien notes of Sherritt in an aggregate principal amount equal to (i) 54% of the aggregate principal amount of the Existing Notes, plus (ii) the amount of accrued and unpaid interest owing to the Noteholders up to the implementation of the Arrangement (the "**Effective Date**"), with a maturity date of November 30, 2026 (the "**New Second Lien Notes**");
- The New Second Lien Notes will have an interest rate of 8.500% per annum, which will be payable semi-annually in arrears on April 30 and October 30 of each year, commencing on October 30, 2020;
- The New Second Lien Notes will be secured by the material personal property and assets of the Company and each of the new note guarantors pursuant to collateral documents in substantially the same form as those provided in favour of the agent for the benefit of itself and the lenders under the Company's revolving bank facility (the "**Revolving Facility**");
- Each Noteholder shall also receive on the Effective Date its pro rata share of new unsecured notes with an aggregate principal amount of \$75 million with a maturity date of 9 years following their issuance (the "**New Junior Notes**") as additional consideration for the exchange of its Existing Notes;
- The New Junior Notes will have an interest rate of 10.75% per annum, which will be payable semi-annually in cash or in kind, at Sherritt's election, on January 31 and July 31 of each year, commencing on January 31, 2021; and
- Noteholders that vote in favour of the Arrangement by 5:00 pm on the early consent date, as such deadline is determined and may be extended by Sherritt, will be entitled to receive a cash payment in an amount equal to 3% of the principal amount of Existing Notes voted in favour of the Arrangement by the early consent deadline as additional consideration in exchange for their Existing Notes.



CFA Loans Terms

- The holders of the partner loans relating to the Ambatovy joint venture project (the “**CFA Loans**”) (the “**CFA Lenders**”, and together with the Noteholders, the “**Debtholders**”) shall be entitled to elect to receive on the Effective Date either:
 - a) Such CFA Lender’s pro rata share of the Company’s interests in the Ambatovy joint venture, including its 12% ownership stake and its pro rata share of the subordinated loans; or
 - b) Amended CFA Loans (the “**Amended CFA Loans**”) in a principal amount equal to the amounts outstanding under such CFA Lender’s existing CFA Loans, which Amended CFA Loans will be obligations solely of Madagascar Mineral Investments Ltd. and have no recourse to Sherritt, and where such CFA Lender shall have the right to exchange its Amended CFA Loan for a pro rata share of the Company’s interests in the Ambatovy joint venture in the 12-month period following the Effective Date.
- If a CFA Lender does not make an election as described above, such CFA Lender shall be deemed to have elected to receive an Amended CFA Loan in exchange for its existing CFA Loan.

Other Terms

- The lenders of the Revolving Facility have entered into an agreement to (i) waive certain potential events of default resulting from the Arrangement, and (ii) amend the Revolving Facility to allow for the implementation of the Arrangement; and
- The Company will reduce the stated capital account of its common shares to \$575 million (the “**Stated Capital Reduction**”).

Paradigm Capital understands that in order for the Arrangement to be approved, the Debtholders’ Arrangement resolution must be approved by the affirmative vote of at least 66 2/3% of the votes cast by the Debtholders present in person or by proxy at the Debtholders’ meeting. The Stated Capital Reduction must be approved by the affirmative vote of at least 66 2/3% of the votes cast by the holders of the Company’s common shares (the “**Shareholders**”) present in person or by proxy at the Shareholders’ meeting.

Paradigm Capital further understands that: (i) the Arrangement will be subject to the requisite approval by the Ontario Superior Court of Justice (the “**Court**”); and (ii) the material terms of the Arrangement are described in the Arrangement and are described in the information circular of the Company dated March 6, 2020 (the “**Circular**”), which was mailed to, among others, Debtholders and Shareholders, and the material change report of the Company dated June 11, 2020 (the “**June 11 Material Change Report**”).

Unless otherwise noted, all dollar values stated in these Opinions are denominated in Canadian dollars.

