

MERCER INTERNATIONAL INC.

Form DEF 14A

April 13, 2018

Table of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF

THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**MERCER INTERNATIONAL INC.**

(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

**MERCER INTERNATIONAL INC.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 1, 2018**

TO THE SHAREHOLDERS OF MERCER INTERNATIONAL INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders (the Annual Meeting ) of Mercer International Inc. (the Company ) will be held on June 1, 2018 in Oceanview Suite 7, R-Restaurant Level, Pan Pacific Hotel, 999 Canada Place, Vancouver, British Columbia, Canada at 10:00 a.m. (Vancouver time) (doors open at 9:30 a.m. (Vancouver time)) for the following purposes, as more fully described in the accompanying proxy statement:

1. To elect nine directors nominated by the board of directors to serve until the 2019 Annual Meeting of Shareholders;
2. To ratify the selection of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for fiscal year 2018;
3. To approve, on a non-binding advisory basis, the compensation of the Company s executive officers as disclosed in these materials; and
4. To transact such other business as may properly come before the meeting or any adjournment, postponement or rescheduling thereof.

The board of directors of the Company has fixed the close of business on March 23, 2018 as the record date (the Record Date ) for the determination of shareholders entitled to vote at the Annual Meeting or any adjournment, postponement or rescheduling thereof. Only shareholders at the close of business on the Record Date are entitled to vote at our Annual Meeting or any adjournment, postponement or rescheduling thereof.

**YOUR VOTE IS VERY IMPORTANT.** Whether or not you plan to attend the Annual Meeting in person, we urge you to cast your vote and submit your proxy as promptly as possible by one of the methods below. Make sure to have your proxy card or voting instruction form (VIF) in hand. A proxy may be revoked in the manner described in the

accompanying proxy statement.

By using the Internet at

[www.investorvote.com](http://www.investorvote.com)

(for registered shareholders)

[www.proxyvote.com](http://www.proxyvote.com)

(for beneficial shareholders)

By scanning the QR code provided  
in your proxy with your  
smartphone

By calling toll-free  
1-800-652-VOTE (8683) within  
the United States, U.S. territories  
and Canada

By mailing your signed proxy or  
voting instruction form

For further information on how to vote, please refer to the instructions on the accompanying proxy card, or review the section titled **Commonly Asked Questions and Answers** beginning on page 2 of the accompanying proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Jimmy S.H. Lee  
Jimmy S.H. Lee  
*Executive Chairman*

April 13, 2018

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on June 1, 2018: Our proxy statement and our 2017 Annual Report to Shareholders, which includes our Annual Report on Form 10-K for the year ended December 31, 2017, are available at [www.mercerint.com](http://www.mercerint.com) by clicking on the corresponding links under **2018 Annual Meeting Materials** . Additionally, you may access our proxy materials at [www.proxyvote.com](http://www.proxyvote.com) or [www.investorvote.com](http://www.investorvote.com).**

**Table of Contents**

**PROXY STATEMENT**

**TABLE OF CONTENTS**

<b><u>PROXY STATEMENT SUMMARY</u></b>	ii
<b><u>Annual Meeting Information</u></b>	ii
<b><u>Annual Meeting Agenda and Voting Recommendations</u></b>	ii
<b><u>Snapshot of Board Nominees</u></b>	iii
<b><u>Board Composition and Tenure</u></b>	iv
<b><u>Snapshot of Attributes of Director Nominees</u></b>	iv
<b><u>Corporate Governance Highlights</u></b>	v
<b><u>2017 Financial Highlights</u></b>	v
<b><u>Foreign Currency Compensation</u></b>	vii
<b><u>Executive Compensation Highlights</u></b>	vii
<b><u>Independent Registered Public Accounting Firm</u></b>	vii
<b><u>Advisory Resolution to Approve Our Executive Compensation</u></b>	viii
<b><u>GENERAL INFORMATION</u></b>	1
<b><u>COMMONLY ASKED QUESTIONS AND ANSWERS</u></b>	2
<b><u>PROPOSAL 1 - ELECTION OF DIRECTORS</u></b>	5
<b><u>Nominees for Election as Directors</u></b>	6
<b><u>Majority Withheld Policy in Uncontested Director Elections</u></b>	8
<b><u>Board Composition and Tenure</u></b>	9
<b><u>Board Tenure and Refreshment</u></b>	9
<b><u>Snapshot of Attributes of Director Nominees</u></b>	9
<b><u>CORPORATE GOVERNANCE AND BOARD MATTERS</u></b>	10
<b><u>Role of the Board</u></b>	10
<b><u>Key Areas of Board Oversight</u></b>	10
<b><u>Governance Guidelines, Code of Conduct and Policies</u></b>	11
<b><u>Board Meetings and Attendance</u></b>	12
<b><u>Affirmative Determination Regarding Director Independence</u></b>	13
<b><u>Board Leadership Structure</u></b>	13
<b><u>Duties and Responsibilities of Lead Director</u></b>	14
<b><u>Executive Sessions</u></b>	14
<b><u>Committees of the Board</u></b>	14
<b><u>Risk Oversight</u></b>	16
<b><u>Our Director Nominations Process</u></b>	18

<u>Talent Management and Succession Planning</u>	19
<u>Director Education</u>	19
<u>Director Evaluation</u>	20
<u>Expectations of our Directors</u>	20
<u>Shareholder Communications with Board</u>	21
<u>Complaint Procedure</u>	21
<u>Shareholding Guideline for Non-Employee Directors</u>	21
<u>Review and Approval of Related Party Transactions</u>	21
<u>DIRECTORS COMPENSATION</u>	22
<u>Directors Compensation</u>	22
<u>Director Compensation Table</u>	22
<u>EXECUTIVE OFFICERS</u>	23
<u>SHARES OUTSTANDING AND OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	24
<u>Share Ownership of Certain Beneficial Owners</u>	24
<u>Share Ownership of Directors and Executive Officers</u>	25
<u>REPORT OF THE AUDIT COMMITTEE</u>	26
<u>COMPENSATION AND HUMAN RESOURCES COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION</u>	27
<u>INDEPENDENT COMPENSATION CONSULTANTS</u>	27
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	27
<u>REPORT OF THE COMPENSATION AND HUMAN RESOURCES COMMITTEE</u>	27
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	28
<u>Foreign Currency Compensation</u>	28
<u>Timing of Executive Compensation Decisions</u>	28
<u>Fiscal 2017 - Compensation Decisions</u>	28
<u>2017 PSU Grant</u>	32
<u>Vesting of 2015 PSUs</u>	32
<u>Compensation Mix</u>	33
<u>Administration, Procedure and Role of the Compensation Committee</u>	35
<u>VARIABLE PAY AT RISK</u>	37
<u>Change of Control and Severance Agreements</u>	39
<u>Post-Retirement Compensation</u>	38
<u>Performance Measures</u>	38
<u>Limitations on Deductibility of Compensation</u>	39
<u>Other Policy Considerations</u>	40
<u>Summary</u>	40
<u>How the Committee Considered the 2017 Advisory Vote on Our Compensation Program</u>	40
<u>EXECUTIVE COMPENSATION TABLES</u>	41
<u>Summary Compensation Table</u>	41
<u>Narrative Disclosure to Summary Compensation Table</u>	42
<u>Grants of Plan-Based Awards Table</u>	43
<u>Narrative Disclosure to Grants of Plan-Based Awards Table</u>	44
<u>Outstanding Equity Awards at Fiscal Year-End Table</u>	45
<u>Option Exercises and Stock Vested</u>	46
<u>Non-Qualified Deferred Compensation</u>	46
<u>Non-Qualified Deferred Compensation Table</u>	47
<u>Potential Payments upon Termination or Change of Control</u>	47
<u>Narrative Discussion on Potential Payments upon Termination or Change of Control</u>	48
<u>CEO Pay Ratio</u>	51
<u>INFORMATION REGARDING EQUITY COMPENSATION PLANS</u>	52

<u>Equity Compensation Plan Information</u>	52
<u>PROPOSAL 2 - INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	53
<u>Ratification of Independent Registered Public Accounting Firm</u>	53
<u>Fees of Independent Registered Public Accounting Firm</u>	53
<u>Policy on Audit Committee Pre-Approval of Audit and Permitted Non-Audit Services</u>	53
<u>PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION</u>	54
<u>SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	54
<u>FUTURE SHAREHOLDER PROPOSALS</u>	55
<u>OTHER MATTERS</u>	55
<u>Notice Regarding Forward-Looking Statements</u>	55

**Table of Contents**

**PROXY STATEMENT SUMMARY**

This summary highlights information contained elsewhere in this proxy statement. It does not contain all of the information that you should consider and you should read the entire proxy statement carefully before voting.

**Annual Meeting Information**

**Time and Date:** 10:00 a.m. (Vancouver time) on June 1, 2018

**Place:** Oceanview Suite 7, R-Restaurant Level  
 Pan Pacific Hotel  
 999 Canada Place  
 Vancouver, British Columbia, Canada

**Record Date:** March 23, 2018 (the Record Date )

**Voting:** Shareholders as of the Record Date are entitled to vote.

Please vote your shares as soon as possible. Your broker will NOT be able to vote your shares with respect to any of the matters presented at the meeting, other than the ratification of the selection of our independent registered public accounting firm, unless you give your broker specific voting instructions.

Registered holders may vote in person at the annual meeting.

See page 2 of this proxy statement for more information.

**Attending the Annual Meeting:** *In Person.* Meeting starts at 10:00 a.m. (Vancouver time); doors open at 9:30 a.m. (Vancouver time).

You do not need to attend the annual meeting to vote if you submitted your proxy in advance of the annual meeting.

**Even if you plan to attend our annual meeting in person, please cast your vote as soon as possible. Make sure to have your proxy card or voting instruction form (VIF) in hand:**

By using the Internet at

[www.investorvote.com](http://www.investorvote.com)

(for registered shareholders)

[www.proxyvote.com](http://www.proxyvote.com)

By calling toll-free 1-800-652-VOTE (8683) within the United States, U.S. territories and Canada



(for beneficial shareholders)  
 By scanning the QR code provided in  
 your proxy with your smartphone

By mailing your signed proxy or voting  
 instruction form

**Annual Meeting Agenda and Voting Recommendations**

<b>Proposal</b>	<b>Board Voting Recommendation</b>	<b>Page Reference (for more detail)</b>
<b>Management proposals</b>		
Election of nine directors	FOR EACH DIRECTOR NOMINEE	5
Ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal 2018	FOR	53
Advisory resolution to approve our executive compensation	FOR	54

**Table of Contents****Snapshot of Board Nominees**

The following table provides summary information about each director nominee. Each director nominee is elected annually by a majority of votes cast.

Name	Director		Principal Occupation	Independent	Committee Memberships			
	Age	Since			AC	CHRC	GNC	EHSC
Jimmy S.H. Lee	61	1985	Executive Chairman, past President and Chief Executive Officer of the Company					
David M. Gandossi	60	2015	President and Chief Executive Officer of the Company					
William D. McCartney	62	2003	President and Chief Executive Officer of Pemcorp Management Inc.	Ö				
Bernard Picchi	68	2011	Managing Director of Private Wealth Management for Palisade Capital Management, LLC	Ö				
James Shepherd	65	2011	Director of Buckman Laboratories International Inc.; past President and Chief Executive Officer of Canfor Corporation	Ö				
R. Keith Purchase	74	2012	Past Executive Vice-President and Chief Operating Officer for MacMillan Bloedel Ltd.; past President and Chief Executive Officer of TimberWest Forest Ltd.	Ö				
Martha A.M. (Marti) Morfitt	60	2017	President and Chief Executive Officer of River Rock Partners, Inc.; Director of lululemon athletica Inc. and Graco Inc.	Ö				
Alan C. Wallace	58	Nominee	Chief Executive Officer of Peloton Advisors Inc.; past Vice Chairman, Investment Banking of CIBC World	Ö				

Markets Inc.

Linda J. Welty	62	Nominee	Director, Huber Engineered Materials, a portfolio company of J.M. Huber Corporation; President and Chief Executive Officer of Welty Strategic Consulting, LLC; past president of Flint Ink. Corp. and the Specialty Group of H.B. Fuller Company	Ö
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Chair

Member

Lead Independent Director

AC Audit Committee  
CHRC Compensation and Human Resources Committee  
GNC Governance and Nominating Committee  
EHSC Environmental, Health and Safety Committee

**Table of Contents**

**Board Composition and Tenure**

The following table provides summary information about each director nominee. Each director nominee is elected annually by a majority of votes cast.

**Snapshot of Attributes of Director Nominees**

All director nominees exhibit the following personal attributes:

Integrity

Prepared to represent the best interests of all shareholders

Prepared to participate actively in board activities

Our director nominees also have the following qualifications:

Diversity

A proven record of success

Collegiality

**Table of Contents****Corporate Governance Highlights**

We are committed to good corporate governance, which promotes the long-term interests of our shareholders, strengthens board and management accountability and helps build public trust in us. The Corporate Governance and Board Matters section beginning on page 10 describes our governance framework, which includes the following highlights:

*Board Independence*

Independent director nominees	7 of 9
Independent lead director	Keith Purchase
Independent board committees	AC, CHRC, GNC

*Director Elections*

Frequency of board elections	Annual
Lead director term limit	3 years
Voting standard for uncontested elections	Majority of votes cast

*Board and Independent Director Meetings in 2017*

Full board meetings	9
Independent director-only meetings	8
Separate strategic planning meetings	5

*Board Committee Meetings in 2017*

Audit Committee	4
Compensation and Human Resources Committee	5
Governance and Nominating Committee	4
Environmental, Health and Safety Committee	4

*Evaluating and Improving Board Performance*

Monitor best practices	Yes
Board evaluations	Annually
Committee evaluations	Annually
Board recruitment and composition	Annually
Board orientation	Yes
Continuing board education	Yes

*Aligning Director and Shareholder Interests*

Director stock ownership guidelines	Yes
Director equity grants	Yes
Risk oversight by full board and committees	Yes

**2017 Financial Highlights**

In 2017, we had very strong operating and financial performance, achieved record pulp, energy and chemical production and sales volumes, expanded our business and increased our quarterly cash dividend.

In fiscal 2017, we:

generated net income of \$70.5 million and Operating EBITDA\* of \$252.3 million, a 102% and 36% increase, respectively, over the prior year;

strengthened our balance sheet and increased our cash position to \$143.3 million from \$136.6 million and our working capital to \$421.9 million from \$308.7 million, respectively, from the start of the year;

acquired, in April 2017, substantially all of the assets of one of Germany's largest sawmills and a bio-mass power plant (the Friesau Facility );

reduced debt service costs and increased our financial flexibility through the issuance of \$300 million of 5.5% senior notes due 2026 and, in January 2018, the redemption of \$300 million of our 7.75% senior notes due 2022; and

authorized three quarterly cash dividends of \$0.115 per share for the first three quarters of 2017 and an increased dividend of \$0.125 per share for the fourth quarter of 2017.

\*Operating EBITDA is defined as operating income plus depreciation and amortization and non-recurring capital asset impairment charges. Operating EBITDA is not a measure of financial performance under accounting principles generally accepted in the United States ( GAAP ) and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. We use Operating EBITDA as a benchmark measurement of our own operating results and as a benchmark relative to our competitors. We consider it to be a meaningful supplement to operating income as a performance measure primarily because depreciation expense and non-recurring capital asset impairment charges are not actual cash costs, and depreciation expense varies widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of our operating facilities. In addition, we believe Operating EBITDA is commonly used by securities analysts, investors and other interested parties to evaluate our financial performance. For a reconciliation of net income to Operating EBITDA, please see page vi hereof.



**Table of Contents**

The chart below summarizes our selected key financial and operating results for 2017 compared to 2016.

	<b>Year Ended December 31,</b>		<b>Change (%)</b>
	<b>2017</b>	<b>2016</b>	
<b>(in millions, other than where indicated)</b>			
<b><i>Pulp Segment</i></b>			
Pulp production ( 000 ADMTs)	1,507.0	1,428.4	6
Pulp sales ( 000 ADMTs)	1,515.1	1,428.7	6
Energy production ( 000 MWh)	1,888.3	1,812.6	4
Surplus energy sales ( 000 MWh)	822.1	785.8	5
<b><i>Wood Products Segment</i></b>			
Lumber production (MMfbm)	281.3		
Lumber sales (MMfbm)	213.5		
Energy production ( 000 MWh)	73.7		
Surplus energy sales ( 000 MWh)	73.7		
<b>Statement of Operations Data:</b>			
Pulp segment revenues	\$ 1,071.7	\$ 931.6	15
Wood products segment revenues	97.4		
Total revenues	\$ 1,169.1	\$ 931.6	25
Costs and expenses	\$ 1,002.1	\$ 817.9	23
Pulp segment operating income	\$ 169.8	\$ 123.2	38
Wood products segment operating income	5.6		
Corporate and other operating loss	(8.3)	(9.5)	13
Total operating income	\$ 167.1	\$ 113.7	47
Operating EBITDA <sup>(1)</sup>	\$ 252.3	\$ 185.7	36
Net income	\$ 70.5	\$ 34.9	102
<b>December 31,</b>			
<b>(in millions, other than ratio)</b>			
<b>Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 143.3	\$ 136.6	5
Working capital	\$ 421.9	\$ 308.7	37
Net debt	\$ 498.2	\$ 481.0	4
Total equity	\$ 550.7	\$ 379.1	45
Net debt to equity ratio	0.9 to 1	1.3 to 1	(31)
<b>Year Ended December 31,</b>			
<b>(in millions, other than where</b>			
	<b>2017</b>	<b>2016</b>	<b>Change (%)</b>



indicated)

**Share Price and Dividend Data**

Price per share as of fiscal year end <sup>(2)</sup>	\$	14.30	\$	10.65	34
Dividends declared	\$	30.6	\$	29.8	3

(1) The following table provides a reconciliation of net income to operating income and Operating EBITDA for the years indicated:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in millions)</b>	
Net income	\$ 70.5	\$ 34.9
Provision for income taxes	33.5	24.5
Interest expense	54.8	51.6
Loss on settlement of debt	10.7	0.5
Other (income) expenses	(2.4)	2.3
Operating income	167.1	113.7
Add: Depreciation and amortization	85.3	72.0
Operating EBITDA	\$ 252.3	\$ 185.7

(2) Represents the closing market price of our shares of common stock on the NASDAQ Global Select Market on December 29, 2017 and December 30, 2016, respectively.

**Table of Contents**

**Foreign Currency Compensation**

All of the cash compensation paid to our Named Executive Officers ( NEOs ), being primarily salary and annual bonuses, is paid in euros (or ) or Canadian dollars (or C\$ ). Such amounts are then translated into dollars using the average Federal Reserve Bank of New York spot rate for the

appropriate period. As a result, reported compensation amounts decline in periods when the dollar strengthens against the euro and Canadian dollar and conversely increase when the dollar declines versus such currencies.

**Executive Compensation Highlights**

Our executive compensation program is designed to achieve the following key objectives:

Pay for performance by having a significant portion of an executive s compensation performance based or at risk ;

Attract and retain top talent by competing effectively for high quality individuals whose efforts and judgments are vital to our continued success;

Create an environment in which our executives are motivated to achieve and maintain superior performance levels and goals consistent with our overall business strategy;

Reward and compensate our executives for their contribution to our overall success and for their individual performance during the relevant fiscal year; and

Align the interests of our executives with the long-term interests of our Shareholders.

