

Sherritt International Corporation

2017 Annual Report to
The Voluntary Principles on Security and Human Rights



Submitted February 2018

Executive Summary

Sherritt International Corporation (Sherritt or the Company) began to implement the Voluntary Principles on Security and Human Rights (the Voluntary Principles or the VPSHR) in 2009 at its Ambatovy nickel operation in Madagascar. In 2013, the Company was interested in formally joining the Voluntary Principles Initiative and carried out a series of independent, external risk assessments on security and human rights at Ambatovy as well as its Oil and Gas, and Power (OGP) operations in Cuba, and the Moa Joint Venture nickel operations in Fort Saskatchewan, Alberta, Canada, and Moa, Cuba. Following these assessments, Sherritt began developing a comprehensive management system to assist its operations in the identification and mitigation of human rights and security-related risks, in alignment with the expectations of the Voluntary Principles. Sherritt formally applied and was accepted to join the Voluntary Principles Association in late 2014.

Sherritt formalized its commitment to the VPSHR in 2015 with the President and Chief Executive Officer's approval of the Company's Security Policy and the Chief Operating Officer's approval of the Security and Human Rights Standard, both of which are aligned with the Voluntary Principles. Additional procedures and guidance have been developed to implement specific elements of the Voluntary Principles into Sherritt's internal security practices.

Sherritt endeavors to apply the Voluntary Principles at all of its sites; however, the speed and extensiveness of implementation is based on the individual site's risk profile and operating context. Application of the Voluntary Principles at the Company's operations in Cuba requires a longer-term approach to familiarize Sherritt's joint-venture partners – which are state-owned enterprises – and other government stakeholders with the VPSHR. In Canada, Sherritt recognizes that security and human rights-related risks are relatively low and good governance practices are relatively mature; therefore, few additional measures need to be put in place to ensure compliance with the Voluntary Principles. In Madagascar, where the security and human rights-related risks are considered higher, Sherritt has conducted the majority of its work on the VPSHR to date.

This report is the Company's third to the VPSHR Plenary and focuses primarily on initiatives carried out over the past year at Sherritt's sites in Canada, Cuba, and Madagascar.

Some highlights from 2017 include:

- Participation in the development of UNICEF Canada's Child Rights and Security Checklist.

- Signing on as a formal member of the Mining Association of Canada, an industry association that requires its members to align their security practices with the Voluntary Principles.
- Incorporation of Voluntary Principles related requirements into Sherritt's Fort Saskatchewan site's contract with its private security provider.
- Meeting with Cuban government officials to present the Voluntary Principles and receiving no objections to engage directly with the state-run security provider to introduce them to the Voluntary Principles.

Reporting Content

A. Commitment to the Voluntary Principles

1. *Statement of commitment or endorsement of the Voluntary Principles.*

Sherritt's President and CEO, David Pathe, asserts the Company's commitment to the VPSHR in Sherritt's Security Policy:

"As part of Sherritt's sustainability commitment, we endeavour to uphold international sustainability standards in all aspects of our business, including security. To this end, Sherritt participates as an active member of the Voluntary Principles Initiative and promotes and supports the implementation of international human rights and security-related standards and good practice at all of our operations."

Sherritt is committed to implementing the Voluntary Principles across all of its sites. This commitment is communicated publicly in the Company's 2016 Sustainability Report, published in mid-2017: <http://sustainability.sherritt.com/2016/providing-a-safe-and-rewarding-workplace/content#site-security>. Sherritt has also made all of its Annual Reports to the Voluntary Principles public.

1ii) *Engagement in the Voluntary Principles Initiative (VPI).*

Sherritt attended the Voluntary Principles Plenary in Ottawa in March 2017. (In the lead up to the Plenary, Sherritt had several discussions with the Government of Canada and Search for Common Ground on a proposal for a presentation, but, unfortunately, it could not be added to the agenda.) In May, Sherritt joined the Mining Association of Canada (MAC), a national industry association that announced a membership commitment to implement the Voluntary Principles in 2017. All MAC members that rely on private and public security forces are expected to implement a human rights and security approach aligned with the Voluntary Principles and report on their implementation annually in MAC's Towards Sustainable Mining Progress Reports.