Engagement of Paradigm Capital

Pursuant to an engagement letter (the “**Engagement Agreement**”) dated September 4, 2019, Paradigm Capital was formally engaged as an independent financial advisor to the Company and its Board in connection with the Arrangement, and to prepare and deliver to the Board opinions in accordance with the applicable legal and regulatory requirements for the Arrangement including, without limitation, as contemplated under Section 192 of the CBCA. Paradigm Capital was asked by the Company to provide to the Board: (i) an opinion (the “**CBCA Opinion**”) as to whether the Noteholders and the CFA Lenders, respectively, would be in a better position, from a financial point of view, under the Arrangement, than if the



Company were liquidated; and an opinion (the “**Fairness Opinion**” and, together with the CBCA Opinion, the “**Opinions**”) as to the fairness of the Arrangement, from a financial point of view, to the Company.

The Engagement Agreement provides for a fixed flat fee for providing the Opinions and Paradigm Capital is not entitled to any additional fees related to the completion of the Arrangement. An additional fixed fee is payable to Paradigm for updating the Opinions to the date hereof. In addition, Paradigm Capital is to be reimbursed for its reasonable out-of-pocket expenses, including fees paid to its legal counsel in respect of advice rendered to Paradigm Capital in carrying out its obligations under the Engagement Agreement, and is to be indemnified by the Company in respect of certain liabilities that might arise out of Paradigm Capital’s engagement.

Paradigm Capital acknowledges and consents that the Opinions (including as updated) and the descriptions of the services rendered by Paradigm Capital under the Engagement Agreement may be filed with the Court as part of an affidavit and with securities commissions or similar regulatory authorities and will be disclosed (or summarized in a form acceptable to Paradigm Capital, acting reasonably) in press releases, information circulars and publicly filed documents by the Company. Additionally, for greater certainty, Paradigm Capital consents to the complete text of the updated Opinions being included as part of the affidavit and material change report filed with any court, securities commission, stock exchange or other regulatory authority in connection with the Arrangement.

Paradigm Capital has not provided an opinion as to any matter not specifically addressed in the Opinions. In particular, Paradigm Capital has not provided: (i) an opinion as to the relative fairness of the Arrangement among or between the Noteholders or the CFA Lenders; (ii) an opinion as to the fairness of the Arrangement, from a financial point of view, to the Shareholders and/or the holders of any other securities of, or claims against, the Company (including, without limitation, holders of options, restricted share units, deferred share units, warrants, equity claims and similar instruments or claims); (iii) an opinion as to the manner in which the classes of securities holders were constructed; (iv) an opinion as to the fairness of the process underlying the Arrangement; (v) an opinion as to the fairness of the Arrangement, from a financial point of view, to the Noteholders and/or CFA Lenders; (vi) a formal valuation or appraisal of the Company or any of its securities or assets or the securities or assets of the Company’s associates or affiliates (nor have we been provided with any such valuation); (vii) an opinion concerning the future trading price of any of the securities of the Company; (viii) an opinion as to the ability of the Company after the implementation of the Arrangement to repay or refinance the principal amount of its indebtedness; (ix) a recommendation to any Noteholders or CFA Lenders as to whether or not the Existing Notes or CFA Loans should be held, or sold or to use the voting rights provided in respect of the Arrangement to vote for or against the Arrangement or to vote for or against certain steps necessary to implement the Arrangement; or (x) an opinion of the merits of entering into the Arrangement or any alternative business strategy; and the Opinions should not be construed as such. The Opinions are not intended to be and do not constitute a recommendation to the Board as to whether it should approve the Arrangement.

Credentials and Independence of Paradigm Capital

Paradigm Capital is an independent Canadian investment banking firm with a sales, trading, research and corporate finance focus, providing services for institutional investors and corporations. Paradigm Capital was founded in 1999 and is a member of the Toronto Stock Exchange, the TSX Venture Exchange and the Investment Industry Regulatory Organization of Canada (“**IIROC**”). Paradigm Capital has extensive advisory, valuation, merger & acquisition and corporate governance experience.