Some of the compensation practices we employ to achieve our objectives include:

**What We Do**

**What We Don t Do**

Pay for performance

Annually review the Compensation Committee's charter

Deliver a significant portion of executives' total direct compensation in the form of variable compensation

Have single-trigger change-in-control executive contracts

Utilize performance-based equity awards with vesting requirements determined and judged by our Compensation and Human Resources Committee

Provide significant perquisites

Manage share usage conservatively

Provide defined benefit retirement plans for our executives

Conduct annual say-on-pay advisory votes

Provide supplemental executive retirement plans for our executives

Maintain a clawback policy

Provide excise tax gross-ups of perquisites

Assess risks to our compensation policies and practices

Re-price stock options without shareholder approval; no grants below fair market value

Pay dividends on unvested long-term equity incentives to our executives

Allow executives to engage in hedging transactions with respect to our stock

### Independent Registered Public Accounting Firm

As a matter of governance practices, our Audit Committee is asking shareholders to ratify the selection of PricewaterhouseCoopers LLP to serve as our independent registered public accounting firm for 2018. The following table sets forth the aggregate fees billed by PricewaterhouseCoopers LLP for 2017 and 2016.

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Audit Fees	\$ 1,231,705	\$ 937,886

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Audit-Related Fees	\$ 182,157	\$ 23,777
Tax Fees	\$ 110,764	\$ 114,659
All Other Fees	\$ 136,092	\$ 554,572
<b>Total</b>	<b>\$ 1,660,718</b>	<b>\$ 1,630,894</b>

**Table of Contents**

**Advisory Resolution to Approve Our Executive Compensation**

We are asking shareholders to approve, on an advisory basis, our executive compensation policies and practices as described in our Compensation Discussion and Analysis, accompanying tables and related narrative contained in this proxy statement. The advisory vote, commonly referred to as a say-on-pay vote, gives shareholders the opportunity to vote on the compensation for our NEOs that is disclosed in this proxy statement. This vote is not intended to address any specific item of executive compensation, but rather the overall compensation for our NEOs and the philosophy, policies and practices described in this proxy statement.

Since this say-on-pay vote is advisory, it will not be binding on our Board or our Compensation and Human Resources Committee. However, both the Board and such committee value the opinion of shareholders and will review the voting results and take them into consideration when making future decisions regarding executive compensation.

The non-binding resolution approving our executive compensation was approved by 95% of the shareholders present or represented by proxy at our 2017 annual meeting of shareholders.

**Table of Contents**

**MERCER INTERNATIONAL INC.**

*Suite 1120, 700 West Pender Street, Vancouver, B.C., V6C 1G8, Canada*

**PROXY STATEMENT**

**GENERAL INFORMATION**

This proxy statement ( Proxy Statement ) is furnished in connection with the solicitation by management of Mercer International Inc. of proxies for use at the annual meeting of our shareholders ( Shareholders ) to be held in Oceanview Suite 7, R-Restaurant Level, Pan Pacific Hotel, 999 Canada Place, Vancouver, British Columbia, Canada at 10:00 a.m. (Vancouver time) on June 1, 2018 (the Meeting ), or any adjournment, postponement or rescheduling thereof.

References to we , our , us , the Company or Mercer in this Proxy Statement mean Mercer International Inc. subsidiaries unless the context clearly suggests otherwise. References to fiscal year means an annual period ended December 31. Information herein for 2017 generally refers to our 2017 fiscal year.

If a proxy (a Proxy ) is properly executed and received by us prior to the Meeting or any adjournment, postponement or rescheduling thereof, our shares of common stock, par value \$1.00 per share (the Shares ) represented by such Proxy will be voted in the manner directed. In the absence of voting instructions, the Shares will be voted for the proposals set out in the accompanying Notice of Annual Meeting of Shareholders. Please see the Proxy for voting instructions.

A Proxy may be revoked at any time prior to its use by filing a written notice of revocation of proxy or a later dated Proxy with the Company s registrar and transfer agent at Proxy Services, c/o Computershare, Inc., P.O. Box 505008, Louisville, KY 40233. A Proxy may also be revoked by submitting another Proxy with a later date over the Internet, by telephone, to our registrar and transfer agent or by voting in person at the Meeting. Attending the Meeting will not, in and of itself, constitute revocation of a Proxy.

The holders of one-third of the outstanding Shares entitled to vote at the Meeting, present in person or represented by Proxy, constitutes a quorum for the Meeting. Shares represented by proxies that reflect abstentions or broker non-votes (i.e., Shares held by a broker/dealer or other nominee that are not voted

because the broker/dealer or other nominee does not have the authority to vote on a particular matter) will be counted as Shares that are present and entitled to vote for the purposes of determining the presence of a quorum for the Meeting.

In accordance with rules of the Securities and Exchange Commission (the SEC), we are furnishing our proxy materials related to the Meeting primarily via the Internet, instead of mailing printed copies of those materials to each Shareholder. Beginning on or around April 20, 2018, we will mail a Notice of Internet Availability to our Shareholders (other than those who had previously requested electronic or paper delivery) containing instructions on how to access our proxy materials, including this Proxy Statement and our annual report for 2017 (the 2017 Annual Report), which includes our annual report on Form 10-K for the fiscal year ended December 31, 2017 (the Form 10-K or 2017 Form 10-K). The Notice of Internet Availability also instructs you on how to vote over the Internet. This process is designed to expedite Shareholders' receipt of proxy materials, lower the cost of the Meeting and help conserve natural resources. However, if you would prefer to receive printed proxy materials, please follow the instructions included in the Notice of Internet Availability. If you have previously elected to receive our proxy materials electronically, you will continue to receive these materials via e-mail unless you elect otherwise. This Proxy Statement, accompanying Proxy and the 2017 Annual Report will be available on or around April 20, 2018 on our corporate website and at [www.proxyvote.com](http://www.proxyvote.com) and [www.investorvote.com](http://www.investorvote.com) for Shareholders.

Proxies may also be solicited by mail, telephone, facsimile or personal contact by our directors, officers or regular employees without additional compensation. All proxy-soliciting expenses in connection with the solicitation of votes for the Meeting will be borne by the Company.

Our Board has set the close of business on March 23, 2018 as the record date (the Record Date) for the determination of Shareholders entitled to notice of and to vote at the Meeting or any adjournment, postponement or rescheduling thereof.

**Table of Contents**

**COMMONLY ASKED QUESTIONS AND ANSWERS**

**Q: Why am I receiving these materials?**

A: This Proxy Statement describes the proposals upon which you, as a Shareholder, will vote at the Meeting. It also gives you information on the proposals, as well as other information so that you can make an informed decision.

**Q: Why did I receive a Notice of Internet Availability instead of a full set of proxy materials?**

A: Rules adopted by the SEC allow companies to choose the method for delivering proxy materials to shareholders. We have elected to mail a notice regarding the availability of proxy materials on the Internet rather than sending a full set of these materials in the mail to our Shareholders (other than those who had previously requested electronic or paper delivery). This notice will be mailed to our Shareholders beginning on or around April 20, 2018, and our proxy materials will be posted on both our corporate website ([www.mercerint.com](http://www.mercerint.com)) and the website referenced in the notice ([www.proxyvote.com](http://www.proxyvote.com)) on the same day. Utilizing this method of delivery expedites receipt of proxy materials by our Shareholders and lowers the cost of the Meeting. If you are a Shareholder and would like to receive a paper or email copy of the proxy materials, you should follow the instructions in the notice for requesting copies.

**Q: What is the Proxy?**

A: If you requested to receive printed proxy materials, these materials include an accompanying Proxy. The Proxy enables you to appoint Jimmy S.H. Lee and David M. Gandossi as your representatives at the Meeting. By completing and returning the Proxy, you are authorizing Mr. Lee and Mr. Gandossi to vote your Shares at the Meeting as you have instructed them on the Proxy. This way your Shares will be voted whether or not you attend the Meeting. Even if you plan to attend the Meeting, it is a good idea to complete and return your Proxy before the date of the Meeting just in case your plans change.

**Q: Who can vote at the Meeting?**

A: Registered Shareholders who own our Shares on the Record Date may attend and vote at the Meeting. Each Share is entitled to one vote. There were 65,170,531 Shares outstanding on the Record Date. If you own your Shares through a brokerage account or in another nominee form, you must provide instructions to the broker or nominee as to how your Shares should be voted. Your broker or nominee will generally provide you with the appropriate forms at the time you receive this Proxy Statement. If you own your Shares through a brokerage account or nominee, you cannot vote in person at the Meeting unless you receive a Proxy from the broker or the nominee.



**Q: What am I voting on?**

A: We are asking you to vote: (i) for the election of the Company's directors for the ensuing year; (ii) for the ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2018; and (iii) for the approval, on a non-binding advisory basis, of the compensation disclosed in this Proxy Statement of the Company's executive officers who are named herein in the Summary Compensation Table.

**OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THESE PROPOSALS.**

**Q: How do I vote?**

A: Registered Shareholders may vote on the Internet, by mail, in person at the Meeting or by phone. *Voting on the Internet.* Go to [www.investorvote.com/merc](http://www.investorvote.com/merc) (registered shareholders) or [www.proxyvote.com](http://www.proxyvote.com) (beneficial holders) or scan the QR code provided in your Proxy with your smartphone.

Follow the instructions to obtain your records and submit an electronic ballot. You should have your Proxy in hand when you access the website.

*Voting by Mail.* Complete, date, sign and mail the Proxy in the enclosed postage pre-paid envelope (if you received a paper copy of the proxy materials by mail). If you mark your voting instructions on the Proxy, your Shares will be voted as you instruct. Please see the Proxy for voting instructions.

*Voting in Person.* If you are a registered Shareholder and attend the Meeting, you may vote in person as instructed at the Meeting. However, if you hold your Shares in street name and you wish to attend and vote your Shares at the Meeting, you will first need to obtain a legal

**Table of Contents**

proxy from your broker, bank or other intermediary that is the holder of record of your Shares and bring it with you to the Meeting. Otherwise, you will not be permitted to vote in person at the Meeting.

Voting by Telephone. Call 1-800-652-VOTE (8683) from any touch-tone telephone and follow the instructions. You should have your Proxy in hand when you call.

If you own your Shares through a brokerage account or in other nominee form, you should follow the instructions you receive from the record holder to see which voting methods are available.

**Q: What does it mean if I receive more than one Proxy?**

A: It means that you hold Shares in multiple accounts. Please complete and return all Proxies to ensure that all your Shares are voted in accordance with your instructions.

**Q: What if I change my mind after returning my Proxy?**

A: If you are a registered Shareholder, you may revoke your Proxy and change your vote at any time before it is voted at the Meeting. You may do this by:

    sending a signed notice of revocation of proxy to our registrar and transfer agent at the address set out above stating that the Proxy is revoked;

    submitting another Proxy with a later date over the Internet, by telephone or to our registrar and transfer agent at the address set out above; or

    voting at the Meeting.

Your Proxy will not be revoked if you attend the Meeting but do not vote.

If you own your Shares through a broker or other nominee and wish to change your vote, you must send those instructions to your broker or nominee.

**Q: Will my Shares be voted if I do not sign and return my Proxy?**

A: If your Shares are registered in your name, they will not be voted unless you submit your Proxy or vote in person at the Meeting. If your Shares are held in street name, your broker/dealer or other nominee will not have the authority to vote

your Shares unless you provide instructions. If you do not instruct such broker/dealer or other nominee as to how to vote your Shares, NASDAQ rules allow such nominee to vote your Shares only on routine matters. Proposal 2, the ratification of the selection of the Company's independent registered public accounting firm for fiscal 2018, is the only matter for consideration at the Meeting that NASDAQ rules deem to be routine. For all other proposals, you must submit voting instructions to the nominee that holds your Shares if you want your vote to count.

**Q: Who will count the votes?**

A: Agents of the Company will tabulate the Proxies. Additionally, votes cast by Shareholders voting in person at the Meeting are tabulated by a person who is appointed by our management before the Meeting.

**Q: How many Shares must be present to hold the Meeting?**

A: To hold the Meeting and conduct business, at least one-third of the outstanding Shares entitled to vote at the Meeting must be present at the Meeting. This is called a quorum.

Votes are counted as present at the Meeting if a Shareholder either:

is present and votes in person at the Meeting; or

has properly submitted a Proxy.

Abstentions and broker non-votes (i.e., Shares held by a broker/dealer or other nominee that are not voted because the broker/dealer or other nominee does not have the authority to vote on a particular matter) will be counted for the purposes of determining the presence of a quorum.

**Q: How many votes are required to elect directors?**

A: The affirmative vote of a majority of the Shares voted at the Meeting is required to elect our directors. However, our corporate governance guidelines (the Governance Guidelines) provide that in uncontested directors' elections any nominee for director who receives a greater number of votes Withheld for his or her election than votes For such election (a Majority Withheld Vote) will promptly tender his or her resignation as a director to our Governance and Nominating Committee which

**Table of Contents**

will, without participation of the director so tendering his or her resignation, consider the resignation offer and recommend to the Board whether to accept it. The Board, without participation by the director so tendering his or her resignation, will act on the Governance and Nominating Committee's recommendation within 90 days following certification of the Shareholder vote. We will promptly issue a press release disclosing the Board's decision and, if the Board rejects the resignation offer, its reasons for such decision. We will also promptly disclose this information in a filing with the SEC.

**Q: How many votes are required to adopt the other proposals?**

A: The ratification of the appointment of PricewaterhouseCoopers LLP and the non-binding approval of the compensation of our executive officers named herein will require the affirmative vote of a majority of the Shares represented at the Meeting and entitled to vote thereon.

**Q: What is the effect of withholding votes or abstaining ?**

A: You can withhold your vote for any nominee in the election of directors. Withheld votes will be excluded entirely from the vote and will have no effect on the outcome (other than potentially triggering the director resignation requirements set forth in our Governance Guidelines and as described above). On other proposals, you can Abstain . If you abstain, your Shares will be counted as present at the Meeting for purposes of that proposal and your abstention will have the effect of a vote against the proposal.

**Q: How are votes counted?**

A: You may vote For or Withhold your vote on the proposal to elect directors. You may vote For or Against Abstain on the proposals to ratify the selection of our independent registered public accounting firm and approve the compensation of our executive officers named herein. If you withhold or abstain from voting on a proposal, it will have the practical effect of voting against the proposal.

If you sign and return your Proxy without voting instructions, your Shares will be voted in accordance with the Board's recommendations for the proposals described in this Proxy Statement.

**Q: Could other matters be discussed at the Meeting?**

A: We do not know of any other matters to be brought before the Meeting other than those referred to in this Proxy Statement. If other matters are properly presented at the Meeting for consideration, the persons named in the Proxy will have the discretion to vote on those matters on your behalf.

**Q: Where and when will I be able to find the voting results?**

A: You can find the official results of voting at the Meeting in a current report on Form 8-K filed with the SEC within four business days of the Meeting.

**Even if you plan to attend our annual meeting in person, please cast your vote as soon as possible by:**

using the Internet at

[www.investorvote.com](http://www.investorvote.com)

(for registered shareholders)

[www.proxyvote.com](http://www.proxyvote.com)

(for beneficial shareholders)

scanning the QR code provided in  
your proxy with your smartphone

calling toll-free 1-800-652-VOTE  
(8683) within the United States,  
U.S. territories and Canada

mailing your signed proxy or  
voting instruction form

Table of Contents

**PROPOSAL 1 - ELECTION OF DIRECTORS**

In accordance with our articles of incorporation and bylaws, each as may be amended from time to time, our Board is authorized to fix the number of the Company's directors at not less than three (3) and not more than thirteen (13) and has fixed the number of directors at nine (9). There is currently a full complement of nine (9) members of the Board. Directors are elected at each annual meeting of Shareholders to hold office until the next annual meeting. The persons identified below are nominated to be elected at the Meeting for the ensuing year. Other than Alan Wallace and Linda J. Welty, all of the nominees are currently directors of the Company previously elected by Shareholders. Despite the expiration of a director's term, the director shall continue to serve until the director's successor is elected and qualified or until there is a decrease in the number of directors. If for any unforeseen reason any of the nominees for director declines or is unable to serve, Proxies will be voted for the election of such other person or persons as shall be designated by the directors. Our Board has no reason to believe that any of the nominees will be unable or will decline to serve, if elected. Proxies received which do not specify a choice for the election of the nominees will be voted FOR each of the nominees. Proxies cannot be voted for more than nine (9) persons since that is the total number of nominees.

Set forth below is certain information furnished to us by the director nominees. There are no family relationships among any of our current directors, nominees or executive officers. None of the corporations or other organizations referenced in the biographical information below is a parent, subsidiary or other affiliate of the Company.

We believe that our directors should satisfy a number of qualifications, including demonstrated integrity, a record of personal accomplishments, a commitment to participation in board activities and other traits discussed below in "Our Director Nominations Process". We also endeavor to have a Board representing a range of skills and depth of experience in areas that are relevant to and contribute to the Board's oversight of our operations. The Board believes its current size is appropriate for the size and scope of our business.

We believe that the following nominees represent a desirable mix of backgrounds, skills and experiences. Additionally, we believe that the specific leadership skills and other experiences of the nominees described below, particularly in the areas of forest products, senior executive leadership, financial accounting/reporting, public company board experience, investment management, capital markets and finance, provide us with the perspectives and judgment necessary to guide our strategies and monitor their execution.

Following the biographical information for each director nominee, we describe the key experience, qualifications and skills our director nominees bring to the Board that, for reasons discussed below, are important in our business. The Board considered these experiences, qualifications and skills and the directors' other qualifications in determining to recommend that the directors be nominated for election:

***Forest products and related industry experience.*** We seek directors who have knowledge of and experience in the forest products industry, which is useful in understanding the operations of large manufacturing facilities, fiber procurement, pulp and energy production, wood processing, logistics and sales aspects of our business. Relevant experiences might include, among other things, forest products CEO experience, international experience, other public company board experience and relevant senior-level expertise in one or more of the

following areas: timber harvesting, bioenergy, chemicals, forest products, pulp mills, sawmills, capital markets, finance and accounting.

***Senior leadership experience.*** We believe that it is important for our directors to have served in senior leadership roles at other organizations, which demonstrates strong abilities to motivate and manage others, to identify and develop leadership qualities in others and to manage organizations.

***Public company board experience.*** Directors who have served on other public company boards can offer advice and perspective with respect to board dynamics and operations, oversight and leadership, the relationship between the board and management and other matters, including corporate governance, executive compensation and oversight of strategic, risk-management, operational and compliance-related matters.

***Capital markets and financial experience.*** Directors who have capital markets experience can offer advice and perspective on investor expectations and perspectives, capital raising, financing strategic transactions, including mergers and acquisitions and financial statements and financial reporting matters.

***International business experience.*** We operate internationally and all of our employees are outside the United States and a majority are outside North America. A significant majority of our customers are located in Europe and China. Accordingly, international business experience is desirable for our directors to have.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE ELECTION OF EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS.**

## **Table of Contents**

### **Nominees for Election as Directors**

#### **Jimmy S.H. Lee**

JIMMY LEE, age 61, has served as a director since May 1985, as Executive Chairman since July 2015 and as President and Chief Executive Officer from 1992 to 2015. In March 2016, Mr. Lee was appointed a director of Golden Valley Mines Ltd. Previously, during the period when MFC Bancorp Ltd. was our affiliate, he served as a director from 1986 and President from 1988 to December 1996 when it was spun out. Mr. Lee was also a director of Quinsam Capital Corp. from March 2004 to November 2007 and Fortress Paper Ltd. from August 2006 to April 2008. During Mr. Lee's tenure with Mercer, we acquired the Rosenthal mill and converted it to the production of kraft pulp, constructed and commenced operations at the Stendal mill and acquired the Celgar mill and the Friesau Facility. He holds a Bachelor of Science Degree in Chemical Engineering from the University of British Columbia, Canada.