Sherritt continued to participate in the UNICEF Canada-led Child Rights and Security Working Group established to focus on security-related impacts on children caused by the extractive sector. In 2017, the Working Group published the Child Rights and Security Checklist designed to assist governments and companies assess the degree to which their security frameworks respect children's rights. Going forward, the Working Group plans on developing complimentary guidance and training materials to help public and private security providers implement all items on the Checklist.

2. Promoting awareness of the Voluntary Principles throughout the organization or government, including within the value chain.

This past year, Sherritt's Director of Corporate Affairs and Sustainability worked closely with the company's marketing department to communicate Sherritt's commitment to the Voluntary Principles to current and potential nickel and cobalt customers. These efforts were a response to a growing interest from nickel and cobalt customers in how Sherritt is identifying and managing a broad range of human rights-related risks at its upstream mining and refining operations. In 2018, Sherritt will initiate a project at its nickel and cobalt operations to assess site-level alignment with a range of responsible sourcing requirements from downstream customers.

In preparation for the 2018 assessments, Sherritt collaborated with the company's Cuban joint venture (JV) partner involved in the marketing and sale of cobalt to develop a strategic approach for meeting the growing customer requirements for demonstrating responsible production from upstream mines and refineries. Customer requirements include demonstrating that the company has adequate policies, procedures and processes in place on a range of issues relating to corporate responsibility, including in the area of security and human rights. Such requirements provide companies like Sherritt (and its partners) with additional impetus to align with the Voluntary Principles.

To increase awareness of the Voluntary Principles at its energy joint venture (JV) in Cuba, Sherritt made a presentation on the topic to a security representative at one of the company's joint ventures. The presentation was well received and discussions suggested there was a fair bit of alignment between the Voluntary Principles requirements and standard security practices in Cuba. Further outreach in Cuba is being planned for 2018.

In Madagascar, Ambatovy's Security Manager initiated weekly meetings at the mine site with Ambatovy security personnel, gendarmes and private security provider personnel to discuss security-related issues, including the Voluntary Principles.

3. Promoting and Advancing the implementation of the Voluntary Principles Internationally

Since joining MAC, Sherritt has made a considerable effort to align its Cuban operations with MAC's Toward Sustainable Mining (TSM) requirements. This included convening a two-day TSM training workshop in Havana with its Cuban partners, various government entities, regulators and stakeholders. The workshop was led by MAC and resulted in Cuba's Ministry of Energy and Mines expressing interest in conducting more operator-specific TSM training and potentially pilot implementation. As alignment with the Voluntary Principles is a MAC requirement, Sherritt hopes this interest will help further the conversation on the application of the Voluntary Principles in Cuba.

In 2017, Sherritt participated in a meeting in Cuba with different diplomatic missions to discuss a potential government-to-government approach to promoting the Voluntary Principles in Cuba. It was concluded that Canada would lead the effort. The Canadian Embassy went on to make a high-level presentation on the Voluntary Principles to Cuba's Ministry of Foreign Trade and Investment (MINCEX), emphasizing the Canadian government's commitment to the Voluntary Principles and the expectations it has of Canadian mining and energy companies operating abroad, such as Sherritt. MINCEX did not express any issues with the concept. Sherritt also had a similar conversation about the Voluntary Principles with MINCEX. As follow up, the Canadian Embassy has reached out to Cuban security providers to coordinate a meeting to introduce them to the Voluntary Principles.

In Madagascar, Ambatovy held meetings with various stakeholders to discuss the Voluntary Principles throughout the year. These included the Office of the United Nations High Commissioner for Human Rights, the International Committee of the Red Cross (ICRC), and Search for Common Ground. In its meeting with the ICRC, Ambatovy discussed opportunities to organize Voluntary Principles training for representatives of the gendarmerie, police and civil society organizations over the next couple of years. This would include refresher training for gendarmes before their deployment to Ambatovy sites to ensure they have recent training on human rights and the use of force principles. Ambatovy also attended a meeting with members of the U.S.-run Overseas Security Advisory Council in Antananarivo, during which they discussed the Voluntary Principles and its implementation in Madagascar.

B. Policies, Procedures, and Related Activities

4. Relevant policies, procedures, and/or guidelines (or any changes thereof from the previous reporting year) to implement the Voluntary Principles.