The Opinions expressed herein represent those of Paradigm Capital and the form and content hereof has been approved for release by a committee of directors and other professionals of Paradigm Capital, each of whom is experienced in mergers, acquisitions, business combinations, divestitures, valuation and fairness opinion matters.



Except as described below, none of Paradigm Capital, its associates or affiliates, is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Ontario)) of the Company. Paradigm Capital is not an advisor to any person or company other than to the Company with respect to the Arrangement.

Paradigm Capital is currently engaged as an advisor for the Company on a strategic assignment unrelated to the Arrangement. Paradigm Capital, the Company and the Board agree that the aforementioned strategic advisory engagement does not affect Paradigm Capital's independence or its ability to provide the Opinions.

Paradigm Capital acknowledges that John Warwick, a former investment banker at Paradigm Capital and a current special advisor to and shareholder of Paradigm Capital, is currently a member of the Board. Paradigm Capital, the Board, and the Company agree that this relationship does not affect Paradigm Capital's independence or its ability to provide the Opinions.

Paradigm Capital may, in the ordinary course of its business, provide financial advisory or investment banking services to Sherritt from time to time. Additionally, in the ordinary course of its business, Paradigm Capital may actively trade common shares and other securities of Sherritt for its own account and for its client accounts, and, accordingly, may at any time hold a long or short position in such securities. As an investment dealer, Paradigm Capital conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including with respect to Sherritt or the Arrangement, when disclosed.

Scope of the Review

In connection with the Arrangement, Paradigm Capital has reviewed and relied upon and in some cases carried out, among other things, the following:

- a) Summary of principal terms and conditions re: CBCA plan amendments and form of Support Agreements entered into with certain holders of Existing Notes;
- b) Drafts of the amended CBCA plan of arrangement;
- c) Drafts of the New Second Lien Notes indenture;
- d) Drafts of the New Junior Notes indenture,
- e) The affidavit of Andrew Snowden with respect to the Arrangement sworn February 25, 2020;
- f) Sherritt's annual information forms for the years ended December 31, 2019 and December 31, 2018;
- g) Sherritt's audited annual consolidated financial statements and management's discussion and analysis for the years ended December 31, 2019 and 2018;
- h) Sherritt's quarterly consolidated financial statements and management's discussion and analysis for the quarter ended March 31, 2020;
- i) Press releases and material change reports issued by Sherritt during the 12-month period ended June 24, 2020;
- j) Carry finance agreements dated March 26, 2008, and subsequent amended and restated agreements;



- k) Indenture for the Existing Notes dated November 2, 2011, and subsequent supplemental indentures;
- l) Various independent and institutional equity research reports on Sherritt and other publicly traded peer companies;
- m) Credit rating reports on Sherritt;
- n) Liquidation analysis provided by management of Sherritt;
- o) Internal financial forecasts provided by management of Sherritt;
- p) Precedent transaction disclosure;
- q) Comparable company disclosure;
- r) Certain internal financial information and other non-public documents requested by Paradigm Capital and provided by management of Sherritt;
- s) The Circular and the June 11 Material Change Report;
- t) Discussions with the Company's management team, Goodmans LLP, the Company's legal counsel, and National Bank Financial, Inc.; and
- u) The certificate of representation (the "**Certificate**") signed by the CEO and CFO of Sherritt dated June 29, 2020.

Paradigm Capital has not, to the best of its knowledge, been denied access by Sherritt to any information requested. Paradigm Capital did not meet with the auditors of Sherritt and has assumed the accuracy and fair presentation of the audited consolidated financial statements of Sherritt and the reports of the auditors thereon.

Assumptions and Limitations

Paradigm Capital has relied upon, without independent verification, all financial and other information that was obtained by us from public sources or that was provided to us by Sherritt and its affiliates, associates, advisors or otherwise. We have assumed that this information was complete and accurate as of the date thereof, and no necessary or material facts were omitted that may make the information misleading. In accordance with the terms of our engagement, but subject to the exercise of our professional judgment, we have not conducted any independent investigation to verify the completeness or accuracy of such information. The Opinions are conditional upon such completeness and accuracy.