#### *Director Qualifications*

Mr. Lee possesses particular knowledge and experience in our business as a founder and as our former Chief Executive Officer for over 24 years. He also has broad knowledge and experience in finance and banking, credit markets, international pulp markets, derivative risk management and capital allocation. Through his experience and background, Mr. Lee provides vision and leadership to the Board. Mr. Lee also provides the Board with insight and information regarding our strategy, operations and business.

#### **David M. Gandossi**

DAVID GANDOSSI, age 60, has served as a director and as Chief Executive Officer and President since July 2015 and served as Executive Vice-President, Chief Financial Officer and Secretary from August 2003 to July 2015. His previous roles included Chief Financial Officer and other senior executive positions with Formation Forest Products and Pacifica Papers Inc. Mr. Gandossi has previously chaired a number of industry working committees or groups including The B.C. Pulp and Paper Task Force, the BC Bio-economy Transformation Council and the FPI National Research Advisory Committee. He also participated in the Pulp and Paper Advisory Committee to the BC Competition Council and was a member of B.C.'s Working Roundtable on Forestry. He is currently a director of FPInnovations, The Forest Products Association of Canada (FPAC) and The Council of Forest Industries (COFI). Mr. Gandossi holds a Bachelor of Commerce degree from the University of British Columbia and is a Fellow of

the Institute of Chartered Professional Accountants of British Columbia (ICABC).

#### *Director Qualifications*

Mr. Gandossi has a strong background in our business and industry, having held various roles with us since 2003 and various other senior executive positions within the forestry industry since 1994. Mr. Gandossi brings



to the Board a proven track record and a deep understanding of the pulp business on a global basis. As our Chief Executive Officer, Mr. Gandossi also provides the Board with exposure to the Company's executive team and insight into our specific strategic and operational challenges and opportunities.

### **William D. McCartney**

WILLIAM MCCARTNEY, age 62, has served as a director since January 2003. He has been the President and Chief Executive Officer of Pemcorp Management Inc., a corporate finance and management consulting firm, since its inception in 1990. From 1984 to 1990, he was a founding partner of Davidson & Company, Chartered Accountants, where he specialized in business advisory services. He has been involved with numerous capital restructuring and financing events involving several public companies and brings substantial knowledge relating to the financial accounting and auditing processes. He is a member of the Local Advisory Committee of the TSX and TSX Venture Exchange. He is a chartered accountant and has been a member of the Chartered Professional Accountants of Canada since 1980. He holds a Bachelor of Arts degree in Business Administration from Simon Fraser University.

#### *Director Qualifications*

Mr. McCartney has extensive experience in accounting, financial and capital markets and international markets. He provides the Board with insight and leads its review and understanding of accounting, financial and reporting matters. Mr. McCartney provides the Board experience and leadership on accounting and financial matters in his role as Chair of the Board's Audit Committee.

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**Table of Contents**

**Bernard Picchi**

BERNARD PICCHI, age 68, has served as a director since June 2011. He is now Managing Director of Private Wealth Management for Palisade Capital Management, LLC, of Fort Lee, New Jersey, and has been in that role since July 2009. Before joining Palisade, Mr. Picchi served as Managing Partner of Willow Rock Associates from August 2008 through June 2009, a company which advised securities firms on energy investments. From March 2003 through July 2008, Mr. Picchi served as Senior Energy Analyst at two independent research firms based in New York City, Foresight Research Solutions (2003-2005) and Wall Street Access (2006-2008). From 1999 through 2002, he was Director of U.S. Equity Research at Pittsburgh-based Federated Investors, where he also managed the Capital Appreciation Fund, a 5-star rated (during his tenure) \$1.5 billion equity mutual fund. Before Federated Investors, Mr. Picchi enjoyed a 20-year career on Wall Street (Salomon Brothers, Kidder Peabody, and Lehman Brothers) both as an award-winning energy analyst and as an executive (Director of U.S. Equity Research at Lehman in the mid-1990s). He began his post-college career at Mellon Bank in Pittsburgh, Pennsylvania. Mr. Picchi holds a Bachelor of Science degree in Foreign Service from Georgetown University, and he has achieved the professional designation Chartered Financial Analyst. He has also served on various non-profit boards, most notably that of the Georgetown University Library on which he has served for the past 30 years.

*Director Qualifications*

Mr. Picchi brings to our Board his significant experience and financial expertise in the capital markets, investments and analysis of public companies. His broad experience in the capital markets and particularly as a financial analyst and wealth manager provide the Board with valuable insight into the expectations, concerns and interests of investors, Shareholders and the capital markets generally.

**James Shepherd**

JAMES SHEPHERD, age 65, has served as a director since June 2011. He is also currently a director of Buckman Laboratories International Inc. Mr. Shepherd was President and Chief Executive Officer of Canfor Corporation from 2004 to 2007 and Slocan Forest Products Ltd. from 1999 to 2004. He is also the former President of Crestbrook Forest Industries Ltd. and Finlay Forest Industries Limited and the former Chairman of the Forest Products Association of Canada. Mr. Shepherd has previously served as a director of Conifex Timber Inc., Canfor Corporation and Canfor Pulp Income Fund (now Canfor Pulp Products Inc.). Mr. Shepherd holds a degree in Mechanical Engineering from Queen's University.

*Director Qualifications*

Mr. Shepherd has held several chief executive officer leadership and other senior positions in the forest industry. As a result, Mr. Shepherd brings to the Board extensive senior executive experience relevant to our operations, public company board experience and an understanding of all aspects of the forest products business, ranging from fiber harvesting to lumber and pulp and paper operations. He also brings to our Board significant experience and background in the designing, execution and implementation of large, complex capital projects at large manufacturing facilities like our mills.

### **Keith Purchase**

KEITH PURCHASE, age 74, has served as a director since June 2012. Mr. Purchase was Executive Vice-President and Chief Operating Officer for MacMillan Bloedel Ltd. from 1998 to 1999, President and Chief Executive Officer of TimberWest Forest Ltd. from 1994 to 1998 and Managing Director of Tasman Pulp and Paper from 1990 to 1994. Mr. Purchase was previously a director of Catalyst Paper Corporation and Chair of its board of directors.

#### *Director Qualifications*

Mr. Purchase has held several very senior positions in significant companies involved in the forestry industry, including internationally. He brings to the Board extensive senior executive experience relevant to the Company's operations, as well as significant public company board experience from a wide variety of companies.

### **Marti Morfitt**

MARTI MORFITT, age 60, has served as a director since May 2017. Ms. Morfitt is currently the President and Chief Executive Officer of River Rock Partners, Inc., a business consulting group based in Naples, Florida. Ms. Morfitt was the Chief Executive Officer of Airborne, Inc. from 2009 to 2012, the President and Chief Executive Officer and Chief Operating Officer and a Director of CNS, Inc. from 1998 to 2007 and from 1982 to 1998 held various positions at the Pillsbury Company, including VP, Meals US. She currently serves as a director of Graco Inc. and lululemon athletica, Inc. and previously served as a director of Life Time Fitness, Inc.

#### *Director Qualifications*

Ms. Morfitt brings a track record of industry leading business performance in the consumer packaged goods industry. She brings to the Board extensive senior executive experience, as well as significant public company board experience from a wide variety of companies.

## **Table of Contents**

### **Alan Wallace**

ALAN WALLACE, age 58, is currently the Chief Executive Officer of Peloton Advisors Inc., a financial advisory firm working with private and public companies on mergers and acquisitions, financial and strategic transactions and he is based in Vancouver, British Columbia. Mr. Wallace was the Vice Chairman, Investment Banking, CIBC World Markets Inc. from 1987 to 2013 where he was also the Co-Head of its Paper and Forest Products Group from 1995 to 2013. Mr. Wallace holds a Master of Business Administration from the University of Chicago and a Bachelor of Applied Science from the University of Toronto.

#### *Director Qualifications*

Mr. Wallace has significant capital markets and mergers and acquisitions experience, including relating to debt and equity financings, corporate credit facilities and financial advisory assignments. He also has extensive forest products experience relating to financings and strategic transactions in the industry. He brings to the board extensive experience in the capital markets and corporate strategic review.

### **Linda J. Welty**

LINDA WELTY, age 62, is currently an independent director of Huber Engineered Materials, a global manufacturer of engineered specialty ingredients, a portfolio company of J.M. Huber Corporation and is the President and Chief Executive Officer of Welty Strategic Consulting, LLC, an advisory firm focused on the development and execution of value creation strategies. From 2010 to 2011 she served as a director of Massey Energy Company and an independent director of Vertellus Specialties, Inc. From 2007 to 2016, Ms. Welty was President and Chief Operating Officer of Flint Ink Corp. and, from 1998 to 2003, President of the Specialty Group of H.B. Fuller Company. She currently serves as a director of the Atlanta Chapter of the National Association of Corporate Directors, whose mission is to advance excellence in corporate governance.

#### *Director Qualifications*

Ms. Welty brings to the board extensive global industrial experience spanning more than thirty five years in corporate governance, executive leadership, operations, sales, marketing and manufacturing roles in the chemicals, specialty chemicals and energy industries.

## **Majority Withheld Policy in Uncontested Director Elections**

In order to provide Shareholders with a meaningful role in the outcome of director elections, our Board has adopted a provision on voting for directors in uncontested elections as part of our Governance Guidelines. In general, this provision provides that any nominee in an uncontested election who receives more votes Withheld for his or her election than votes For his or her election must promptly tender an offer of resignation following certification of the Shareholder vote to our Governance and Nominating Committee which will, without the participation of any director so tendering his or her resignation, consider the resignation and recommend to the Board whether to accept the resignation offer. The Board, without the participation of any director so tendering his or her resignation, will act on the Governance and Nominating Committee's recommendation within 90 days following certification of the Shareholder vote. Any such tendered resignation will be evaluated in light of the best overall interests of the Company and its Shareholders. Our Board's decision will be disclosed in a Form 8-K furnished by the Company to the SEC within four business days of the decision. If our Board decides to turn down the tendered

resignation, or to pursue any additional action (as described above or otherwise), then the Form 8-K will disclose the Board's reasons for doing so. If each member of the Governance and Nominating Committee receives a Majority Withheld Vote at the same election, then the independent directors who did not receive a Majority Withheld Vote will act as a committee to consider the resignation offers and recommend to the Board whether to accept them.

Any director who offers to resign pursuant to this provision will not participate in any actions by either the Governance and Nominating Committee or the Board with respect to accepting or turning down his or her own resignation offer.

The complete terms of this provision are included in our Governance Guidelines which can be found at the Investors - Governance link on our website at [www.mercerint.com](http://www.mercerint.com).

The election of directors at the Meeting is an uncontested election.

**Table of Contents**

**Board Composition and Tenure**

The following table provides summary information about each director nominee. Each director nominee is elected annually by a majority of votes cast.

**Board Tenure and Refreshment**

Maintaining an appropriate balance of tenure among directors is part of the Board's consideration. Longer serving directors bring valuable experience and knowledge with respect to our business, industry and strategic and operational challenges.

Newer directors bring, along with their own personal experiences, fresh perspective and ideas.

We believe that directors should not be subject to term or age limits. While term and age limits could facilitate fresh ideas and viewpoints being consistently brought to the Board, we believe they are counter-balanced by the disadvantage of causing the loss of directors who over a period of time have

developed insight into our strategies, operations and risks and continue to provide valuable contributions to Board deliberations. We believe that our decision not to establish term or age limits is consistent with the prevailing practice among companies in the S&P 500. We recognize that certain governance stakeholders have suggested that longer-serving directors may have decreased independence and objectivity; however, we believe that arbitrarily removing knowledgeable directors and the oversight consistency they bring—particularly during periods of management change—weighs against strict restrictions on director tenure. Ultimately, it is our Board's responsibility to establish board refreshment policies, using its discretion in the best interests of the Company and our Shareholders.

**Snapshot of Attributes of Director Nominees**

All director nominees exhibit the following personal attributes:

Integrity	Diversity	Collegiality
Prepared to represent the best interests of all shareholders	A proven record of success	Prepared to participate actively in board activities

**Table of Contents**

Our director nominees also have the following qualifications:

**CORPORATE GOVERNANCE AND BOARD MATTERS**

**Role of the Board**

Our Board makes major policy decisions, participates in strategic planning, oversees risk management and reviews management’s performance and effectiveness. Certain important matters must be dealt with by our Board, such as the approval of financial statements and the declaration of dividends to our Shareholders. Through our Governance Guidelines and/or formal resolution, the Board reserves for itself the right to make certain decisions and delegates others to management. In some matters, management’s discretion is limited by dollar thresholds beyond which Board approval is required.

**Key Areas of Board Oversight**

Responsibility	Activities
<b>Culture of Integrity</b>	Championing our values, as set out in our Code of Business Conduct and Ethics, and satisfying ourselves that a culture of integrity is maintained by us.
<b>Strategic Planning</b>	<p>Overseeing our strategic direction and the formulation of our plans and priorities ensuring alignment with our risk appetite.</p> <p>Annually approving our strategic plan and initiatives which takes into account, among other things, the opportunities and risks of our business.</p> <p>Discussing aspects of strategy and monitoring the implementation of strategic initiatives.</p> <p>Reviewing and approving our organizational structure.</p> <p>Approving our financial objectives and operating plans, including significant capital expenditures and transactions that exceed delegated authorities.</p>

Reviewing the results of our annual business performance assessments.

**Risk Management**

Overseeing and approving our risk management and appetite.

Through our Board committees, overseeing strategic risk policies and monitoring conduct.

Promoting a strong risk culture and ensuring conduct aligns with our business-wide risk appetite.



**Table of Contents**

**Responsibility**

**Activities**

**Financial Reporting and Internal Controls**

Overseeing compliance with applicable audit, accounting and financial reporting requirements.

Requiring management to implement and maintain effective systems of internal control, including management information systems.

Through our Audit Committee, assessing the adequacy and effectiveness of systems of internal control.

Approving the quarterly and annual financial reports.

**Talent Management and Succession Planning**

Together with our Compensation and Human Resources Committee:

Reviewing strategies and programs for assessment and development of senior talent;

Supervising succession planning processes, which include selection, appointment and the development of our CEO and other senior executives; and

Evaluating and approving compensation of our Executive Chairman, CEO and senior management team in a manner consistent with practical incentives.

**Governance**

Through our Governance and Nominating Committee, monitoring best practices in governance, developing corporate governance principles and guidelines and establishing appropriate structures and procedures to allow our Board to function effectively and independently of management.

**Governance Guidelines, Code of Conduct and Policies**

Our Board has adopted Governance Guidelines, which include written charters for each Board committee, our Code of Business Conduct and Ethics and a Securities Law Compliance Policy, all of which are intended to provide a set of guidelines to assist the Board in ensuring that we adhere to proper standards of good governance. Our Board has also adopted a Hedging Transactions Policy, a Whistleblower Policy and an Anti-Corruption Policy.

Such guidelines, codes and policies, which are reviewed regularly and revised as necessary or appropriate in response to changing regulatory requirements and evolving best practices, are available on our website at [www.mercerint.com](http://www.mercerint.com) under Investors - Governance .

Our Governance Guidelines:

provide for the duties and responsibilities of the Board, its committees and our officers;

provide for practices with respect to the holding of regular quarterly and strategic meetings of the Board, including separate meetings of non-employee directors; and

reserve to the Board specific approval and authority for certain decisions or matters.

Our Code of Business Conduct and Ethics, which applies to our directors and all of our executive officers, is designed to deter wrongdoing and promote:

honest and ethical conduct;

avoidance of conflicts of interest;

full, fair, accurate and timely disclosure in our public filings with the SEC;

compliance with applicable governmental laws, rules and regulations;

prompt internal reporting of violations of the code; and

accountability for adherence to the code.

Our Securities Law Compliance Policy applies to the handling of our material non-public information or other companies with whom we deal and the buying and selling of our stock and other securities and those of other companies.

Our Hedging Transactions Policy, which applies to our directors and all of our executive officers, is designed to prohibit such individuals from hedging their Mercer stock, including trading in options, puts, calls or other derivative instruments relating to our securities.

Our Whistleblower Policy provides a set of procedures for our employees to report, on a confidential basis, their concerns or complaints about questionable accounting or auditing matters or violations of legal or regulatory requirements and for the Audit Committee to receive and respond to such concerns and complaints.



**Table of Contents**

Our Anti-Corruption Policy is designed to expand upon the provisions of our Code of Business Conduct and Ethics relating to international operations and ensure compliance by us and our directors, officers, employees and agents with the United States Foreign Corrupt Practices Act of 1977 (FCPA) and other applicable anti-corruption laws.

**Board Meetings and Attendance**

In 2017:

each current member of the Board attended 100% of all meetings of our Board, other than Ms. Morfitt who was elected to our Board in May 2017 and attended two of four such meetings after becoming a director.

all of our independent directors attended 100% of our executive sessions for independent directors without management, other than Ms. Morfitt who attended two of three of such meetings after becoming a director; and

all of our directors attended the annual meeting held in May 2017. (Although we do not have a formal policy with respect to attendance of directors at our annual meetings, all directors are encouraged and expected to attend such meetings, if possible.)

Mr. Lauritzen and Ms. Orr have each decided not to stand for re-election at the Meeting. Our Board has determined to propose Alan Wallace and Linda Welty as director nominees to fill such vacancies. In addition, our Board has determined to appoint Keith Purchase to serve as Lead Director for a three-year term effective June 1, 2018 and as the Chair of our Governance and Nominating Committee.

Current committee membership and the number of meetings of our full Board and committees held in 2017 are shown in the table below.

			<b>Governance and Nominating Committee</b>	<b>Environmental, Health and Safety Committee</b>
<b>Board</b>	<b>Audit Committee</b>	<b>Compensation and Human Resources Committee</b>		

Jimmy S.H. Lee

David M. Gandossi

Eric Lauritzen

William D. McCartney

Bernard Picchi

James Shepherd

R. Keith Purchase

Nancy Orr

Marti Morfitt

Number of 2017 Meetings	9	4	5	4	4
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Chair

Member

Lead Independent Director

**Table of Contents**

**Affirmative Determination Regarding Director Independence**

The NASDAQ listing standards require that a majority of the members of a listed company's board of directors be independent. Based upon the

NASDAQ rules, our Board has determined that the following seven director nominees are independent and represent 78% of our director nominees:

Director Nominee Independence	Independent Director Nominees
	William D. McCartney
	Bernard Picchi
	James Shepherd
	Keith Purchase
	Marti Morfitt
	Alan Wallace
	Linda Welty

**Board Leadership Structure**

Our Board is responsible for overseeing the exercise of corporate power and seeing that our business and affairs are managed to meet our own stated goals and objectives and that the long-term interests of our Shareholders are served.

The Governance and Nominating Committee, which is made up entirely of independent directors, is responsible for the continuing review of the governance structure of the Board, and for recommending to the Board governance structures and practices best suited for our particular situation. This committee determines what leadership structure it deems appropriate, based on factors such as experience of the applicable individuals and the current business environment.

Our Board Leadership Structure	Practices
<p>Leadership:</p> <ul style="list-style-type: none"> <li>Executive Chairman</li> <li>Lead Director</li> <li>Audit, Compensation and Human Resources and Governance and Nominating Committees led and composed solely by independent directors</li> <li>Active engagement by all directors</li> </ul>	<p>Our Board leadership structure includes practices such as:</p> <ul style="list-style-type: none"> <li>a Lead Director, who provides leadership to our independent directors, assists in establishing agendas for Board and committee meetings and chairs executive sessions of our independent directors; and</li> <li>holding regular executive sessions at each Board meeting to allow for the active engagement of independent directors and appropriate oversight of management.</li> </ul>

The Board believes our leadership structure and practices provide an optimal framework to guide the Company and maintain the focus required to achieve our long-term business goals.