Sherritt's corporate Human Rights Policy explicitly states that the Company will "ensure the security arrangements for our operations respect human rights and are consistent with the VPSHR." Sherritt's Security Policy affirms the Company's commitment to strive to create a safe and secure business environment, and conduct security operations in compliance with local, national and international legal requirements, international security standards and law enforcement principles, and in alignment with the Voluntary Principles.

Sherritt sites work to comply with the corporate Security and Human Rights Standard, which is supported by a series of Security and Human Rights Procedures, including:

- Procedure for Entering Agreements with Private Security Service Providers
- Procedure for Entering Agreements with Public Security
- Procedure for Reporting and Investigation of Security Related Incidents
- Procedure for Use of Force

- Procedure for the Protection of Providers of Confidential Information
- Procedure for Apprehension and Transfer of Suspects to Public Custody

Sherritt's Director, Corporate Affairs and Sustainability, based in the head office, is responsible for the maintenance and regular review of the Procedures, and the sites are responsible for adopting the various Procedures, according to their risk profiles. To support the sites with their implementation of the Voluntary Principles, Sherritt's Director, Corporate Affairs and Sustainability, holds monthly calls with site Security Managers to discuss implementation progress and other security issues.

5. Company procedure to conduct security and human rights risk assessments.

Security and human rights risk assessments are conducted according to the risk profile of all sites. The risk profile of a site is determined using a set of criteria including, but not limited to: the host country's control of corruption, rule of law, political stability, and conflict situation. Located in Madagascar, Ambatovy is considered a high-risk site, while Cuba-based operations fall into the moderate-risk category and Sherritt's refinery in Alberta, Canada, is in the low-risk category. Sherritt's Security and Human Rights Standard stipulates that all high-risk sites must complete a risk assessment on an annual basis and all low- to moderate-risk sites must complete a risk assessment on a triennial basis. As part of the security and human rights risk assessment, the sites must analyze both security risks to the Company (e.g. the level of crime and violence in the area of operation), as well as human rights risks to the rights holders (e.g. the history of abuse of human rights by security forces).

A review of human rights reports by governments, international agencies and non-governmental agencies, combined (whenever possible) with on-the-ground interviews with governmental, non-governmental and community actors, informs this risk assessment. Stakeholder participation is encouraged to verify perceptions and validate identified risks. Once risks are identified, sites are required to implement measures to either avoid or mitigate those risks.

No human rights and security risk assessments were carried out at Sherritt sites in 2017. However, Sherritt has contracted a third party to conduct an assessment of the company's nickel and cobalt mines and refineries against a variety of responsible supply chain standards, including an analysis of security and human rights related risks. This work will commence in 2018.

6. Company process for recording and reporting credible allegations of security related incidents with human rights implications by public or private security forces.

All Sherritt sites are required to adopt the Company's Procedure for Reporting and Investigation of Security Related Incidents. The Procedure includes a classification of security incident levels (from levels 1-5, with 5 being the most critical). Allegations of

human rights-related violations fall into incident levels 4 and 5 and require immediate notification to Security Management, the Site General Manager, Country Manager/Director, Divisional Vice President, site and corporate Legal Counsel and the Executive Leadership team. Host government authorities must be notified immediately in the case of a fatality, an injury and/or property damage. Similarly, any allegation of a security and human rights violation involving public security on site must be documented and reported to authorities.

Sherritt's security and human rights training program includes instruction on how to report a human rights risk or violation. Employees may report to their immediate supervisor, to Human Resources, or through anonymous telephone or electronic reporting mechanisms.

External stakeholders can lodge complaints, including potential human rights violations, through Sherritt's local grievance mechanisms. At Ambatovy, there is a formal community grievance mechanism in place that includes an external grievance committee, comprising respected members of local communities. The committee meets quarterly to review the grievance management process and resolutions, and to provide feedback and suggestions for improvement to management. In addition, the existing Security Convention between the Ambatovy Joint Venture and the Gendarmerie Nationale of Madagascar outlines the grievance process for allegations of human rights abuse affecting the site. Reporting of allegations may be made directly to security management or any other responsible party and an investigation will be conducted.