Paradigm Capital has also assumed that (i) all the draft documents referred to under "Scope of Review" above are accurate versions, in all material respects, of the final form of such documents; and (ii) the draft documents referred to under "Scope of Review" describe all material terms of agreements that relate to the Arrangement that are to be drafted subsequently.

With respect to the financial forecasts and budgets provided to us and used in our analysis, we have assumed that they have been prepared using the best currently available estimates and reasonable judgments of management of Sherritt as to the matters covered thereby.

The Chief Executive Officer and the Chief Financial Officer of Sherritt have represented to us in the Certificate, among other things, that (i) the information provided to Paradigm Capital, directly or indirectly,



orally or in writing, by the Company or any of its subsidiaries, Goodmans LLP, and National Bank Financial, Inc. for purposes of the Engagement Letter, including in relation to the preparation of the Opinions (the “**Information**”), was, at the date the information was provided to Paradigm Capital, fairly and reasonably presented and complete, true and correct in all material respects, and did not, and does not, contain any untrue statement of a material fact in respect of the Company and its subsidiaries, associates, or affiliates or their respective securities or omit to state a material fact in respect of the Company and its subsidiaries, associates or affiliates or their respective securities necessary to make the information not misleading in light of the circumstances under which the Information was made or provided; (ii) any analyses, business plans, forecasts, projections, estimates and budgets provided to Paradigm Capital, including without limitation management’s liquidation analysis of the Company’s assets (“**Management’s Liquidation Analysis**”) were prepared using the assumptions identified therein and were reasonably prepared on bases reflecting the best currently available estimates and judgments of management of the Company and its subsidiaries, associates and affiliates as to the matters covered thereby and such analyses, business plans, forecasts, projections, estimates and budgets reasonably represent the views of management of the Company and its financial prospects and forecasted performance of the Company and its subsidiaries, associates and affiliates (and in the case of Management’s Liquidation Analysis, reasonably represent the views of management’s expected recoveries in a liquidation) and are consistent with historical operating experience and accounting policies and procedures applied by the Company; (iii) since the dates on which the Information was provided to Paradigm Capital, there have not been any material changes or new material facts, financial or otherwise, relating to the business or affairs of the Company or any of its subsidiaries, associates or affiliates or any change in any material fact or in any material element of any of the information or new material fact, which is of a nature as to render any portion of the information untrue or misleading in any material respect, except for changes that have been updated by more current Information provided in writing to Paradigm Capital; (iv) there are no independent appraisals or valuations or material non-independent appraisals or valuations available to the Company relating to the Company or any of its subsidiaries, associates or affiliates or any of their respective material assets or liabilities which have been prepared as of a date within the two years preceding the date hereof and which have not been provided in writing to Paradigm Capital; (v) since the dates on which the Information was provided to Paradigm Capital, no material transaction has been entered into by the Company or any of its subsidiaries, associates or affiliates; (vi) other than as disclosed in the Information, to the best of their knowledge, information and belief after reasonable inquiry, the Company does not have any material contingent liabilities and there are no actions, suits, proceedings or inquiries pending or threatened in writing against or affecting the Company or any of its subsidiaries, associates or affiliates at law or in equity or before or by any federal, provincial, municipal or other governmental department, commission, bureau, board agency or instrumentality which may in any way materially adversely affect the Company and its subsidiaries, associates or affiliates taken as a whole; (vii) there are no agreements, undertakings, commitments or understandings (written or oral, formal or informal) relating to the Arrangement, except as have been disclosed in writing to Paradigm Capital; and (viii) the contents of the disclosure documents prepared in connection with the Arrangement will be true and correct in all material respects and do not contain any misrepresentation (as such term is defined in the *Securities Act* (Ontario)) and such disclosure documents will comply with applicable laws in all material respects.