Our Board believes that it should maintain flexibility to select our Chairman and its board leadership structure from time to time and our policies do not preclude our CEO from also serving as Chairman of the Board. Our Executive Chairman, Mr. Lee, was formerly our CEO until 2015 when he became Executive Chairman. Our Board believes Mr. Lee serving as Executive Chairman allows the Board to benefit from Mr. Lee's in-depth knowledge of our business and industry as well as leadership in formulating and implementing strategic initiatives.

In considering its leadership structure, the Board has taken a number of factors into account. In particular, the Governance and Nominating Committee has sought to ensure that independent backgrounds and opinions dominate both the Board and the Board's committees. Consequently, the Board, which consists of seven independent directors out of nine, who are highly qualified and experienced, exercises a strong, independent oversight function. This oversight function is enhanced by the fact that all of the Chairs of our Board committees are independent directors, and the Audit Committee, Compensation and Human Resources Committee and Governance and

Nominating Committee are composed entirely of independent directors.



**Table of Contents**

Our Board leadership structure and practices, including the appointment of a Lead Director for a three-year term and meetings in executive sessions, support the independence of our non-employee directors. Meetings are also held formally and

informally from time to time with our Executive Chairman and Chief Executive Officer for discussion of relevant subjects.

**Duties and Responsibilities of Lead Director**

<b>Lead Director</b>	<b>Primary Responsibilities</b>
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Lead Director	Provide leadership to non-employee directors on the Board.
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Eric Lauritzen*	Ensure that the Board can operate independently of management.
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<b>Executive Sessions Led in 2017:</b> 7	Serve as a liaison between the independent directors and the Chairman and senior management of the Company.
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<b>Average Attendance of Independent Directors at Executive Sessions in 2017:</b> 98%	Ensure that the Board has adequate resources to support its decision-making process and is appropriately approving strategy and supervising management.
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The position of Lead Director comes with a clear mandate and significant authority. While the Lead Director is elected annually, in order to provide consistency and continuity, it is generally expected that he or she will serve for more than one year.	Establish procedures to govern the Board's work.
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	Develop and approve agendas and schedules for Board and committee meetings, as well as the agenda and materials for meetings of independent directors.
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Mr. Lauritzen was appointed Lead Director and Chair of our Governance and Nominating Committee in January 2012.

Annually review the effectiveness of the Board and committees.

Lead and assist the Board in the discharge of its duties and responsibilities.

*\*Mr. Lauritzen has decided not to stand for reelection at the Meeting. Our Board has determined to appoint Keith Purchase as Lead Director for a three-year term effective June 1, 2018.*

Ensure that independent directors have adequate opportunities to meet and discuss without management present.

Chair meetings of the Board when the Executive Chairman is not in attendance.

Ensure delegated committee functions are carried out and reported to the Board.

Be the senior spokesperson for the Board on governance matters and executive management compensation matters.

Ensure that the Board receives adequate and regular updates from the Executive Chairman and Chief Executive Officer on all issues important to the business and future of the Company.

Call meetings of the independent directors as he or she determines from time to time.

## **Executive Sessions**

Our Board believes it is important to have executive sessions without the Chief Executive Officer, Executive Chairman and other members of management, which are scheduled during every meeting of the Board. Our independent directors have robust and candid discussions at these executive sessions, during which they evaluate the performance of the Chief Executive Officer, Executive Chairman and other senior officers, our governance practices, the reports of our independent registered public accountants, the meetings themselves and any other relevant matter.

During 2017, Mr. Lauritzen was Lead Director and chaired all 7 executive sessions of our independent directors. In 2017, our independent directors determined to have two executive sessions at each meeting of the Board, both before

and after such meetings.

**Committees of the Board**

Our Board currently has four standing committees: the Audit Committee, the Compensation and Human Resources Committee, the Governance and Nominating Committee and the Environmental, Health and Safety Committee. Our committee meetings are generally open to all directors, who often voluntarily attend all committee meetings.

**Table of Contents**

**Audit Committee**

**Primary Responsibilities**

**Members in 2017:**

William D. McCartney (Chair)

Nancy Orr

Marti Morfitt

Oversee our accounting and financial processes, including the review of the financial statements to be included in our annual reports on Form 10-K and quarterly reports on Form 10-Q, and our systems of internal accounting and financial controls.

Approve the Company's independent registered public accounting firm and oversee the relationship, including reviewing registered public accounting firm independence, the scope of their work and the pre-approval of audit and non-audit services.

**Meetings in 2017: 4**

**Average Attendance in 2017: 92%**

Meet with and review the results of the annual audit performed by the independent public accountants and the results of their review of our quarterly financial statements.

All members satisfy the audit committee independence requirements of the NASDAQ rules and are financially sophisticated, as interpreted by the Board.

Recommend the selection of the Company's independent registered public accounting firm.

Our Board has also determined that the committee Chair, Mr. McCartney, qualifies as an audit committee financial expert, as defined in applicable SEC rules and applicable NASDAQ listing standards.

Review and approve the terms of all related party transactions.

Establish and maintain procedures for receiving, reviewing and responding to complaints regarding accounting, internal accounting controls or auditing matters.

**Compensation and Human Resources Committee**

**Primary Responsibilities**

**Members in 2017:**

Bernard Picchi (Chair)

James Shepherd

Nancy Orr

Marti Morfitt

Review and approve the strategy and design of the Company's compensation, equity-based and benefits programs.

Analyze executive compensation data, including base salaries, annual bonuses, long-term incentives and pay, as well as executive compensation principles, strategies, trends, regulatory requirements and current programs.

**Meetings in 2017: 5**

Review and approve all compensation awarded to the Company's executive officers.

**Average Attendance in 2017: 90%**

Periodically review and make recommendations to our Board with respect to director compensation, including compensation for members of committees of the Board.

All members of the Compensation and Human Resources Committee have been determined to be independent directors under NASDAQ rules.

Administer the Company's equity incentive plan, including reviewing and approving equity grants to executive officers.

Review annual goals and objectives of our key executive officers.

Review annual performance objectives and actual performance against previous year's goals to evaluate individual performance and, in turn, compensation levels.

Review and approve succession plans for our key executive officers.

Review individual specific training and development requirements for our key executive officers.

Review the performance of members of our senior management team and the succession plans for each officer's position and approve management development and succession planning practices and strategies.

Provide the Board with recommendations as to potential succession in the event of each senior officer's termination of employment with the Company for any reason (including death or disability).

Consult with our Lead Director and our Chief Executive Officer with respect to the Chief Executive Officer's annual assessment of our senior executives and their potential to succeed him. The full Board has the primary responsibility to develop succession plans for the position of Chief Executive Officer.

**Table of Contents**

**Governance and Nominating Committee Primary Responsibilities**

**Members in 2017:** Manage the corporate governance system of the Board.

Eric Lauritzen (Chair)\*

William D. McCartney

Keith Purchase

Assist the Board in fulfilling its duties to meet applicable legal and regulatory and self-regulatory business principles and codes of best practice.

**Meetings in 2017:** 4 Assist in the creation of a corporate culture and environment of integrity and accountability.

**Average Attendance in 2017:** 100% In conjunction with the Lead Director, monitor the quality of the relationship between the Board and management.

All members of the Governance and Nominating Committee have been determined to be independent directors under NASDAQ rules. Review management succession plans.

*\*Mr. Lauritzen has decided not to stand for reelection at the Meeting.* Recommend to the Board nominees for appointment to the Board.

Lead the Board's annual review of the Executive Chairman and Chief Executive Officer's performance.

Set the Board's forward meeting agenda.

**Primary Responsibilities**

**Environmental, Health and Safety Committee**

**Members in 2017:**

James Shepherd (Chair)

Review, approve and, if necessary, revise the environmental, health and safety policies and environmental compliance programs of the Company.

Jimmy S.H. Lee

R. Keith Purchase

Monitor the Company's environmental, health and safety management systems including internal and external audit results and reporting.

David Gandossi

**Meetings in 2017: 4**

Provide direction to management on the frequency and focus of external independent environmental, health and safety audits.

**Average Attendance in 2017: 100%**

All members of the Environmental, Health and Safety Committee, other than Messrs. Lee and Gandossi, have been determined to be independent directors under NASDAQ rules.

**Risk Oversight**

The Board oversees the proper safeguarding of the assets of the Company, the maintenance of appropriate financial and other internal controls and our compliance with applicable laws and regulations and proper governance. Inherent in these responsibilities is the Board's understanding and oversight of the various risks facing us. The Board

does not view risk in isolation. Risks are considered in virtually every business decision and as part of our business strategy. The Board recognizes that it is neither possible nor prudent to eliminate all risk. Indeed, purposeful and appropriate risk-taking is essential for us to be competitive on a global basis and to achieve our long-term strategic objectives.

**Oversight of Risk**



The Board oversees risk management.

Board committees, which meet regularly and report back to the full Board, play significant roles in carrying out the risk oversight function.

Management is charged with managing risk, through robust internal processes and effective internal controls.

Effective risk oversight is an important priority of the Board. The Board has implemented a risk governance framework designed to:

understand critical risks in our business and strategy;

allocate responsibilities for risk oversight among the full Board and its committees;  
evaluate our risk management processes and whether they are functioning adequately;

facilitate open communication between management and directors; and

foster an appropriate culture of integrity and risk awareness.

## **Table of Contents**

While the Board oversees risk management, our management is charged with managing risk. We have robust internal processes and an effective internal control environment which facilitate the identification and management of risks and regular communication with the Board. These include an enterprise risk management program under the leadership of the Chief Financial Officer, regular internal management disclosure committee meetings, Codes of Business Conduct and other policies, strong internal controls and a comprehensive external audit process. The Board and the Audit Committee monitor and oversee the evaluation of the effectiveness of the internal controls and the risk management program. Management communicates routinely with the Board, Board committees and individual directors on the significant risks identified and how they are being managed. Directors are free to, and indeed often do, communicate directly with senior management.

The Board implements its risk oversight function both as a whole and through delegation to Board committees, which meet regularly and report back to the full Board. Board committees assist in carrying out the risk oversight function as follows:

***Audit Committee:*** Oversees risks related to our financial statements, the financial reporting process and accounting and legal matters. The committee oversees the audit function, our ethics programs, including the Code of Business Conduct, our Whistleblower Policy and our quality, safety, environmental assurance and information technology security programs. The committee periodically receives reports on and discusses oversight of our risk management process and reviews significant risks and exposures identified by management or the independent auditors (whether financial, operating or otherwise), and management's steps to address them. In connection with its oversight of these matters, the committee members will regularly meet separately with representatives of the independent auditors.

***Compensation and Human Resources Committee:*** Evaluates the risks and rewards associated with our compensation philosophy and programs. As discussed in more detail in the Compensation Discussion and Analysis herein, the committee reviews and approves compensation programs with features that mitigate risk without diminishing the incentive nature of the compensation. Management discusses with the committee the procedures that have been put in place to identify and mitigate potential risks in compensation. This committee also oversees management development and succession planning across senior management positions.

***Environmental, Health and Safety Committee:*** Oversees our environmental, health and safety policies and environmental compliance programs and associated risks relating thereto. In connection with such oversight, the committee regularly visits and tours our mills and meets with mill-level managers, superintendents and other employees.

***Governance and Nominating Committee:*** Oversees our governance practices, director succession and committee leadership to manage risks associated with corporate governance.

The full Board regularly evaluates and discusses risk, risk mitigation strategies and our internal control environment. Topics examined at this meeting include, but are not limited to, financial risks, political and regulatory risks, legal risks, information technology risks, economic risks and risks related to our productivity and reinvestment efforts. Because overseeing risk is an ongoing process and inherent in our strategic decisions, the Board also discusses risk throughout the year.

We believe that our Board leadership structure, previously discussed herein, supports the risk oversight function of the Board. We have an Executive Chairman, a Chief Executive Officer, a Lead Director and strong directors chair the various committees involved with risk oversight, there is open communication between management and directors and all directors are actively involved in the risk oversight function.

To learn more about risks facing us, you can review the factors included in Part 1, Item 1A. Risk Factors in the Form 10-K. The risks described in the Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known or that may currently be deemed to be immaterial also may materially adversely affect the Company's business, financial condition or results of operations in future periods.

During fiscal 2017, risk areas of particular Board and committee focus included:

industry supply and demand balances including new pulp capacity and the outlook and potential changes in fiber supply;

expansion and growth in new and related business growth;

cybersecurity;

changes in foreign exchange rates;

the uncertain global economic environment, including potential issues regarding trade, and its effects on our business;

Shareholder distributions; and

## **Table of Contents**

our continuing succession planning.

### **Our Director Nominations Process**

Our Board is responsible for approving candidates for Board membership. The Board has delegated the screening and recruitment process to our Governance and Nominating Committee.

#### *Criteria for Directors*

Our Board believes that certain criteria should be met by director nominees to ensure effective corporate governance, support our strategies and businesses, account for individual director attributes and the effect of the overall mix of those attributes on the Board's effectiveness, and support the successful recruitment of qualified candidates for the Board. Qualified candidates are those who, in the judgment of the Governance and Nominating Committee, possess certain personal attributes and a sufficient mix of experience and related attributes to assure effective service on the Board. The personal attributes of director nominees that the Governance and Nominating Committee considers include:

***Best Interests of All Shareholders.*** Each candidate must be prepared to represent the best interests of all Shareholders and not just one particular constituency;

***Integrity.*** Each candidate shall be an individual who has demonstrated integrity and ethics in his or her personal and professional life and has established a record of professional accomplishment in his or her chosen field;

***Independence.*** No candidate, or family member (as defined in NASDAQ rules) or affiliate or associate (as defined in federal securities laws) of a candidate, shall have any material personal, financial or professional interest in any present or potential competitor of the Company;

***Experience.*** Each candidate should possess professional and personal experiences and expertise relevant to our goals of being one of the world's leading northern bleached softwood kraft pulp producers and a significant producer of dimensional lumber, green energy and chemical by-products. Such candidate's experiences and expertise should also contribute to our pursuit of initiatives to generate additional revenues from the manufacture of by-products, such as chemicals, and the use of innovative cellulose technologies;

***Active Participation.*** Each candidate must be prepared to participate fully in Board activities, including active membership on at least one Board committee and attendance at, and active participation in, meetings of the Board and the committee(s) of which he or she is a member, and not have other personal or professional commitments that would, in the Governance and Nominating Committee's sole judgment, interfere with or limit his or her ability to do so;

***Collegiality.*** Each candidate should contribute positively to the existing chemistry and collegial culture among Board members; and

**Diversity.** Each candidate should contribute to the Board's overall diversity—diversity being broadly construed to mean a variety of viewpoints, perspectives, personal and professional experiences and backgrounds, such as nationality, gender and ethnicity differences.

The Board prefers a mix of backgrounds and experiences among its members. The Board does not follow any ratio or formula to determine the appropriate mix. Rather, it uses its judgment to identify and determine nominees whose backgrounds, attributes and experiences, taken as a whole, will contribute to high standards of Board service.

*Processes for Identifying Director Candidates*

Our Governance and Nominating Committee has two principal methods for identifying potential Board candidates (other than those proposed by Shareholders, as discussed below). First, such Committee solicits ideas for possible candidates from a number of sources, including other members of the Board, senior executives, individuals personally known to Board members and research. Additionally, the Governance and Nominating Committee may, from time to time, use its authority under its charter to retain, at our expense, one or more search firms to identify candidates (and to approve such firms' fees and other retention terms). The Governance and Nominating Committee did not retain a search firm during fiscal 2017.

Our Governance and Nominating Committee will also consider nominees recommended by Shareholders as candidates for Board membership. A Shareholder wishing to nominate a candidate for Board membership should provide written notice to the Governance and Nominating Committee in the care of the Secretary, Mercer International Inc., Suite 1120, 700 West Pender Street, Vancouver, B.C., Canada V6C 1G8. To nominate a candidate for election to the Board at an annual meeting, the notice must be received not less than 120 days before the first anniversary of the date of the Company's Proxy Statement released to Shareholders in connection with the annual meeting held in the prior year. The notice should contain information about both the nominee and the Shareholder making the nomination, including such information regarding each nominee

## **Table of Contents**

required to be included in a proxy statement filed pursuant to SEC rules and regulations and such other information sufficient to allow the Governance and Nominating Committee to determine if the candidate meets the criteria for Board membership described above. The Governance and Nominating Committee may require that the proposed nominee furnish additional information to determine that person's eligibility to serve as a director. All recommendations will be brought to the attention of the Governance and Nominating Committee.

### *Evaluation of Director Candidates*

The Governance and Nominating Committee will consider and evaluate all candidates identified through the processes described above, including incumbents and candidates proposed by Shareholders.

If, based upon the Governance and Nominating Committee's initial evaluation, the candidate continues to be of interest, members of the Committee will interview the candidate and communicate their evaluation to the rest of its members and the Executive Chairman and Chief Executive Officer. Additional meetings between the candidate and other members of the Governance and Nominating Committee and the Executive Chairman and Chief Executive Officer may also be arranged. Ultimately, background and reference checks will be conducted by the Governance and Nominating Committee.

As a result of its work and consideration of potential candidates, the Governance and Nominating Committee endeavors to maintain an evergreen list of potential candidates.

### *Recommendation and Nomination*

After consideration, the Governance and Nominating Committee will finalize its list of recommended candidates to the Board for its consideration. Candidates who are then recommended by the Governance and Nominating Committee and approved by our Board are included in our recommended slate of director nominees in our proxy statement.

With Mr. Lauritzen and Ms. Orr electing not to stand for re-election at the Meeting, the Governance and Nominating Committee reviewed a number of potential candidates and members of the Committee and the CEO met several candidates personally, both formally and socially. Based upon such reviews and meetings, the Committee recommended and the Board unanimously approved the nomination of both

Mr. Wallace and Ms. Welty for election to the Board at the upcoming Meeting.

### *Potential Future Changes to Nomination Process*

Our nomination policies are intended to provide a flexible set of guidelines for the effective functioning of our director nomination process. Our Governance and Nominating Committee reviews the nomination policy at least annually to consider and make such modifications as may be required to reflect our then needs and circumstances and to address any changes in applicable legal or listing standards. Our Governance and Nominating Committee may amend the nomination policy at any time, in which case the most current version will be available on our website.

## **Talent Management and Succession Planning**

In light of the importance of executive leadership, we have a succession planning process which is held at least semi-annually. The process encompasses a broad group of managers and executives up to and including the Chief Executive Officer.

Our Compensation and Human Resources Committee, together with our Chief Executive Officer and assisted by our Lead Director, reviews our executive succession planning procedures, including management development activities. We generally strive to appoint our most senior executives from within. To this end, individuals who are identified as having potential for senior executive positions are evaluated by the Compensation and Human Resources Committee. The careers of such persons are monitored to ensure that, over time, they have appropriate exposure to our Board and interact with the Board in various ways, including through participation in certain Board meetings and other Board-related activities and meetings with individual directors, both in connection with director visits to our mills and otherwise. In addition, selected executives are provided with continuing management education through attendance at senior level educational programs, courses and seminars.

### **Director Education**

#### *New Director Education*

Our new director orientation program covers our vision, strategies, risks, financial matters, internal controls, corporate governance practices and policies, succession planning and non-director compensation. As part of such orientation, new directors visit our mills to better understand our operations.

#### *Continuing Education*

Our continuing education program consists of regular visits to our operating facilities, meetings and social

## **Table of Contents**

engagements with our operating personnel, customer visits both in Europe and China and other meetings and visits on topical matters such as at research and development facilities. Most years, select directors, along with management representatives, attend meetings with customers and other market participants in China to broaden their understanding of this key market. We provide updates to our Board on relevant topics at meetings throughout the year. We also provide ongoing education to our directors through participation in the NYSE Board Program. We also reimburse directors who attend education programs and institutions for fees and related expenses.