In 2017, Fort Saskatchewan's Security department worked closely with the site's Environment and Sustainability departments to develop a formal grievance mechanism that is aligned with Sherritt's Grievance Mechanism Standard. The mechanism will be rolled out to stakeholders in 2018.

In Cuba, there is a state-run system where citizens can file complaints against an entity, organization or enterprise whose activities they feel are adversely affecting their well-being. Commissions are set up to investigate grievances and develop action plans to address them. In 2017, Sherritt drafted proposed guidelines for local authorities to improve notification and information-sharing with the company in relation to community grievances involving one of its operations or joint ventures. Sherritt has shared this proposal with provincial and local governments as is awaiting feedback.

7. Company procedure to consider the Voluntary Principles in entering into relations with private security providers.

Sherritt contracts security officials and/or private or public security providers at its sites in Canada, Cuba and Madagascar. In Canada, the Fort Saskatchewan site is licensed by the Alberta Solicitor General to operate a private security force, comprised of Sherritt employees whom hold security licenses, and contracts a private third-party security

provider. In Madagascar, Ambatovy has full-time security staff and has contracts with four separate private security providers to provide services to the processing plant and refinery, the mine site, and related facilities. In addition, Ambatovy receives support from Malagasy public security forces, including the Gendarmerie, the Police and the Military. In Cuba, security is provided by a state-owned security company, with management oversight.

Due to the various security arrangements of its sites, Sherritt has established procedures for entering into agreements with both private and public security. These procedures include specific contractual requirements, such as compliance with Company policies and procedures, relevant host country laws and regulations, international codes of conduct for law enforcement officials and the VPSHR.

Sites with private security (either in-house or contractor) are required to demonstrate that security personnel have been screened (to the extent possible) for past human rights' abuses and criminal records, and trained on security and human rights and the use of force. Sites must also take measures to ensure the proper handling and storage of security equipment. To ensure compliance in these areas, sites are required to measure and report on contractor performance on an annual basis, using a set of agreed-upon key performance indicators.

Sites with public security providers must take measures to ensure that public security administration does not assign public security officers who have been subject to credible allegations or violations of human rights to the sites. Such measures include contractual requirements and the tracking of personnel assigned to the site. Sites must also seek proof of human rights and use of force training completed by personnel assigned to the site. Where training is viewed as inadequate, the sites must provide support for training in these areas. Under no circumstances are sites to transfer lethal equipment to public security and the transfer of non-lethal equipment must be made under an explicit set of conditions regarding how the equipment should be stored, handled and used.

8. *Company procedure or mechanism to address security-related incidents with human rights implications by public/private security forces relating to the company's activities.*

Sherritt has a zero-tolerance policy for security and human rights-related violations at its sites and takes measures to enforce its policies and procedures to avoid such violations from occurring. In the event of an allegation of a human rights violation involving public or private security personnel, a complete internal investigation must be conducted to understand what occurred, the potential liabilities, what controls are in place and what additional controls are needed to prevent a similar incident from occurring in the future. Corporate Legal Counsel will assign an investigation team comprised of departments that are not directly involved in the incident. In cases involving public security, the

Company will advocate for an external investigation and subsequently follow up on the findings.

There were no other allegations of human rights and security-related violations at any of the Sherritt sites in 2017.

C. Country Implementation

9. Overview of country operations selected for reporting.

Sherritt's Oil and Gas, and Power (OGP) operations in Cuba, the Moa Joint Venture in Canada (Fort Saskatchewan) and Cuba (Moa), and the Ambatovy Joint Venture in Madagascar are included as part of this report.

10. Engagements with stakeholders on country implementation.

As mentioned in sections A.2 and A.3., Sherritt engaged with the Cuban government, the Canadian government and foreign embassies operating in Cuba to promote the implementation of the Voluntary Principles in Cuba. In Madagascar Ambatovy engaged with the ICRC to discuss opportunities to convene multi-stakeholder workshops/trainings on security and human rights and refresher training for gendarmes deployed to Ambatovy sites. The site continues to partner with Search for Common Ground to improve communication and dialogue between Ambatovy and its communities of impact, and to promote the UN Guiding Principles on Business and Human Rights and the Voluntary Principles with stakeholders in Madagascar. Ambatovy also held meetings with the Office of the United Nations High Commissioner for Human Rights and the Madagascar Defense Minister to communicate its commitment to the Voluntary Principles and discuss plans for Voluntary Principles related initiatives in 2018.