The Opinions are based on the securities markets, economic, financial and general business conditions prevailing as of the date of the Opinions and the conditions and prospects, financial and otherwise, of Sherritt as they were reflected in the information reviewed by us. In its analysis and in preparing the Opinions, Paradigm Capital has made a number of assumptions with respect to commodity prices, industry performance, general business and economic conditions, and other matters, many of which are beyond the control of Paradigm Capital, Sherritt and any other party involved in the Arrangement.

Paradigm Capital has also assumed that: (i) the final terms of the Arrangement will be fully complied with and will be substantially the same as those described by Sherritt’s senior officers to Paradigm Capital and those contained in the Draft Plan of Arrangement provided to Paradigm Capital; (iii) the Circular, as



supplemented by the June 11 Material Change Report, contain true, full and plain disclosure of the Arrangement; and (iii) all material governmental, regulatory or other required consents and approvals necessary for the consummation of the Arrangement will be obtained without any material adverse effect on Sherritt.

The Opinions are given as of the date hereof and Paradigm Capital disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting these Opinions which may come or be brought to Paradigm Capital's attention after such date. The Opinions are limited to Paradigm Capital's understanding of the Arrangement as of the date hereof and Paradigm Capital assumes no obligation to update this Opinion to take into account any changes regarding the Arrangement after such date. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting an Opinion after the date hereof, Paradigm Capital reserves the right to change, modify or withdraw the Opinion.

The Opinions (as updated) have been provided solely for the use of the Board and, other than as contemplated herein, may not be used or relied upon by any other person without the express written consent of Paradigm Capital. Except for the inclusion of the updated Opinions in their entirety and a summary thereof (in a form acceptable to us) in a material change report filed by the Company, the Company's press releases in connection with the Arrangement, and the court materials filed by the Company in connection with the Arrangement, the updated Opinions are not to be reproduced, disseminated, quoted from or referred to (in whole or in part) without our prior written consent.

Paradigm Capital is not a legal, tax, or accounting expert and expresses no opinion concerning any legal, tax, or accounting matters concerning the Arrangement or the sufficiency of the Opinion for the Board's purposes.

Sherritt Overview

Sherritt (TSX:S) is principally focused on the production and sale of commodities, and power generation, with operations located primarily in Canada, Cuba, Bahamas, Madagascar, and Spain. Its core businesses include: the mining and refining of lateritic nickel and cobalt in Canada, Cuba, and Madagascar; the exploration and production of oil and gas in Cuba; and the operation of energy production facilities in Cuba. In addition, Sherritt has a wholly-owned fertilizer business and sulphuric acid, utilities, and fertilizer storage facilities in Fort Saskatchewan, Alberta. The Company also has a technology group that provides technical support to Sherritt's operating divisions and evaluates and develops process technologies for natural resource-based industries. Sherritt was incorporated in 1995 and is headquartered in Toronto, Ontario. The Company's head office is located at 22 Adelaide Street West, Suite 4220, Toronto, Ontario, M5H 4E3.

Fairness Methodology

The Opinions have been prepared based on techniques that Paradigm Capital considers appropriate in the circumstances, after considering all relevant facts and taking into account Paradigm Capital's assumptions, in order to form its Opinions.

CBCA Opinion Terms of Reference

Innovation, Science and Economic Development Canada's Policy Statement 15.1 – "Policy Concerning Arrangements Under Section 192 of the CBCA" dated January 4th, 2011 provides certain guidelines regarding opinions to be obtained from a financial advisor where a corporation seeks to implement a plan of arrangement pursuant to Section 192 of the CBCA. In that context, the Company has asked Paradigm Capital to provide the CBCA Opinion.



CBCA Opinion Considerations

For the purposes of the CBCA Opinion, Paradigm Capital considered that the Noteholders would be in a better financial position under the Arrangement than if the Company were liquidated, if the estimated aggregate value of the consideration made available to the Noteholders pursuant to the Arrangement exceeds or equals the estimated value of the consideration the Noteholders would receive in a liquidation. Paradigm Capital also considered that the CFA Lenders would be in a better financial position under the Arrangement than if the Company were liquidated, if the estimated aggregate value of the consideration made available to CFA Lenders pursuant to the Arrangement exceeds or equals the estimated value of the consideration the CFA Lenders would receive in a liquidation.