## **Director Evaluation**

Our Board annually reviews the effectiveness of the Board, its committees and individual directors as part of its ongoing commitment to improve their oversight, guidance and review of senior management.

This evaluation process is conducted by our Governance and Nominating Committee, which conducts an annual evaluation of our Board, Board committees and directors. The evaluation also evaluates our Executive Chairman, CEO and Lead Director. The process is led by the Lead Director, who is also the Chair of the Governance and Nominating Committee. These evaluations help the Board develop priorities, form part of our assessment of the skills and competences needed by the Board to support our strategic objectives, consider potential director nominee candidates and refine our corporate governance practices.

## **Expectations of our Directors**

In assessing our director effectiveness, we consider the following to be key criteria in each individual's performance:

### **DEDICATION**

Prioritizes our needs

Commits fully to the accountability and success of our Board

Seeks to continuously improve and raise the bar

### **ENGAGEMENT**



Engages fully and makes a meaningful contribution at all meetings

Actively promotes collegiality

Considers the input of others and provides thoughtful advice

### **INTEGRITY**

Works for our greater good

Demonstrates high ethical standards

Upholds our values

### **COURAGE**

Appropriately challenges the status quo

Can make tough decisions

Champions change

**BUSINESS ACUMEN**

Focuses on the right performance outcomes

Balances short-, medium- and longer-term objectives

Exhibits sound judgment and thoughtfully balances trade-offs

**STRATEGIC ORIENTATION**

Discusses pros and cons of strategic initiatives

Assesses global opportunities for alignment with our overall strategy

## **Table of Contents**

### **Shareholder Communications with Board**

Shareholders who wish to communicate with the Board (other than with respect to a complaint or concern regarding accounting, internal accounting controls or auditing matters which must be directed to the Audit Committee as described below) should send written correspondence to the Board in the care of the Secretary, Mercer International Inc., Suite 1120, 700 West Pender Street, Vancouver, B.C., Canada V6C 1G8. The correspondence should indicate that the person sending the correspondence is a Shareholder and set out the purpose of such communication. The secretary will: (i) forward the correspondence to the director to whom it is addressed or, in the case of correspondence addressed to the Board generally, to the Lead Director; (ii) attempt to handle the inquiry directly where it is a request for information about the Company; or (iii) not forward the correspondence if it is primarily commercial in nature or if it relates to an improper topic. All such correspondence will be summarized for the Board periodically, and each such correspondence will be made available to any director upon request.

### **Complaint Procedure**

The Audit Committee has established procedures for: (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential and anonymous submission by the Company's employees and others of concerns regarding questionable accounting or auditing matters. A person wishing to notify the Company of such a complaint or concern should send a written notice thereof, marked "Private & Confidential", to the Chair of the Audit Committee, Mercer International Inc., Suite 1120, 700 West Pender Street, Vancouver, B.C., Canada V6C 1G8.

### **Shareholding Guideline for Non-Employee Directors**

We have a target shareholding guideline in place for our non-employee directors which provides each non-employee director should, within three years of becoming a director, own a minimum number of Shares which is equal in value to three times the amount of their annual cash retainer. As of the Record Date, all of our non-employee directors who have been directors for at least three years as of such date, including our Lead Director, met the guideline amount.

### **Review and Approval of Related Party Transactions**

The Board recognizes that related party transactions can present a heightened risk of potential or actual

conflicts of interest and may create the appearance that decisions are based on considerations other than our and our Shareholders' best interests. As a result, the Board prefers to avoid related party transactions. However, the Board recognizes that there are situations where related party transactions may be in, and not inconsistent with, our and our Shareholders' best interests.

As a result, pursuant to our Governance Guidelines and its Charter, the Board has delegated to the Audit Committee responsibility for reviewing and approving the terms and conditions of all proposed transactions between us, any of our officers, directors or Shareholders who beneficially own more than 5% of our outstanding Shares, or relatives or affiliates of any such officers, directors or Shareholders, to ensure that such related party transactions are fair and are in our overall best interest and that of our Shareholders.

In the case of transactions with employees, a portion of the review authority is delegated to supervising employees pursuant to the terms of our Code of Business Conduct and Ethics.

The Audit Committee has not adopted any specific procedures for conduct of reviews and considers each transaction in light of the facts and circumstances. In the course of its review and approval of a transaction, the Audit Committee considers, among other factors it deems appropriate:

whether the transaction is fair and reasonable to us;

the business reasons for the transaction;

whether the transaction would impair the independence of one of our non-employee directors; and

whether the transaction is material, taking into account the significance of the transaction.

The Audit Committee has the authority to approve a related party transaction if the committee determines that the transaction is on terms that are not inconsistent with our and our Shareholders' best interests.

Any member of the Audit Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote respecting approval or ratification of the transaction, provided, however, that such director may be counted in determining the presence of a quorum at a meeting of the committee that considers the transaction.

**Table of Contents****DIRECTORS COMPENSATION****Directors Compensation**

During the 2017 fiscal year, our non-employee directors received the following cash retainers and grants of restricted stock under the 2010 Stock Incentive Plan (the "2010 Plan"):

	<b>Cash Retainer</b>	<b>Restricted Stock Awards</b>
Non-Employee Directors (other than the Lead Director)	\$ 60,000	\$ 70,918 <sup>(1)</sup>
Lead Director	\$ 100,000	\$ 101,303 <sup>(1)</sup>
Chairman of Audit Committee	\$ +20,000	
Chairman of Compensation and Human Resources Committee	\$ +20,000	
Chairman of Governance and Nominating Committee	\$ +10,000	
Chairman of Environmental, Health and Safety Committee	\$ +10,000	

(1) 8,585 and 6,010 shares of restricted stock were granted to our lead director and each of our non-employee directors, respectively, following our annual meeting of Shareholders held in 2017 and the restrictions thereon shall lapse on the first anniversary of the grant date, except as otherwise determined by the Compensation and Human Resources Committee. Pursuant to our 2010 Plan, Ms. Morfitt, who was initially elected at such meeting, received 5,000 shares of restricted stock in 2017. The grant date fair value is based on a Share value of \$11.80, being the trading price at the time of grant multiplied by the number of stock awards.

Our lead director and other non-employee directors are annually awarded restricted stock with a grant date fair value of \$100,000 and \$70,000, respectively.

In fiscal 2017, we also reimbursed our directors for expenses incurred in connection with their duties as our directors. Our directors do not receive fees for attendance at meetings of the Board or a committee.

The Compensation and Human Resources Committee is responsible for reviewing annually our director compensation practices in relation to those of our peer group companies. Any changes to be made to our director compensation practices must be recommended by the Compensation and Human Resources Committee for approval by the full Board.

**Director Compensation Table**

The following table sets forth information regarding compensation paid to our non-employee directors in their capacity as directors during the fiscal year ended December 31, 2017. Neither Mr. Lee, as our Executive Chairman, nor Mr. Gandossi, as our Chief Executive Officer, received any additional compensation for their respective services as directors.

<b>Name</b>	<b>Fees</b>	<b>Stock</b>	<b>Option</b>	<b>Non-Equity</b>	<b>Change in</b>	<b>All Other</b>	<b>Total</b>
	<b>Earned or</b>	<b>Awards<sup>(1)(2)</sup></b>	<b>Awards</b>	<b>Incentive Plan</b>	<b>Pension Value</b>	<b>Compensation</b>	<b>(\$)</b>
					<b>and Nonqualified</b>	<b>(\$)</b>	

	<b>Paid in</b>	<b>(\$)</b>	<b>(\$)</b>	<b>Compensation</b>	<b>Deferred</b>		
	<b>Cash</b>			<b>(\$)</b>	<b>Compensation</b>		
	<b>(\$)</b>				<b>Earnings</b>		<b>(\$)</b>
Eric Lauritzen	110,000	101,303	-	-	-	-	211,303
William D. McCartney	80,000	70,918	-	-	-	-	150,918
James Shepherd	70,000	70,918	-	-	-	-	140,918
Bernard Picchi	80,000	70,918	-	-	-	-	150,918
Keith Purchase	60,000	70,918	-	-	-	-	130,918
Nancy Orr	60,000	70,918	-	-	-	-	130,918
Marti Morfitt	35,000	59,000	-	-	-	-	94,000
Graeme Witts <sup>(3)</sup>	25,000	-	-	-	-	-	25,000

- (1) Stock awards granted to non-employee directors consisted of shares of restricted stock. The amounts shown represent the aggregate grant date fair value for shares of restricted stock, as determined under the Financial Accounting Standards Board Accounting Standards Codification Topic 718 ( ASC 718 ), excluding any forfeiture adjustments. For a discussion of the valuation assumptions, see Note 9 to our consolidated financial statements included in the 2017 Annual Report.
- (2) The grant date fair value is based on a Share value of \$11.80 per Share, being the trading price at the time of grant, multiplied by stock awards of 6,010 shares (5,000 shares in the case of Ms. Morfitt) of restricted stock which were granted to each of our non-employee directors, or 8,585 shares of restricted stock to our Lead Director, after our annual meeting of Shareholders held in 2017, provided that such non-employee director was either elected to the Board for the first time at such annual meeting or not elected to the Board for the first time at the 2017 annual meeting but will continue to serve as a member of the Board after the meeting and has been a director for at least six months.
- (3) Mr. Witts did not stand for reelection at our annual meeting in 2017.

**Table of Contents**

**EXECUTIVE OFFICERS**

The following provides certain background information about each of our executive officers other than Jimmy S. H. Lee and David M. Gandossi, whose information appears above under Nominees for Election as Directors :

**David K. Ure**, age 51, returned to Mercer in September 2013, assuming the role of Senior Vice President, Finance from September 2013 to July 2015 and the role of Chief Financial Officer and Secretary from July 2015. Prior to serving as Vice President, Finance of Sierra Wireless Inc., Mr. Ure was Vice President, Controller at Mercer from 2006 to 2010. He has also served as Controller at various companies including Catalyst Paper Corp., Pacifica Papers Inc., and Trojan Lithograph Corporation, as well as Chief Financial Officer and Secretary of Finlay Forest Industries Inc. Mr. Ure has over 15 years experience in the forest products industry. He also has served on various non-profit boards in the neuro developmental research, child disability and family support spaces and currently sits on the boards of Kids Brain Health Network Inc., Semiahmoo House Society and Peninsula Estates Housing Society. He holds a Bachelor of Commerce in Finance from the University of British Columbia, Canada and is a member of the Chartered Professional Accountants of Canada.

**Adolf Koppensteiner**, age 57, was appointed Chief Operating Officer effective January 1, 2018 and previously has served as Managing Director, Operations and Technical of the Stendal mill since October 2013, prior to which he served as Mill Manager at the Rosenthal mill since joining Mercer in 2007. In the past, Mr. Koppensteiner was Managing Director of Kvaerner Central Europe, where he was responsible for sales and service for fifteen years. His whole career has been in the pulp and paper industry, where he has held a variety of positions building up significant experience in engineering, project work, and pulp mill start-ups, as well as the development and optimization of operating processes.

**Leonhard Nossol**, age 60, has served as our Group Controller for Europe since August 2005. He has also been Managing Director of Rosenthal since 1997 and the sole Managing Director of Rosenthal since 2005. Before joining Mercer, Mr. Nossol was Director, Finance and Administration for a German household appliance producer from 1992 to 1997. Prior to this, he was Operations Controller at Grundig AG (consumer electronics) in Nürnberg. Mr. Nossol has

been a member of the board of directors of the Pulp and Paper Association of Germany since 2014 and was elected as the speaker of the forest and wood unit of such association since 2014. He has been a member of the German Industry Federation's (BDI) Tax Committee since 2003. He was elected President of the German Wood Users Association (AGR) in 2013. He is also a member of the Scientific Advisory Board of Germany's Thünen Institute, the federal research institute for forestry, fishery and agriculture. Mr. Nossol holds a Political Science degree from Freie Universität Berlin and a degree in Business Management from the University of Applied Sciences in Berlin.

**Wolfram Ridder**, age 56, has served as Vice President of Business Development since 2005, prior to which he served as Managing Director at Mercer's Stendal mill from 2001 to 2005. Mr. Ridder also served as Vice President Pulp Operations, Assistant to CEO from 1999 to 2005 and Assistant Managing Director at the Rosenthal mill from 1995 to 1998. Prior to joining Mercer, Mr. Ridder worked as a Scientist for pulping technology development at the German Federal Research Center for Wood Science and Technology in Hamburg from 1988 to 1995. Mr. Ridder has a Master of Business Administration and a Master of Wood Science and Forest Product Technology from Hamburg University.

**Richard Short**, age 50, has served as Vice President, Controller since February 2014 and as Controller from November 2010 to February 2014, prior to which he served as Director, Corporate Finance since joining Mercer in

2007. Previous roles include Controller, Financial Reporting from 2006 to 2007 and Director, Corporate Finance from 2004 to 2006 with Catalyst Paper Corporation and Assistant Controller at the Alderwoods Group Inc. Mr. Short holds a Bachelor of Arts in Psychology from the University of British Columbia and has been a member of the Chartered Professional Accountants of Canada since 1993.

***Eric X. Heine***, age 54, has served as Vice President of Sales and Marketing for North America and Asia since June 2005. Mr. Heine was previously Vice President Pulp and International Paper Sales and Marketing for Domtar Inc. from 1999 to 2005. Mr. Heine has over twenty-five years of experience in the pulp and paper industry, including developing strategic sales channels and market partners to build corporate brands. He holds a Bachelor of Science in



**Table of Contents**

Forestry (Wood Science) from the University of Toronto, Canada.

**Genevieve Stannus**, age 48, has served as Treasurer since July 2005, prior to which she served as Senior Financial Analyst since joining Mercer in August 2003. Prior to her role at Mercer, Ms. Stannus held Senior Treasury Analyst positions with Catalyst Paper Corporation and Pacifica Papers Inc. Ms. Stannus has over twenty years of experience in the forest products industry. She is a member of the Chartered Professional Accountants of Canada.

**Brian Merwin**, age 44, has served as Vice President, Strategic Initiatives since February 2009. Mr. Merwin previously held roles within Mercer such as Director, Strategic and Business Initiatives, and Business Analyst. He was a key member of the Celgar Energy Project, and was instrumental in the development of the B.C. Hydro energy purchase agreement and securing the ecoENERGY grant. Mr. Merwin has a Master of Business Administration from the Richard Ivey School of Business in Ontario, Canada and a Bachelor of Commerce degree from the University of British Columbia, Canada.

## SHARES OUTSTANDING AND OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

There were 65,170,531 Shares issued and outstanding on the Record Date. Each Share is entitled to one vote on each matter at the Meeting.

### Share Ownership of Certain Beneficial Owners

The following table sets forth information regarding the beneficial ownership of our Shares as of the Record Date by each Shareholder known by us to own more than five percent (5%) of our outstanding Shares other than as set forth under *Share Ownership of Directors and Executive Officers* below. Such information is based solely upon statements made in filings with the SEC or other information we believe to be reliable.

Name and Address of Owner	Number of Shares Owned	Percent of Outstanding Shares <sup>(1)</sup>
Peter R. Kellogg <sup>(2)</sup>  c/o IAT Reinsurance Co. Ltd.  48 Wall Street, 30 <sup>th</sup> Floor  New York, NY 10005	23,000,000 <sup>(2)</sup>	35.3%
Gates Capital Management, L.P. <sup>(3)</sup>  1177 Ave. of the Americas  46 <sup>th</sup> Floor	4,801,549 <sup>(3)</sup>	7.4%

New York, NY 10036  
Dimensional Fund Advisers LP<sup>(4)</sup>

Building One

4,297,061<sup>(4)</sup>

6.6%

6300 Bee Cave Road

Austin, TX 78746

- (1) The percentage of outstanding Shares is calculated out of a total of 65,170,531 Shares issued and outstanding on the Record Date.
- (2) Based on a Form 4 filed on January 8, 2018, Mr. Kellogg holds 410,000 Shares directly and 13,475,000 Shares indirectly via IAT Reinsurance Co. Ltd.
- (3) Based on Schedule 13G/A filed on February 14, 2018 jointly with Gates Capital Management GP, LLC, Gates Capital Management, Inc. and Jeffrey L. Gates, in which each of the aforementioned entities has shared voting power over 4,801,549 Shares.
- (4) Based on Schedule 13G/A filed on February 9, 2018.

**Table of Contents****Share Ownership of Directors and Executive Officers**

The following table sets forth information regarding the ownership of our Shares as of the Record Date by (i) each of our directors and nominees for director; (ii) each of our named executive officers (each, an NEO and, collectively, the NEOs), being our Executive Chairman, Chief Executive Officer, Chief Financial Officer and two other most highly compensated executive officers; and (iii) all of our directors, director nominees and executive officers as a group. Unless otherwise indicated, each person has sole voting and dispositive power with respect to the Shares set forth opposite his name. Each person has indicated that he or she will vote all Shares owned by him or her in favor of each of the proposals to be considered at the Meeting.

Name of Owner	Number of Shares Owned	Percent of Outstanding Shares <sup>(1)</sup>
Jimmy S.H. Lee <sup>(2)</sup>	1,747,565	2.7%
David M. Gandossi <sup>(2)</sup>	127,765	*
Eric Lauritzen <sup>(3)</sup>	52,085	*
William D. McCartney <sup>(4)</sup>	63,010	*
Bernard Picchi <sup>(4)</sup>	56,010	*
James Shepherd <sup>(4)</sup>	31,450	*
Keith Purchase <sup>(4)</sup>	40,010	*
Nancy Orr <sup>(4)</sup>	24,585	*
Marti Morfitt	5,000	*
Alan Wallace	-	-
Linda Welty	-	-
David K. Ure <sup>(2)</sup>	35,438	*
Wolfram Ridder <sup>(2)</sup>	39,537	*
Leonhard Nossol <sup>(2)</sup>	52,927	*
Directors, Director Nominees and Executive Officers as a Group (19 persons)	2,429,278	3.7%

\* Less than one percent (1%) of our issued and outstanding Shares on the Record Date.

(1) Based on 65,170,531 Shares outstanding on the Record Date.

(2) Does not include performance share units granted under the 2010 Plan that have not vested as of the Record Date.

(3) In June 2017, 8,585 restricted shares were granted to Mr. Lauritzen in connection with his role as the Lead Director of Mercer. These Shares vest and become non-forfeitable in June 2018 unless a change in control of the Company occurs prior thereto.

(4) In June 2017, 6,010 restricted shares were granted to each non-employee director (other than our Lead Director) in connection with his or her role as a non-employee director of Mercer. These Shares vest and become non-forfeitable in June 2018 unless a change in control of the Company occurs prior thereto.

Table of Contents

**REPORT OF THE AUDIT COMMITTEE**

Our Audit Committee monitors and oversees our financial reporting process on behalf of our Board. Management has primary responsibility for our financial statements and the financial reporting process, including the Company's system of internal controls.

The Audit Committee has met and held discussions with management and our independent registered public accounting firm, PricewaterhouseCoopers LLP, regarding the fair and complete presentation of our results and the assessment of our internal control over financial reporting. The Audit Committee has discussed significant accounting policies we applied in our financial statements, as well as alternative treatments. Management represented to the Audit Committee that our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and PricewaterhouseCoopers LLP. The Audit Committee discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1 AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

In addition, the Audit Committee has discussed with PricewaterhouseCoopers LLP the registered public accounting firm's independence from the Company and its management, including the matters in the written disclosures required by Independence

Standards Board Standard No. 1. The Audit Committee also has considered whether PricewaterhouseCoopers LLP's provision of non-audit services to the Company is compatible with the registered public accounting firm's independence. The Audit Committee has concluded that PricewaterhouseCoopers LLP is independent from the Company and its management.