In Canada, Sherritt continues to participate in the UNICEF Canada-led Child Rights and the Security Working Group to help identify, prevent and mitigate security related impacts on children in the extractive sector. See section A.1 for additional information.

11. Voluntary Principles considerations in the selection of private security providers and formulation of contractual agreements with private security providers, as well as an arrangement with public security forces.

As detailed above, Sherritt has specific procedures on entering agreements with private and public security. For information on the selection of security contractors and formulation of associated contractual agreements, please see B.7.

Ambatovy's contracts with its private security providers include required compliance with the Voluntary Principles. A tender is due for completion in Q1 2018 and Ambatovy commits to incorporating the Voluntary Principles more prominently in the new

contract with the private security provider by outlining clear expectations regarding training and screening requirements.

Ambatovy will enter a Memorandum of Understanding with Madagascar's Gendarmerie Nationale, in line with the Voluntary Principles requirements for security arrangements with public security providers. The MOU is due to be signed in early 2018.

In Canada, Sherritt's Fort Saskatchewan site renewed its agreement with its private security provider in 2017 and incorporated the requirements of Sherritt's Procedure for Entering into Agreements with Private Security Providers. This includes a provision for the ongoing identification of training programs that will meet site level needs and Voluntary Principles requirements. It should be noted that training programs were already quite comprehensive. Applicants for a security-workers license in Alberta must successfully complete a mandatory training course or provide proof of equivalent training in order to qualify for a security license. Training includes a module on the Canadian Charter of Rights and Freedoms, arrest, search and seizure, the Criminal Code of Canada, and the use of force.

The Fort Saskatchewan site requires that all guards be licensed with the Alberta Solicitor General as per Alberta's provincial law. The Alberta Solicitor General's licensing requirement mandates that all security personnel have a criminal record check completed every two years. The Fort Saskatchewan site is in the process of reviewing whether such checks should be conducted yearly for security contracted to the site.

Sherritt's Cuban operations have yet to incorporate specific VPSHR-related requirements into the contract with its security provider. The incorporation of any VPSHR-related requirements into the working arrangement with the state-owned security provider in Cuba will first require awareness building around the VPSHR with the Sherritt's state-owned joint-venture partners and the Cuban government, more broadly. Such outreach efforts began in 2016 and progress was made in 2017 following meetings with Cuban authorities (see section A.3). Sherritt is working to meet directly with other stakeholders in Cuba to discuss the Voluntary Principles in 2018.

12. Examples of supporting outreach, education, and/or training of (i) relevant personnel, (ii) private security, (iii) public security, and/or (iv) civil society (e.g., local NGOs, community groups).

Ambatovy and Fort Saskatchewan both require their security contractors to train personnel prior to sending them to the sites. In the case of Fort Saskatchewan, the security contractor must ensure security officers have completed security officer training that includes use of force principles and guidelines. In addition, the site provides annual refresher training on security and human rights. In 2017, all members of the Fort Saskatchewan site's Security department completed training on tactical

communications, which forms the building blocks of the use of force model. The training focuses on the use of verbal communication to deescalate a crisis situation.

In Q4 of 2017 the Fort's Security Advisor attended the Mining Security Working Group workshop in Toronto. The workshop focused on security related topics such as child soldiers, engagement with local villages during early phases of project development, and active shooter scenarios. The Working Group was also provided with an update on the Voluntary Principles from MAC. The Fort Saskatchewan site also engaged with other another Voluntary Principles member, Shell, and began attending the Edmonton Industrial Security Intelligence meetings. The meetings address various domestic security concerns, including working with aboriginal communities, physical security and dealing with protest situations.

At Ambatovy, the security provider conducts training on human rights, the Voluntary Principles and the use of force prior to sending guards to site. Site security personnel also receive annual refresher training on the Voluntary Principles. The Security Manager, or designate, holds monthly meetings with the Commandant of the Gendarmerie at which the Voluntary Principles are discussed. The site recently engaged with the Gendarmerie's training academy to discuss having their trainers support awareness raising sessions amongst Ambatovy staff along with the Gendarmes. Ambatovy has sponsored a number of third-party training workshops on the Voluntary Principles for public security in the past, and is looking to work with the ICRC to organize two to three large training sessions a year with representatives of the gendarmerie, police, civil society and other groups interested in security and human rights issues. See section D below.