In preparing the CBCA Opinion, Paradigm Capital reviewed and performed the following analyses:

- Paradigm Capital reviewed and analyzed the Company's management's estimated ranges of recoveries for the various assets of Sherritt in a liquidation process;
- In considering fairness of the Arrangement to the Noteholders, as compared to a Company liquidation, Paradigm Capital compared the terms of the New Second Lien Notes to similar bonds issued by similar profile companies in order to gain comfort in their expected value, and Paradigm Capital also considered the incremental value provided to the Noteholders in their receipt of the New Junior Notes; and
- In considering fairness of the Arrangement to the CFA Lenders and the Noteholders, as compared to a Company liquidation, Paradigm Capital considered the value of the Company's interests in the Ambatovy joint venture project in a liquidation process, and any claim on residual value at Sherritt.

In preparing the CBCA Opinion, Paradigm Capital has also considered, among other things, the following matters:

- In a liquidation process, prospective buyers will be aware that the seller is compelled to sell its assets. This may have a negative impact on the value realized;
- A liquidation process is likely to have a negative impact on the value of the Company's business as customers, suppliers, creditors and employees react to protect or enhance their interests;
- A liquidation process would give rise to significant incremental costs, including senior secured debtor in possession financing, and additional legal and financial advisory costs to implement the liquidation process and address the associated legal proceedings. These costs would reduce the Company's value or would be recovered out of sale proceeds that would otherwise be available to the Noteholders and CFA Lenders;
- The complex ownership and operating structures of the Company's Cuban operations, and the fact that the Cuban Government is both customer and partner in many of the operations, are factors that would likely significantly reduce the field of prospective bidders and constrain the bidding of participants in a liquidation process;
- The potential to recover receivables from the Cuban Government would be significantly impaired in a liquidation compared to the potential recovery under the payment plan outlined in the current receivables agreement; and
- In a liquidation process it is difficult to predict what stipulations or approvals would be required by the Cuban government for such process and what their impact would be on the ability to generate sale proceeds for distribution to stakeholders.



CBCA Opinion Conclusion

Based upon and subject to the foregoing, Paradigm Capital is of the opinion that, as of the date hereof, the Noteholders and the CFA Lenders, respectively, would be in a better position, from a financial point of view, under the Arrangement than if the Company was liquidated.

Fairness Opinion Considerations

In preparing the Fairness Opinion, Paradigm Capital considered that the Arrangement would be fair, from a financial point of view, to the Company, if the Arrangement:

- provides the Company with an improved capital structure, by reducing the total amount of debt outstanding and the interest expense cost associated with that debt; and
- reduces the risk that the Company's cash flow from operations and available liquidity would be insufficient to provide adequate funds to finance the operating and capital expenditures necessary to execute its operating strategy and repay its debt as it comes due.

In arriving at the Fairness Opinion, Paradigm Capital considered, among other things, the following matters:

- The Arrangement would result in a reduction of debt, substantially reducing the Company's outstanding debt;
- The Arrangement would substantially reduce the Company's annual cash interest payments, assuming that the Company elects to pay interest on the New Junior Notes in kind;
- The Arrangement would not affect any of the Company's contractual relationships with its trade vendors or any amounts owing to them; hence, would not result in any disruption to the Company's ongoing operations;
- The Arrangement would materially improve the Company's ability to generate cash flow, ability to manage periods of weaker commodity prices, and financial flexibility;
- The Company may forfeit its interests in the Ambatovy joint venture project to provide the consideration for the CFA Lenders under the Arrangement; and
- The Company has the opportunity, at this time, to effect the Arrangement with the approval of the Noteholders and the CFA Lenders in accordance with applicable law.

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Fairness Opinion Conclusion

Based upon and subject to the foregoing, Paradigm Capital is of the Opinion that, as of the date hereof, the Arrangement is fair, from a financial point of view, to the Company.

Sincerely,

(signed) Paradigm Capital Inc.

PARADIGM CAPITAL INC.