The Audit Committee discussed with PricewaterhouseCoopers LLP the overall scope and plans for their respective audits. The Audit Committee met with PricewaterhouseCoopers LLP, with and without management present, to discuss the results of their examinations, the evaluations of our internal controls, and the overall quality of our financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board, and the Board approved, that the audited financial statements be included in the Form 10-K for filing with the SEC.

The Audit Committee has selected and appointed, and the Board has ratified, PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm.

Submitted by the members of the Audit Committee.

William D. McCartney, Chair

Nancy Orr

Marti Morfitt

*The report of the Audit Committee does not constitute soliciting material and shall not be deemed to be filed or incorporated by reference into any other Company filing under the Securities Act of 1933, as amended (the Securities Act ) or the Securities Exchange Act of 1934, as amended (the Exchange Act ), except to the extent that the Company specifically incorporates the report by reference therein.*

**Table of Contents**

**COMPENSATION AND HUMAN RESOURCES COMMITTEE INTERLOCKS AND INSIDER  
PARTICIPATION**

No member of the Compensation and Human Resources Committee is a current or former employee of the Company or has had any relationship requiring disclosure by the Company under the SEC's rules requiring disclosure of certain relationships and related party transactions. None of our current executive officers has ever served as a

member of the board or compensation committee (or other board committee performing equivalent functions) of any other entity that has or has had one or more of its executive officers serve as a member of our Board or our Compensation and Human Resources Committee.

**INDEPENDENT COMPENSATION CONSULTANTS**

The Compensation and Human Resources Committee has the authority to engage independent compensation consultants. It has in the past and may in the future engage an outside consultant to assist the Committee in assessing the Company's executive compensation programs. In 2017, in connection with its review of executive compensation, the Committee engaged Willis Towers Watson ( WTW ) as its compensation consultant. WTW was paid a fee of \$33,531 for such consultation.

In furtherance of maintaining the independence of the committee's compensation consultants, the committee has sole authority to retain, terminate and obtain the advice of any selected consultant. Additionally, the

committee's consultant will not perform any services for management unless approved by the committee.

In 2017, WTW provided ongoing annual services in connection with the salaried pension plan for our Celgar mill and was paid \$251,083 for such services. Such services are ongoing until terminated by us and have been provided by WTW for several years.

Based on the policies and procedures implemented by the Committee and by WTW to ensure the objectivity of WTW's executive compensation consulting services, the Committee believes that the consulting advice it received from WTW is objective and not influenced by WTW's other relationships with us.

**COMPENSATION DISCUSSION AND ANALYSIS**

**REPORT OF THE COMPENSATION AND HUMAN RESOURCES COMMITTEE**

The Compensation and Human Resources Committee has reviewed and discussed with management the following Compensation Discussion and Analysis. Based on such review and discussions, the Compensation and Human Resources Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement and be incorporated by reference into our 2017 Form 10-K.

Submitted by the members of the Compensation and Human Resources Committee.

Bernard Picchi, Chairman

James Shepherd

Nancy Orr

Marti Morfitt

**Table of Contents**

**COMPENSATION DISCUSSION AND ANALYSIS**

This Compensation Discussion and Analysis provides information on our executive compensation programs. It discusses considerations and reasons driving the Compensation and Human Resources Committee's decisions on compensation for our NEOs in 2017, as well as the key objectives, policies, elements and designs of our executive compensation program. In this discussion Committee or Compensation Committee means the Compensation and Human Resources Committee.

**Named Executive Officers (NEOs)**

Jimmy S.H. Lee, Executive Chairman and Director

Wolfram Ridder, Vice President of Business Development; and

David M. Gandossi, President, Chief Executive Officer and Director;

Leonhard Nossol, Group Controller for Europe.

David K. Ure, Chief Financial Officer and Secretary;

**Foreign Currency Compensation**

All of the cash compensation, being primarily salary and annual bonuses, for our NEOs is paid in either euros (as to Messrs. Lee, Nossol and Ridder) or Canadian dollars (as to Messrs. Gandossi and Ure). Such amounts are then translated into dollars using the average Federal Reserve Bank of New York spot rate for the appropriate period. As a result, reported compensation amounts decline in periods when the dollar strengthens against the euro and Canadian dollar and conversely increase when the dollar declines versus such currencies.

Amounts reported in the Executive Compensation Tables are in dollars.

**Timing of Executive Compensation Decisions**

Our executive variable compensation decisions are generally made after the end of our fiscal year and when our financial statements for such year are finalized. Thus, in February 2018, the Committee approved bonuses and awards for fiscal 2017, together with fixed base salaries for 2018. During each year, the Committee monitors performance and evaluates comparison group compensation data which it uses to finalize awards and decisions made after the fiscal year end.

In this regard, it is important to note that the Summary Compensation Table appearing on page 41 and the Grants of Plan-Based Awards Table appearing on page 43 only reflect plan-based awards actually issued in fiscal 2018, which were based on fiscal 2017 performance.

**Fiscal 2017 - Compensation Decisions**



In 2017, we had very strong operating and financial performance, achieved record pulp, energy and chemical production and sales volumes, expanded our business and increased our quarterly cash dividend.

In fiscal 2017, we:

generated net income of \$70.5 million and Operating EBITDA of \$252.3 million, a 102% and 36% increase, respectively, over the prior year;

strengthened our balance sheet and increased our cash position to \$143.3 million from \$136.6 million and our working capital to \$421.9 million from \$308.7 million, respectively, from the start of the year;

acquired, in April 2017, the Friesau Facility, one of Germany's largest sawmills and a bio-mass power plant;

reduced debt service costs and increased our financial flexibility through the issuance of \$300 million of 5.5% senior notes due 2026 and, in January 2018, the redemption of \$300 million of our 7.75% senior notes due 2022; and

authorized three quarterly cash dividends of \$0.115 per share for the first three quarters of 2017 and an increased dividend of \$0.125 per share for the fourth quarter of 2017.

**Table of Contents**

The table below summarizes our selected key financial and operating results for 2017 compared to 2016.

	<b>Year Ended December 31,</b>		<b>Change (%)</b>
	<b>2017</b>	<b>2016</b>	
<b>(in millions, other than where indicated)</b>			
<b><i>Pulp Segment</i></b>			
Pulp production ( 000 ADMTs)	1,507.0	1,428.4	6
Pulp sales ( 000 ADMTs)	1,515.1	1,428.7	6
Energy production ( 000 MWh)	1,888.3	1,812.6	4
Surplus energy sales ( 000 MWh)	822.1	785.8	5
<b><i>Wood Products Segment</i></b>			
Lumber production (MMfbm)	281.3		
Lumber sales (MMfbm)	213.5		
Energy production ( 000 MWh)	73.7		
Surplus energy sales ( 000 MWh)	73.7		
<b>Statement of Operations Data:</b>			
Pulp segment revenues	\$ 1,071.7	\$ 931.6	15
Wood products segment revenues	97.4		
Total revenues	\$ 1,169.1	\$ 931.6	25
Costs and expenses	\$ 1,002.1	\$ 817.9	23
Pulp segment operating income	\$ 169.8	\$ 123.2	38
Wood products segment operating income	5.6		
Corporate and other operating loss	(8.3)	(9.5)	13
Total operating income	\$ 167.1	\$ 113.7	47
Operating EBITDA	\$ 252.3	\$ 185.7	36
Net income	\$ 70.5	\$ 34.9	102
<b>December 31,</b>			
<b>2017 2016</b>			
<b>(in millions, other than ratio)</b>			
<b>Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 143.3	\$ 136.6	5
Working capital	\$ 421.9	\$ 308.7	37
Net debt	\$ 498.2	\$ 481.0	4
Total equity	\$ 550.7	\$ 379.1	45
Net debt to equity ratio	0.9 to 1	1.3 to 1	(31)

	<b>Year Ended December 31,</b>		<b>Change (%)</b>
	<b>2017</b>	<b>2016</b>	
<b>(in millions, other than where</b>			

indicated)

**Share Price and Dividend Data**

Price per share as of fiscal year end <sup>(1)</sup>	\$	14.30	\$	10.65	34
Dividends declared	\$	30.6	\$	29.8	3

(1) Represents the closing market price of our shares of common stock on the NASDAQ Global Select Market on December 29, 2017 and December 30, 2016, respectively.

**Table of Contents**

In accordance with our emphasis on pay for performance, fiscal 2017 compensation awarded to our NEOs reflected our overall strong operating and financial performance, improvements to liquidity and our balance sheet, expansion of our business and initiatives to improve our business through cost reduction measures and new capital projects. In making decisions on performance-based compensation for fiscal 2017, the Committee also weighed and considered our generally favorable performance against our Peer Group Companies (as hereinafter defined), the increase in our share price in

2017 compared to 2016 and the return of capital to shareholders pursuant to our regular quarterly dividends.

The Committee does not rely upon any predetermined formulas or limited set of criteria when it evaluates the performance of our NEOs, but rather focuses on individual objectives and their effects in respect of our overall goals.

*Salaries.* In February 2018, the Committee adjusted the salaries of our NEOs for 2018 as follows:

<b>Name</b>	<b>2018 Base Salary</b>	<b>2017 Base Salary</b>	<b>(%) Increase</b>
Jimmy S.H. Lee	\$ 523,788	\$ 523,788	-
David M. Gandossi	\$ 610,655	\$ 511,437	19.4
David K. Ure	\$ 351,767	\$ 340,529	3.3
Wolfram Ridder	\$ 364,293	\$ 355,407	2.5
Leonhard Nossol	\$ 327,342	\$ 319,358	2.5

*Short-Term Annual Cash Bonuses.* In making its compensation decisions regarding annual bonuses for our NEOs in respect of their fiscal 2017 performance, the Committee reviewed and considered:

our financial performance (including Operating EBITDA, net income and Share price) relative to prior performance, budgeted forecasts and to Peer Group Companies;

new strategic initiatives and capital projects to improve efficiency, reduce costs and improve our operations and our expansion into the lumber industry; and

each NEO's achievement of their individual and our overall 2017 performance objectives.

*Executive Chairman and Chief Executive Officer Performances.* The Committee evaluated both Messrs. Lee's and Gandossi's achievement of their 2017 performance objectives and leadership roles and guidance in, among other things:

improving mill operations and efficiencies and strong operating performance generated \$252.3 million in Operating EBITDA and \$70.5 million in net income;

continuing to lead and drive our focus on strategic initiatives, including expanding our business into the lumber industry through the acquisition of the Friesau Facility and those related to growth opportunities to expand our businesses in areas such as sawmilling, wood processing and harvesting activities and bio-energy generation;

increasing liquidity and improving our balance sheet; and

a continued focus on strong safety and environmental performance.

**Table of Contents**

Based upon the foregoing performance review of our NEOs, the Committee awarded short-term annual cash bonuses for fiscal 2017, as set forth in the following table:

<b>Name</b>	<b>Cash Bonus<sup>(1)(2)</sup></b>	<b>Percentage of 2017 Base Salary</b>
Jimmy S.H. Lee	\$ 480,280	92%
David M. Gandossi	\$ 385,505	75%
David K. Ure	\$ 302,236	87%
Wolfram Ridder	\$ 92,666	26%
Leonhard Nossol	\$ 83,625	26%

(1) Awarded in February 2018 in respect of fiscal 2017.

(2) For awards declared in February 2017 in respect of fiscal 2016, see the Summary Compensation Table on page 41 of this Proxy Statement.

In local currency terms, the bonuses paid to our NEOs for each of the last two years and the percentage changes were as follows:

<b>Name</b>	<b>2017 Cash Bonus (Local Currency)</b>	<b>2016 Cash Bonus (Local Currency)</b>	<b>Change from 2016 to 2017 (%)</b>
Jimmy S.H. Lee	425,000	425,000	-
David M. Gandossi	C\$ 500,000	C\$ 485,000	3
David K. Ure	C\$ 392,000	C\$ 135,000	190
Wolfram Ridder	82,000	75,000	9
Leonhard Nossol	74,000	61,000	21

The bonuses paid to our NEOs in respect of fiscal 2017 reflect the Committee's assessment of the individual and overall Company factors discussed above for such fiscal year. In respect of Mr. Ure, it also included the Committee's re-assessment of his bonuses for prior years.

*Incentive Equity Grants or Awards.* Our 2010 Plan allows the Committee to grant equity awards to our NEOs in the form of options, stock appreciation rights, restricted stock, restricted stock rights, performance shares and performance share units.

In 2014, the Committee implemented a long-term incentive compensation program (the "LTIP") which primarily provided for the granting of performance stock units, or PSUs, for our executives, including our NEOs.

Our PSUs vest after a three-year period and, as such, are designed to reward sustained performance over the period, rather than over a single year.

We grant our executives long-term performance based compensation, primarily in the form of PSUs. We believe PSUs incentivize executives to drive long-term performance, thereby aligning our executives' interests with the

long-term interest of Shareholders.

Although the value of PSUs is impacted by our Share price during the vesting period, PSUs serve to retain executives as they are generally perceived by the recipients as being more valuable than stock options.

Pursuant to the LTIP, we make annual grants of PSUs to our executives that vest based on the Committee's assessment of the achievement of certain prescribed three-year performance criteria (the Performance Criteria) comprised of:

Absolute Return on Average Assets ;

Total Shareholder Return ; and

New Business Initiatives .

Each element is weighted equally. To incentivize performance, each component of Performance Criteria has a sliding scale so that an executive can achieve from 0% to 200% of the target award amount. See Narrative Disclosure to Grants of Plan-Based Awards Table on page 44 for a discussion of such Performance Criteria.

The Committee assesses such Performance Criteria based upon the audited financial statements of a completed three year performance period.

**Table of Contents**

The Committee believes that: (i) having a multi-year performance period increases executive focus on long-term performance and better aligns the interests of our executives with our Shareholders; and (ii) the three components of Performance Criteria are important measures of our overall business performance.

The annual granting of PSUs ensures the continuity of these incentives, as the performance periods of PSUs granted in different years overlap and expired or vested awards are replaced each year with new grants. Each PSU is equivalent to one Share. As a result, the number of PSUs issued to executives was 200% of the target level, being the maximum amount of Shares that our executives may earn.

**2017 PSU Grant**

In 2017, the Committee issued an aggregate of 542,788 PSUs (the 2017 PSUs) to our executives which are eligible to vest over a three-year performance period ending on December 31, 2019.

The following table sets forth the target level and number of 2017 PSUs awarded to our NEOs in 2017:

<b>Name</b>	<b>Target Level for 2017 PSUs<sup>(1)(2)</sup></b>	<b>Target Level as a Percentage of 2017 Base Salary<sup>(1)</sup></b>	<b>Maximum 2017 PSUs<sup>(1)(2)</sup></b>	<b>Maximum 2017 PSUs as a Percentage of 2017 Base Salary<sup>(1)</sup></b>
Jimmy S.H. Lee	40,885	100	81,770	200
David M. Gandossi	42,592	100	85,184	200
David K. Ure	19,166	67	38,332	134
Wolfram Ridder	13,871	50	27,742	100
Leonard Nossol	12,464	50	24,928	100

(1) Each 2017 PSU awarded on February 23, 2017 was valued at \$12.00, which was the closing market price of the Shares on the date of the award.

(2) These awards are eligible to vest after December 31, 2019, based upon the Performance Criteria.

**Vesting of 2015 PSUs**

The three-year performance period for 436,420 PSUs (the 2015 PSUs) awarded by the committee in 2014 to our executives, including our NEOs, ended on December 31, 2017.

In February 2018, the Board, based on the recommendation of the Committee, approved the vesting and awarding of 153,243 Shares to our executives (including our NEOs) pursuant to the 2015 PSUs. This vesting represents the Committee's assessment of achievement against the three Performance Criteria as follows:



<b>Component</b>	<b>Achievement to Target</b>
Absolute Return on Average Assets	96%
Total Shareholder Return	55%
New Business Initiatives	70%

The vesting on a weighted basis was equal to 74% of the potential share award within a range of 0% to 200%.

### **Compensation Framework and Components**

Our compensation framework for our NEOs is principally performance-based to support our overall business objectives and increase long-term Shareholder value. Our executive compensation program provides that a significant percentage of compensation awarded to our NEOs, especially our Executive Chairman and CEO, be variable, performance-based compensation and at risk .

We believe that it is appropriate for certain components of compensation to decline during periods of economic stress, reduced Operating EBITDA and earnings and significantly lower Share prices and to increase during periods of increased Operating EBITDA and earnings and higher Share prices.

**Table of Contents**

Our executive compensation program is designed to achieve the following key objectives using the following principles:

Compensation Objectives	Compensation Principles
<p>Attract and retain top talent by competing effectively for high quality individuals whose efforts and judgments are vital to our continued success.</p>	<p><i>Market Competitiveness.</i> Total compensation levels should be competitive and at market median with other comparable companies operating within the forest products industry and other companies with which the Company competes for executive talent.</p>
<p>Create an environment in which our executives are motivated to achieve and maintain superior performance levels and goals consistent with our overall business strategy.</p>	<p><i>At Risk Incentive Pay.</i> A greater percentage of compensation for senior management should be tied to performance against measurable objectives, the majority of which are directly tied to our performance, to achieve payouts.</p>
<p>Reward and compensate our executives for their contribution to our overall success and for their individual performance during the relevant fiscal year.</p>	<p><i>Pay-for-Performance.</i> Compensation should be linked to both individual and overall Company performance.</p>
<p>Align the interests of our executives with the long-term interests of our Shareholders.</p>	<p><i>Shareholder Alignment.</i> Rewards should be linked to the creation of long-term Shareholder value through the use of equity-based awards as a meaningful portion of our executives' compensation.</p>
	<p><i>Flexible Short-Term and Long-Term Incentives.</i> Fixed and variable and short and long-term compensation programs should be balanced to reinforce a performance-based culture.</p>
	<p><i>Simple Pay Programs.</i> Overall compensation simplicity should be maintained to ensure broad employee understanding and acceptance and control costs.</p>

*Clear Communication.* Compensation should clearly communicate the desired behavior and use incentive pay programs to reward the achievement of performance goals by executives.

## **Compensation Mix**

We seek to accomplish our executive compensation objectives through an appropriate mix of short-term and long-term compensation, by providing a larger percentage of our executive officers' total compensation opportunity in the form of equity compensation and by ensuring that a significant portion of our executive officers' total pay opportunity is in the form of performance-based or at risk compensation.

In general, employees with more ability to directly influence overall business performance have a greater portion of:

variable, performance-based pay at risk; and

overall compensation provided through long-term incentives and equity incentive programs.

*Fixed vs. Performance-based Compensation.* We believe our mix of fixed (primarily base salary) and a significant weighting of performance-based compensation (primarily annual cash incentive bonuses and PSUs), supports our overall pay-for-performance culture and drives superior business performance. The percentage of an executive's compensation opportunity that is performance-based, versus fixed, is based primarily on the employee's role.

**Table of Contents**

*Short-term vs. Long-term Compensation.* We believe our total compensation mix of short-term (primarily base salary and annual cash incentive bonuses) along with long-term (primarily PSUs) incentives, encourages focus on both long-term strategic objectives and shorter-term business objectives without excessive risk.

*Cash vs. Equity Compensation.* We believe our mix of cash (base salary and annual cash incentive bonuses) and equity (primarily PSUs) compensation, with a significant portion of each executive officer's

total compensation opportunity coming through equity incentive grants, closely aligns the interests of our executive officers with those of our shareholders.

*Compensation Components.* To achieve our objectives, we use a mix of four compensation components, being base salary, annual incentive bonuses, long-term equity incentives and other perquisites intended to be competitive in the market.

The following tables provide information regarding the components of our overall compensation of our NEOs.

**Base Salary**

**Form**

**Objectives and Basis**

Cash

Attract and retain high quality executives to drive our success.