Given Cuba's operating environment, Sherritt has a limited ability to influence the training provided to the sites' state-owned security contractor; however, the Company will continue to increase awareness about the Voluntary Principles with its Cuban partners and the authorities over the next few years.

13. Company procedure to review progress on implementing the Voluntary Principles at local facilities.

In 2016, Sherritt developed standardized tools for conducting a site-level gap analysis against the company's Security and Human Rights Standard and implementing plans to address identified gaps. These tools were rolled out to the sites as part of Sherritt's broader Sustainability Framework Implementation Plan for designing and implementing company-wide minimum standards across sustainability-related functions, including security.

Gap analyses on the Security and Human Rights Standard were completed at Ambatovy, Fort Saskatchewan, and Sherritt's Oil, Gas and Power operations in 2017.

D. Lessons and Issues

Lessons learned from 2017 and plans for 2018 implementation

Sherritt sites have made some progress in implementing the Voluntary Principles over the past year, particularly in Canada. Progress has also been made in Cuba where Sherritt has seen the benefit of introducing the Voluntary Principles at a slower pace due to the sensitive nature of discussing issues related to human rights in country.

In Madagascar, Ambatovy noted the value of collaborating with other organizations and government institutions such as embassies, the United Nations, and the ICRC to promote the Voluntary Principles in country. Leveraging existing programs and identifying synergies has been key to capitalizing on company efforts and avoiding duplication of initiatives.

Ambatovy also identified the importance of incorporating the Voluntary Principles in the core of agreements with both public and private security providers to ensure that it is a prominent element of the contract, rather than an appendix. Additionally, Ambatovy recognized the need to ensure that public security officers understand the key concepts of the Voluntary Principles prior to being deployed to site. Security management has recommended developing a tool to test and validate the Gendarmes knowledge of the Voluntary Principles in addition to checking their training records.

Specific plans to strengthen the VPSHR implementation at Sherritt in 2018 include:

Ambatovy

- Co-sponsor training workshops on the Voluntary Principles for government, police, gendarmes, and civil society organizations in Madagascar. Trainings to be conducted in partnership with the ICRC and/or the Office of the United Nations High Commissioner for Human Rights.
- Organize a training session on human rights for gendarmes before their deployment to site. Include pre- and post-tests to determine if training was effective and if gendarmes increased their understanding of the concepts presented.
- Incorporate the Voluntary Principles as a core element in contracts with security providers and hold security providers accountable for screening and training requirements.
- Support community policing initiatives
- Increase collaboration between Security and Sustainability departments on community engagement efforts.
- Continue partnering with Search for Common Ground on community engagement, conflict diagnostics, and trust building with communities of impact.

Fort Saskatchewan

- Explore additional training opportunities for Security personnel on Power of Arrest and a refresher training on the Use of Force.
- Carry out an emergency simulation exercise with the local Royal Canadian Mounted Police (RCMP) on an active shooter scenario.
- Present on the Voluntary Principles at the Edmonton Security Intelligence meeting.
- Formally roll out the grievance mechanism that was developed alongside Environment and Sustainability in 2017.

Cuba

- Sherritt management will continue efforts to engage with the Canadian Embassy, the Company's joint-venture partners and security providers on the Voluntary Principles to identify opportunities for implementation in Cuba.
- Advance efforts to pilot MAC's Towards Sustainable Mining Program at the Moa Joint Venture

Corporate

- Sherritt will continue to participate in the UNICEF Canada-led Child Rights and Security Working Group to develop guidance documents and training materials to assist public and private security providers implement all items on the Child Rights and Security Checklist.
- Sherritt will participate in the Voluntary Principles Plenary meeting in 2018.
- Sherritt corporate will oversee third-party assessments of Sherritt's nickel and cobalt mines and refineries against requirements of downstream cobalt customers.
- Sherritt commits to supporting and participating in multi-stakeholder security related initiatives that aim to further promote the Voluntary Principles in Canada and internationally.