Provide base compensation for day-to-day performance.

Based primarily upon job responsibilities, level of experience and skill as well as performance compared with annually established financial or individual objectives.

Consideration given to impact an NEO is expected to make to our business in the future.

Targeted within the median range of our Peer Group Companies and consideration given to the markets in which we operate.

Provide a consistent cash flow to employees assuming acceptable levels of performance.

Committee normally considers salary adjustments for executive officers annually in the first quarter of the year.

Increases in salaries generally are based on the market level salary for the role an executive serves, overall budgets and specific talent needs. Small periodic adjustments to reflect cost of living increases.

## Annual Incentive Bonuses

### Form

### Objectives and Basis

#### Cash

Motivate performance of NEOs in meeting our current year's business goals and encourage superior performance.

Based on the expectations of the Board and management for our financial and operating performance in a particular period and the contribution of an NEO in achieving the Company's goals as well as the individual goals which are established for each NEO based upon such NEO's position and responsibility.

Measure our NEOs' performance in achieving the Company's financial, strategic and other goals as benchmarked against the Company's business plan for the forthcoming year.

Consideration of the contribution of an NEO to our business and operations generally.

Bonuses awarded on a discretionary basis without a predetermined formula or specific weighting for any particular factor.

Consideration of recommendations by our Chief Executive Officer for bonuses to be paid to our NEOs other than our Executive Chairman and Chief Executive Officer.

**Table of Contents**

**Long-Term Equity Incentives**

<b>Form</b>	<b>Objectives and Basis</b>
Performance share units	Designed to drive Company performance, align the interests of executives with those of Shareholders, retain executives long-term and provide wealth accumulation opportunities for executives.
Restricted stock	
Restricted stock rights	Generally based upon the long-term financial and operating expectations of our directors and management and the contribution an executive officer is expected to make in the future in achieving such expectations.
Performance shares	Generally produce value to our NEOs if the price of our Shares appreciates, thereby aligning their interests with those of Shareholders through increased Share ownership.
	All equity awards thereunder are granted at fair market value as of the date of grant. We define fair market value as the closing market price of our Shares quoted on NASDAQ on the date of grant.
	Incentive grants reviewed on an annual basis as part of the Committee's analysis of total compensation and the balance between the different elements thereof.

**Perquisites and Other Executive Benefits**

<b>Form</b>	<b>Objectives and Basis</b>
Automobile	Designed to provide other benefits to our NEOs for the purpose of providing security for current and future needs of executives.

Health and retirement  
programs

Structured to be within a reasonably competitive range relating to Peer Group Companies.

Automobile benefits include the lease of a vehicle along with the fuel and maintenance costs thereon.

Health benefits may include periodic physical consultations, dental and pharmaceutical benefits.

Contributions made to a defined contribution pension arrangement to the extent permissible by law on a tax deferred basis. Depending on the retirement program, amounts in excess of those allowed by tax authorities are recorded in unfunded accounts or remitted to an investment account with a third party fund until retirement or termination.

In lieu of other benefits such as automobile, medical, pension and retirement programs, our Executive Chairman receives a lump sum living allowance of €75,000 (approximately \$84,755) per annum in recognition of his significant travel schedule pursuant to the terms of his employment agreement. No specific allocation is made in connection with the living allowance for any particular perquisite.

### **Administration, Procedure and Role of the Compensation Committee**

The Committee, which is comprised entirely of independent directors, determines our compensation objectives, philosophy and forms of compensation and benefits for executive officers. The Committee submits key compensation elements for our executive officers to the independent members of the Board for their review and approval. Executive compensation decisions are generally made by the Committee after our fiscal year end and when our financial statements for such year are finalized.

The Committee continually reviews and considers best practices in executive compensation, Shareholder expectations and compensation practices of peer group companies in making its decisions regarding appropriate compensation levels.

*Individual Officer Performance Evaluations.* In making compensation decisions, the Committee annually evaluates the performance and individual accomplishments of our Chief Executive Officer and our other NEOs. Such evaluation is a subjective analysis conducted, in part, with reference to the performance measures discussed herein and partly against each NEO's annual performance goals which were previously provided to and accepted by the Committee. The Committee also meets and reviews with our Chief Executive Officer his evaluation of the performance of each of the



other NEOs (other than the Executive Chairman).

*Management's Role in the Executive Compensation Process.* With the exception of our Chief Executive

## Table of Contents

Officer, our NEOs do not play a role in evaluating or determining executive compensation programs or levels. Our Chief Executive Officer annually submits for consideration to the Committee performance evaluations for our other NEOs (other than the Executive Chairman) and recommendations as to their compensation levels, including salaries and bonuses. These recommendations are both subjective determinations and objective recommendations based upon performance against their annual performance goals. Such recommendations are also consistent with our compensation objectives. The Committee approves each NEO's compensation in an executive session of the independent directors without management present.

The Committee did not request, and management did not provide, specific recommendations for fiscal 2017 compensation for our Executive Chairman or CEO. In accordance with NASDAQ rules, neither our Executive Chairman nor our CEO were present when their compensation was being discussed or approved, did not vote on executive compensation matters and neither they nor other members of management attended executive sessions of the Committee.

In making its compensation decisions the Committee considered, among other information, our overall financial results and operating performance metrics provided by our Chief Financial Officer which includes revenues, total mill production and sales, energy generation and sales, mill margins, commission and selling expenses, Operating EBITDA and net income measured against both budgets and our competitors. In addition, senior executives provide certain mill performance metrics relating to our operations, including environmental performance and health and safety measures and how they measure to budget, prescribed requirements and to those of some of our competitors.

*Geographic Considerations.* As our operations are located in Europe and Canada, we also consider local market demands, availability of qualified management and the local cost of living.

*Peer Group Companies and Benchmarking.* The Committee reviews executive compensation levels and programs at least annually at certain peer group companies. In fiscal 2017, such peer group companies were principally comprised of small cap and mid-cap North American forest and paper products companies (companies with equity capitalization ranging between \$150 million and \$5 billion).

In 2017, using information provided by its independent compensation consultant, WTW, and public filings, the Committee utilized for benchmarking or comparables the following companies:

Canfor Corporation;  
Cascades Inc.;  
Clearwater Paper Corporation;  
Interfor Corporation;  
Domtar Corporation;  
Neenah, Inc.;  
Orchids Paper Products Company;  
P.H. Glatfelter Company;  
Resolute Forest Products Inc.;  
Schweitzer-Mauduit International, Inc.;  
Tembec Inc.; and  
West Fraser Timber Co. Ltd.,  
(collectively the Peer Group Companies ).

For fiscal 2017, the Committee, with the assistance of and information from its independent compensation consultant, WTW, reviewed and considered our:

total direct compensation for our NEOs (primarily base salaries);  
short-term incentives (primarily annual cash incentive bonuses);  
long-term incentives (primarily DSUs); and  
perquisites,  
relative to that of the Peer Group Companies.

The Committee, with the assistance of WTW, reviewed the performance of the Peer Group Companies because their businesses and size made them comparable to us and to ensure that our compensation levels are within the range of comparative norms. Additionally, the Committee, with the assistance of WTW, reviewed the compensation of senior executives in a broad swath of companies of equivalent size and activity in Canada and Northern Europe.

We generally target salaries, bonuses and incentive compensation towards a median level or 50<sup>th</sup> percentile range on a size and geographic adjusted basis relative to peer companies for similar experienced executives performing similar duties. Generally, awards are made within this range, although our program is flexible enough to allow the Committee to provide compensation above or below the 50<sup>th</sup> percentile in cases of exceptional individual performance or other individual factors relating to an NEO's performance. We benchmark against median compensation because it allows us to attract and retain executives, provides an incentive for executives to strive for better than average performance to earn better than average

## Table of Contents

compensation and helps us to manage the overall cost of our compensation program.

While the Committee believes it is important to periodically review benchmarking data to determine how our executive compensation program compares to the programs used by our Peer Group Companies, such reference points are only one element it uses in structuring our executive compensation program.

*Total Compensation.* At least annually, the Committee reviews total compensation levels for our NEOs, including each element of compensation provided to and its proportion of total compensation. In determining the appropriate target total compensation for each NEO, the committee reviews each individual separately and considers a variety of factors in establishing his or her target compensation.

These factors may include the NEO's time in position, unique contribution or value to our recent performance, geographic location and market practices and whether there is a particular need to strengthen the retention aspects of the NEO's compensation. In its review of total compensation, the Committee also considers benchmarking information with respect to our Peer Group Companies.

The Committee has no predetermined specific policies on the percentage of total compensation that should be cash versus equity or short-term versus long-term. The Committee's practice is to consider peer company data and the relationships in the context of our compensation philosophy to determine the overall balance and reasonableness of our NEOs' total compensation packages.

## **VARIABLE PAY AT RISK**

Our executive compensation program provides that a significant percentage of compensation awarded to our NEOs, especially our Executive Chairman and CEO, is variable, performance-based compensation and at risk. The percentage of our executives' compensation opportunity that is variable or at risk versus fixed is based primarily upon the executive's role and, to a lesser extent, geographic location. Generally, executives with more ability to directly influence overall performance have a greater portion of pay at risk through both short- and long-term incentive programs. Further, as a result of local market practices and customs, our North American executives generally have a greater portion of their

compensation at risk, including the opportunity to earn greater rewards, than our European-based executives.

The graph below shows the balance of the elements that comprised total direct compensation for our Executive Chairman, Chief Executive Officer and our other NEOs, as a group, paid in 2017, including the percentage of variable compensation. The percentage of variable compensation listed below each chart is calculated by dividing (i) the value of variable compensation by (ii) the amount of total direct compensation, which includes variable compensation plus fiscal 2017 base salary.

## **Fiscal 2017 Total Direct Compensation Paid**

**% of variable compensation to total:  
65%**

**% of variable compensation to  
total: 64%**

**% of variable compensation to  
total: 50%**

## **Table of Contents**

### **Post-Retirement Compensation**

We provide retirement benefits to our NEOs (other than our Executive Chairman) through our North American and European retirement programs.

The North American program is a defined contribution type structure whereby a contribution of 10% of base salary, along with 5% of any cash bonus paid, is remitted to an investment account held in the name of the employee on a tax deferred basis. To the extent that the contributions exceed limits established by tax legislation, the amount that exceeds the limit is credited to an unfunded account. Our Chief Executive Officer and Chief Financial Officer are the only NEOs participating in the North American program.

The European program is a defined contribution type structure whereby we make contributions to a German government regulated pension plan in an amount equal to 10% of a combined total of each participating German executive officer's gross salary and half of such executive's cash bonus payments. To the extent that the contributions exceed limits established by tax statute, the amount that exceeds the limit is paid to a fund managed by a third party where it is held on the employee's behalf. Messrs. Ridder and Nossol are the NEOs participating in the European program.

### **Performance Measures**

As part of the annual performance evaluations it conducts for our NEOs for fiscal 2017, the Committee, among other things, considers the following performance measures:

*Operating EBITDA* We consider Operating EBITDA to be a meaningful supplement to operating income as a performance measure primarily because depreciation expense and non-recurring capital asset management changes are not an actual cost, and depreciation expense varies widely from company to company in a manner we consider largely independent of the underlying cost efficiency of their operating facilities. This measure includes Operating EBITDA per tonne of NBSK pulp as compared to applicable Peer Group Companies;

*Performance Criteria* Our NEOs' performance in respect of the Performance Criteria comprising: Absolute Return on Average Assets, Total Shareholder Return and the contribution of our NEOs to the successful undertaking of New Business Initiatives;

*Major Transactions* The completion of major transactions such as material acquisitions or financing related transactions;

*Operating, Environmental and Health and Safety Performance* The operating performance of our mills, including pulp and energy production, environmental and health and safety performance and operating costs, and the contributions of our NEOs in achieving these targets; and

*Individual Goals* Our NEOs' progress on meeting pre-set and approved individual goals for the fiscal year. The above performance measures are evaluated based on the overall judgment of the Committee without giving fixed or specific weighting to any particular measure with respect to salaries, perquisites and annual cash bonuses. With respect to the vesting of PSUs and awards of shares thereunder pursuant to our LTIP, the Performance Criteria is

equally weighted as to each component thereof.

*Risk Considerations.* We have designed our total direct compensation (base salary, annual incentive bonus, long-term equity incentive compensation and perquisites) to encourage our executives to take appropriate risks to improve our performance and enhance long-term Shareholder value. We believe that the design and objectives of our executive compensation program provides an appropriate balance of incentives for executives and avoids inappropriate risks. In this regard, our executive compensation program includes, among other things, the following design features:

a balanced mix of fixed versus variable compensation and cash-based versus equity-based compensation;

variable compensation based on a variety of performance goals, including overall corporate and individual performance goals;

Compensation Committee discretion to lower annual incentive award amounts;

a balanced mix of short-term and long-term incentives;

performance and time-based vesting requirements for long-term performance awards such as our PSUs;

a prohibition on hedging and pledging Company stock; and

clawback provisions for performance and variable pay.

## **Table of Contents**

Management and the Committee have considered and assessed our compensation objectives, philosophy, and forms of compensation for our executives to determine whether the risks arising from such policies or practices are reasonably likely to have a material adverse effect on us. Based upon such review, we have determined that our compensation practices and policies do not create risks that are reasonably likely to have a material adverse effect on us.

*Internal Pay Equity.* The Committee considers internal pay equity, among other factors, when making compensation decisions. However, the Committee does not use a fixed ratio or formula when comparing compensation among executive officers. Our Chief Executive Officer is compensated at a higher level than other executive officers due to his significantly higher level of responsibility and accountability. Our Executive Chairman is also compensated at a higher level than our other NEOs due to his leadership role, focus on strategy and experience. Both our CEO and Executive Chairman generally receive more of their pay in the form of long-term incentive equity compensation and at risk

compensation relative to the other NEOs. As a result of our CEO's responsibility for our overall performance, the Committee and our independent directors believe that compensating the CEO at a higher level than other executives and weighting the CEO's total compensation more heavily towards long-term equity incentive compensation and at risk compensation is consistent with our compensation objectives, market practices and appropriately reflects his contribution.

We believe the fiscal 2017 target total direct compensation for the NEOs other than the CEO in relation to the compensation targeted for the CEO and to one another was reasonable and appropriate given each such executive's responsibilities and our financial and operating performance for the year. The differences in compensation among our NEOs relative to each other and our CEO are based on market differences for the particular job, job responsibilities and scope, professional experience, geographic compensation practices and adjustments for individual performance.

## **Change of Control and Severance Agreements**

A number of the employment agreements we have entered into with our NEOs provide for specified payments and other benefits in the event of a change of control. Such change of control provisions are described in greater detail under "Employment Agreements with our Named Executive Officers" beginning on page 42 and under "Potential Payments upon Termination or Change of Control" beginning on page 47 of this Proxy Statement. The purpose of the change of control agreements is to encourage key management personnel to remain with us and to help avoid distractions and conflicts of interest in the event of a potential or actual change of control so that the executives will focus on a fair and impartial review of any proposal on the maximization of value. We believe that we have structured agreements to be reasonable and to provide a temporary level of protection to our NEOs in the event of employment loss due to a change of control. In addition, our 2010 Plan provides that upon the termination of employment of any NEO within 12 months of a change in control, each outstanding option and stock appreciation right held by such NEO shall automatically become fully and immediately vested and exercisable, each share of restricted stock or restricted stock right shall become fully and immediately vested and all forfeiture and transfer restrictions thereon shall lapse, and each outstanding performance share or performance share unit shall become immediately payable. The accelerated



vesting and exercisability in the event of a termination of employment occurring subsequent to a change in control is intended to allow executives to recognize the value of their contributions to us and not affect management decisions following termination.

The employment agreements of our NEOs provide for severance payments in certain circumstances. The specific amounts that a particular NEO would receive as a severance payment are described under Potential Payments upon Termination or Change of Control beginning on page 47 of this Proxy Statement.

### **Limitations on Deductibility of Compensation**

Prior to December 22, 2017, when the Tax Cuts and Jobs Act of 2017 (the TCJA ) was signed into law, Section 162(m) of the Internal Revenue Code generally disallowed a tax deduction to publicly held companies for compensation paid to certain executive officers in excess of \$1 million per officer in any year that did not qualify as performance-based. In connection with fiscal 2017 compensation decisions, the Compensation Committee considered the effects of Section 162(m). Because we believe that it is important to preserve flexibility in administering compensation programs in a manner designed to attract, retain and reward high-performing executives or promote varying corporate goals, we did not adopt

## **Table of Contents**

a policy for 2017 that all compensation must qualify as deductible under Section 162(m). Therefore, certain amounts paid in 2017 under our compensation programs, including salaries, bonuses and long-term incentive plan grants, may not qualify thereunder as compensation excluded from the limitation on deductibility. The committee has discretion to award compensation that may not qualify as tax deductible.

Under the TCJA, the performance-based exception has been repealed and the \$1 million deduction limit now applies to anyone serving as the chief executive officer or the chief financial officer at any time during the taxable year and the top three other highest compensated executive officers serving at the end of the fiscal year. The new rules generally apply to taxable years beginning after December 31, 2017, but do not apply to remuneration provided pursuant to a written binding contract in effect on November 2, 2017 that is not modified in any material respect after that date.

## **Other Policy Considerations**

*Clawback Policy.* Our Clawback Policy allows us to seek reimbursement with respect to incentive compensation paid or awarded to executive officers where the payment of a bonus or equity award or the vesting of such award was predicated upon the achievement of financial results that were the product of fraudulent activity or that were subsequently the subject of a material negative restatement.

*Anti-Hedging Policy.* Our Hedging Transactions Policy prohibits senior executives from engaging in hedging transactions designed to offset decreases in

the market value of our stock, including certain forms of hedging and monetization transactions.

*Anti-Pledging Policy.* Our Securities Law Compliance Policy prohibits executives from holding our stock in a margin account or pledging our stock as collateral for loans.

*Timing of Equity Awards.* Equity awards are made by the Compensation Committee generally only on dates that the Committee meets. Committee meetings are normally scheduled well in advance and are not scheduled with an eye to announcements of material information. The Committee sometimes makes an award with an effective date in the future, which may be contingent or designed to take effect after the announcement of material information. The Committee may make an award by unanimous written consent if the proposed award has previously been reviewed by the Committee.

## **Summary**

We believe that our executive compensation program has been appropriately designed to achieve our compensation objectives and does not create risks that are reasonably likely to have a material adverse effect on us.

Our executive compensation program is competitive, performance driven, consistent with Shareholder interests and fair and reasonable overall. We believe that our compensation levels fairly reflect our operating and financial performance and are appropriate relative to our Peer Group Companies.

## **How the Committee Considered the 2017 Advisory Vote on Our Compensation Program**

We provided Shareholders a say on pay advisory vote on our executive compensation in 2017. At our 2017 annual meeting of Shareholders, Shareholders expressed substantial support for the compensation of our NEOs, with approximately 95% of the votes cast for approval of the say-on-pay advisory vote on executive compensation. Our Compensation Committee and Board value the opinions of our Shareholders and consider those opinions when making compensation decisions. To the extent we receive a significant vote against the compensation of our named executive officers, we will consider our

Shareholders' concerns and the Committee will evaluate whether any actions are necessary to address those concerns. The Committee also considered many other factors in evaluating our assessment of the interaction of our compensation programs with our business objectives, including reviewing data of a comparison group of peers. While all of these factors weighed on the Committee's decisions regarding our NEOs' compensation, the Committee did not make any changes to our executive compensation program and policies as a result of the 2017 say-on-pay advisory vote.

**Table of Contents****EXECUTIVE COMPENSATION TABLES****Summary Compensation Table**

The following table sets forth information regarding the fiscal 2017, 2016 and 2015 compensation awarded to, earned by, or paid to our NEOs. It is important to note that the Summary Compensation Table and the Grants of Plan-Based Awards table appearing on page 43 only reflect plan-based awards actually issued in fiscal 2017.

All of our NEOs are paid in currencies other than dollars. Messrs. Gandossi and Ure are paid in Canadian dollars and the remaining NEOs are paid in euros. In this Proxy Statement, unless otherwise

noted, such amounts have been converted into dollars using the relevant average exchange rate for the year based on the noon buying rates as certified for customs purposes by the Federal Reserve Bank of New York and posted by the Federal Reserve Board of Governors. Applying this formula, the value of the C\$ and euro to the dollar for the following fiscal years was as follows:

	2017	2016	2015
C\$	\$ 0.7710	\$ 0.7558	\$ 0.7830
Euro	\$ 1.1301	\$ 1.1072	\$ 1.1096

Year <sup>(1)</sup>	Salary <sup>(2)</sup> (\$)	Bonus (\$)	Stock Awards <sup>(3)</sup> (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value	All Other Compensation (\$)
						and Non-Qualified Deferred Compensation Earnings <sup>(4)</sup> (\$)	
2017	523,788	480,280	490,620	-	-	-	84,755
2016	513,175	470,549	524,541	-	-	-	83,038
2015	544,875	471,593	588,404	-	-	-	83,222
2017	511,437	385,505	511,104	-	-	65,500	29,797
2016	471,116	366,563	455,858	-	-	57,766	30,193
2015	420,875	371,936	506,027	-	-	52,263	31,544

2017	340,529	302,236	229,992	-	-	20,496	32,456
2016	296,022	102,033	193,922	-	-	15,699	30,721
2015	249,791	97,878	199,607	-	-	8,062	31,649
2017	355,407	92,666	166,452	-	-	-	46,778
2016	339,681	83,038	173,605	-	-	-	45,457
2015	332,113	83,222	170,979	-	-	-	45,309
2017	319,358	83,625	149,568	-	-	-	50,804
2016	305,359	67,538	156,062	-	-	-	47,438
2015	320,872	66,578	153,666	-	-	-	47,294

(1) Year to year changes reflect both increases in compensation and foreign exchange fluctuations. Based upon the exchange rate as at December 31, 2017, the dollar had decreased by approximately 2% in value against the euro and decreased by approximately 2% against the Canadian dollar since December 31, 2016.

(2) The amount reported in this column for each NEO reflects the dollar amount of base salary paid, including salary increases.

(3) Stock awards awarded to NEOs consist primarily of performance share units issued under the 2010 Plan. The amounts shown do not reflect whether the recipient has actually realized or will realize a financial benefit from such awards. The amounts shown represent the aggregate grant date fair values during the indicated fiscal year of the awards granted to our NEOs in 2017 and prior fiscal years as determined in accordance with ASC 718 and based on the assumptions and methodologies set forth in the Notes to the Consolidated Financial Statements in our Annual Reports on Form 10-K for the years ended December 31, 2017, 2016 and 2015, respectively. Amounts for 2015 have been adjusted to reflect the foregoing presentation. On February 23, 2017, we granted 2017 PSUs to all our NEOs. The grant date fair values are reported based upon the Share price of \$12.00, which was the closing market price on the date of grant, and the probable outcome of the Performance Criteria for such awards as of the date of grant in accordance with SEC rules. The values of the 2017 PSUs granted in February 2017, assuming maximum vesting of 200% (and not target of 100%) of the performance awards, would have been: (i) Mr. Lee - \$981,240; (ii) Mr. Gandossi - \$1,022,208; (iii) Mr. Ure - \$459,984; (iv) Mr. Ridder - \$332,904; and (v) Mr. Nossol - \$299,136. Details on the awards can be found in the Grants of Plan-Based Awards Table on page 43 of this Proxy Statement.

(4)

The amounts set forth in this column for Mr. Gandossi and Mr. Ure reflect the annual change in the value, including interest, of their respective unfunded accounts, which accounts record those retirement plan contributions in excess of the applicable statutory limit.

**Table of Contents**

(5) Included in All Other Compensation for the fiscal years ended December 31, 2017, 2016 and 2015 are benefits and perquisites which consist of the following:

<b>Name</b>	<b>Year</b>	<b>Auto (\$)</b>	<b>Retirement Plan Contributions (\$)</b>	<b>Other (\$)</b>
Jimmy S. H. Lee				84,755 (living allowance)
	2017	-	-	83,038 (living allowance)
	2016	-	-	
	2015	-	-	83,222 (living allowance)
David M. Gandossi				2,308 (life insurance and special medical)
	2017	7,435	20,054	2,311 (life insurance and special medical)
	2016	8,707	19,175	2,407 (life insurance and special medical)
	2015	9,616	19,521	1,174 (life insurance and special medical)
David K. Ure				1,196 (life insurance and special medical)
	2017	11,228	20,054	
	2016	10,350	19,175	1,239 (life insurance and special medical)
	2015	10,889	19,521	
Wolfram Ridder	2017	10,903	35,875	-
	2016	10,682	34,775	-
	2015	10,706	34,603	-
Leonhard Nossol	2017	14,138	36,666	-
	2016	11,888	35,550	-
	2015	11,914	35,380	-

- (6) The terms of Mr. Lee's employment agreement, entitle him to housing and other perquisites not to exceed in aggregate 75,000 annually and other compensation as determined by the Committee, which amount is reflected in the column All Other Compensation .
- (7) In 2017, we contributed \$20,054 to each of Mr. Gandossi's and Mr. Ure's retirement plans under our North American retirement program which amounts are included in All Other Compensation .
- (8) In 2017, we contributed \$35,875 to Mr. Ridder's retirement plan under our European retirement program, which amount is reflected in the column All Other Compensation .
- (9) In 2017, we contributed \$36,666 to Mr. Nossol's retirement plan under our European retirement program, which amount is reflected in the column All Other Compensation .
- (10) Does not include any amount with respect to the payment of \$149,250 by the Company to Mr. Nossol for the cancellation of vested options to acquire 25,000 Shares with an exercise price of \$7.92 per Share, which had been previously awarded to Mr. Nossol by the Company. Such option cancellation transaction was pursuant to an agreement between the Company and Mr. Nossol entered into on February 17, 2015. The closing price per Share on February 17, 2015 was \$13.89.

### **Narrative Disclosure to Summary Compensation Table**

#### ***Employment Agreements with our Named Executive Officers***

We have entered into employment agreements with each of our NEOs. The following summary of certain material terms of such agreements is not complete and is qualified by reference to the full text of each agreement on file with the SEC.

**Executive Chairman.** Mr. Lee is a party to a second amended and restated employment agreement with us dated September 29, 2015, which provides for an annual base salary of 463,500 (which amount is reviewed by the Board annually), participation in our bonus program and long-term incentive plan as well as certain other benefits and perquisites, including a housing and living allowance not to exceed in the aggregate 75,000 per annum. The agreement continues in effect until Mr. Lee's employment with us is terminated. Mr. Lee may terminate his employment with us at any time for good reason within 180 days after the occurrence of any good reason event and we may terminate his employment with cause. Mr. Lee's agreement contains a provision giving us the ability to deduct and clawback any compensation paid to Mr. Lee thereunder that is subject to recovery under law, government regulation or a stock exchange listing requirement.

**Chief Executive Officer.** Mr. Gandossi is a party to an amended and restated employment agreement with us dated September 29, 2015, which provides for an

annual base salary of C\$590,000 (which amount is reviewed by the Board annually), participation in our bonus program, long-term incentive plan and North American retirement program as well as certain other benefits and perquisites. The agreement provides for the continued employment of Mr. Gandossi for a period of 36 months, with an automatic 12-month renewal if the Company does not provide written notice of its intention not to renew the agreement at least 12 months before the original term expires. Thereafter, the agreement provides for successive 12-month renewals unless the Company provides written notice of its intention not to renew 360 days in advance of the expiry of the then term thereof. Mr. Gandossi may terminate his employment with us at any time for good reason within 180 days after the occurrence of any good reason event and we may terminate his employment with cause. Mr. Gandossi's agreement contains a provision giving us the ability to deduct and clawback any compensation paid to Mr. Gandossi thereunder that is subject to recovery under law, government regulation or a stock exchange listing requirement.

**Chief Financial Officer.** Mr. Ure is a party to an employment agreement with us dated August 12, 2013, as amended July 17, 2015, which provides for an annual base salary of C\$350,000 (which amount is reviewed by the Board



annually), participation in our

**Table of Contents**

bonus program, long-term incentive plan and North American retirement program as well as certain other benefits and perquisites. The agreement provides for the continued employment of Mr. Ure for a period of 24 months, with an automatic 12-month renewal if the Company does not provide written notice of its intention not to renew the agreement at least 12 months before the original term expires. Thereafter, the agreement provides for successive 12-month renewals unless the Company provides written notice of its intention not to renew 360 days in advance of the expiry of the then term thereof. Mr. Ure may terminate his employment with us at any time for good reason within 90 days after the occurrence of any good reason event and we may terminate his employment with cause. Mr. Ure's agreement contains a provision giving us the ability to deduct and clawback any compensation paid to Mr. Ure thereunder that is subject to recovery under law, government regulation or a stock exchange listing requirement.

**Group Controller Europe, Managing Director of Rosenthal.** Mr. Nossol is a party to an employment agreement with our wholly-owned subsidiary dated August 18, 2005, which provides for an annual base salary of \$200,000 (which amount is reviewed by the

Board or the Committee annually), an annual bonus based on two months' salary and certain benefits and perquisites including participation in our European retirement program. The agreement may be terminated by us by giving six months' notice, and by Mr. Nossol by giving three months' notice, and in any event will terminate at the time Mr. Nossol reaches the age of 65.

**Vice President, Business Development.** Mr. Ridder is a party to an employment agreement with our wholly-owned subsidiary dated October 2, 2006, which provides for an annual base salary of \$247,200 (which amount is reviewed by the Board or the Committee annually) and a yearly bonus of up to 25% of the annual gross salary depending upon targets mutually agreed upon by Mr. Ridder and our Chief Executive Officer. Mr. Ridder is also entitled to certain other benefits and perquisites including participation in our European retirement program. The agreement may be terminated by either party at June 30 or December 31 of any year by giving six months' notice and, in the event of a direct or indirect change in majority ownership of our subsidiary, the notice period increases to twelve months. In any event, the agreement will terminate at the time Mr. Ridder reaches the age of 65.

**Grants of Plan-Based Awards Table**

The following table sets forth information regarding awards granted during 2017 under our 2010 Plan to our NEOs:

Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(1)</sup>			All Other Stock Awards: Number of Shares of Stock or Units	All Other Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$ per Share)
	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	(#)		
February	-	-	-	20,443	40,885	81,770	-	-	-

23, 2017									
February	-	-	-	21,296	42,592	85,184	-	-	-
23, 2017									
February	-	-	-	9,583	19,166	38,332	-	-	-
23, 2017									
February	-	-	-	6,936	13,871	27,742	-	-	-
23, 2017									
February	-	-	-	6,232	12,464	24,928	-	-	-
23, 2017									

- (1) The **Threshold** amount reported represents vesting of a minimum percentage of the performance award if the minimum acceptable objective is achieved (as determined by the Committee). If threshold performance is not satisfied, an NEO's rights with respect to the award are forfeited. The **Target** amount reported represents the number of Shares issuable if performance objectives are achieved (as determined by the Committee) and the **Maximum** amount reported represents vesting of 200% of the performance award if the maximum objective is achieved (as determined by the Committee).
- (2) Stock awards awarded to NEOs in 2017 consist of the 2017 PSUs granted to all our NEOs on February 23, 2017. Pursuant to ASC 718, grant date fair values of the 2017 PSUs granted in February 2017 are based on the Share price of \$12.00, which was the closing market price on the date of grant, and the probable outcome of the Performance Criteria for such awards as at the date of grant in accordance with SEC rules.

**Table of Contents****Narrative Disclosure to Grants of Plan-Based Awards Table**

All equity awards shown in the table were granted under our 2010 Plan. Annual incentive plan awards reflect the potential threshold, target and maximum incentive awards payable to our NEOs based upon the achievement of the Performance Criteria. Amounts shown are calculated as a percentage of base salary. Target bonus amounts assume the achievement of the Performance Criteria at the target amounts. Maximum bonus amounts assume the achievement of the Performance Criteria at the maximum amount of 200%. The actual equity bonus payments received by NEOs are set out in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

In February 2017, we issued an aggregate of 542,788 2017 PSUs to our executives, including an aggregate of 257,956 2017 PSUs to our NEOs.

Each PSU represents one Share. As a result, the number of 2017 PSUs issued to NEOs was 200% of the target level of performance share units, being the maximum number of Shares that our NEOs may earn pursuant to the LTIP.

The number of PSUs that actually vest and the Shares actually earned will be based on the achievement of the Performance Criteria established by the Committee described below. The Performance Criteria for the PSUs granted in 2017, 2016 and 2015 are the same. The performance period for PSUs is three years and the Performance Criteria is assessed by the Committee after receipt of our audited financial statements for the last completed fiscal year of a performance period. The performance period for the 2017 PSUs ends December 31, 2019.

The Committee has the opportunity to assess the effectiveness of the LTIP each year and make adjustments, if needed, to the LTIP.

Determinations as to the achievement of the Performance Criteria by an NEO and the number of PSUs that actually vest and Shares that are actually earned are made by the Committee with reference to Performance Criteria consisting of the following three equally weighted components:

(1) *Absolute Return on Average Assets* ( ROAA ). Calculated by dividing our net income by average assets, with the result for the three-year performance period being a simple average of the ROAA for each of the three years.

The ROAA component for the PSUs granted in 2017, 2016 and 2015 is as follows:

Three-Year Average ROAA	Payout of Target
<3%	0%
3.00% to 4.99%	50% to 90%
5.00% to 6.99%	100% to 199%
>7.00%	200%

(2)

*Total Shareholder Return* ( *TSR* ). The return on the Shares, including price appreciation and dividend payouts, over the three-year performance period compared to the Peer Group Companies and determined as follows:

<b>TSR Percentile Ranking</b>	<b>Payout of Target</b>
<b>to Peers</b>	
<33 percentile	0%
33 to 65 percentile	50% to 90%
66 to 90 percentile	100% to 199%
>90 percentile	200%

(3) *New Business Initiatives* ( *NBIs* ). *NBIs* are new business initiatives being undertaken by management which the Committee has approved as qualifying for the *NBI* component of the Performance Criteria. In connection with the Committee's approval of a business initiative as an *NBI* under this component, the Committee establishes metrics to assess and determine whether such *NBI* was successfully implemented and its subsequent effect on the Company's business and operations. Not all business initiatives that management or we undertake qualify as an *NBI* under this component.

As some *NBIs* may take time to develop and successful implementation could extend beyond the three-year performance period, the Committee uses its judgment in awarding a payout under this component of the Performance Criteria.

**Table of Contents**

The quality of NBIs is rated by the Committee on a scale of 1 to 4, with 1 being no NBIs proposed and 4 being NBIs proposed and approved by the Board and measures initiated and successfully implemented to metrics approved by the Committee, as follows:

NBI Rating	Payout of Target
1	0%
2	50%
3	100%
4	200%

For each of the three components of the Performance Criteria, the Committee will interpolate performance between ranges. For the TSR component, the Committee uses, as the starting price of the various securities, the average trading price of the securities for the first 20 days of trading of 2017 and, as the end price, the average trading price of the securities for the last 20 days of trading in 2019. Any

awards under the LTIP that do not vest pursuant to the Performance Criteria are forfeited.

In 2016, the Committee awarded an aggregate of 991,552 PSUs (the 2016 PSUs) which are eligible to vest following the end of a three-year performance period ending on December 31, 2018.

In February 2018, our Board, based upon the Committee's assessment of the achievement of the Performance Criteria, approved the vesting and awarding of 153,243 Shares to our executives (including our NEOs) pursuant to the 2015 PSUs. The 153,243 Shares represent 74% of the potential Share award range previously set at between 0% and 200%. See Vesting of 2015 PSUs on page 32 hereof.

Under the 2010 Plan, PSUs vest immediately upon the occurrence of a triggering event occurring within 12 months of a change of control. See Narrative Discussion on Potential Payments upon Termination or Change of Control.

**Outstanding Equity Awards at Fiscal Year-End Table**

The following table sets forth information regarding outstanding equity awards for our NEOs at December 31, 2017:

Number of Securities Underlying Exercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Awards			Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Stock Awards	
		Equity Incentive Plan Awards: Number of Securities Underlying	Option Exercise Price (\$)				Market Value of Shares or Units of Stock That Have Not Vested <sup>(1)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not
(#)	(#)					(#)	(\$)	

								<b>Unexercised Unearned Options  (#)</b>	<b>Vested<sup>(2)</sup>  (#)</b>
-	-	-	-	-	-	-	-	-	160,035
-	-	-	-	-	-	-	-	-	142,218
-	-	-	-	-	-	-	-	-	61,072
-	-	-	-	-	-	-	-	-	52,013
-	-	-	-	-	-	-	-	-	46,750

(1) Based on the closing Share price of \$14.30 per Share on the NASDAQ Global Select Market as at December 29, 2017.

(2) Reflects the number of PSUs that may be earned upon achievement of target performance of the 2017 PSUs awarded to our NEOs in 2017, the 2016 PSUs awarded to our NEOs in 2016 and 74% of the target number of PSUs in respect of the 2015 PSUs awarded to our NEOs in 2015, based on the Compensation Committee's assessment of the achievement of the Performance Criteria respecting the 2015 PSUs in February 2018. As at December 31, 2017, the vesting of such awards was contingent upon the achievement of the Performance Criteria at the end of a three-year performance period measured from January 1, 2017 and ending on December 31, 2019, in the case of the 2017 PSUs, at the end of a three-year performance period measured from January 1, 2016 and ending on December 31, 2018, in the case of the 2016 PSUs, and at the end of a three-year performance period measured from January 1, 2015 and ending on December 31, 2017, in the case of the 2015 PSUs. The 2017 PSUs are eligible to vest in 2020, the 2016 PSUs are eligible to vest in 2019 and the 2015 PSUs are eligible to vest in

2018.

45



**Table of Contents****Option Exercises and Stock Vested**

The following table discloses the amounts received by our NEOs upon exercise of options or similar instruments or the vesting of stock or similar instruments during 2017.

Name	Option Awards		Stock Awards	
	Number of Shares	Value Realized on	Number of Shares	Value
	Acquired on		Acquired on	Realized on
	Exercise <sup>(1)</sup>	Exercise	Vesting	Vesting
(#)	(\$)	(#)	(\$)	
Jimmy S.H. Lee	-	-	-	-
David M. Gandossi	-	-	-	-
David K. Ure	-	-	-	-
Wolfram Ridder	-	-	-	-
Leonhard Nossol	-	-	-	-

**Non-Qualified Deferred Compensation**

We do not maintain a retirement program for our Executive Chairman. We maintain two separate retirement programs for our other North American and European executive officers.

Under the terms of our North American program, we make a contribution to a registered retirement savings plan ( RRSP ) account with a financial institution in the name of the executive officer in an amount equal to 10% of a combined total of 100% of gross salary and 50% of cash bonus payments up to the annual maximum RRSP limit (C\$26,010 in 2017). Amounts in excess of the annual maximum RRSP limit, are credited to an unfunded account and earn interest based on a notional growth rate of 3.78%. While the value of the unfunded account grows on a tax-free basis while retained in the Company, the executive officer will be subject to full taxation on the balance at the time the funds are withdrawn (upon retirement or termination of employment).

Our Chief Executive Officer and Chief Financial Officer participate in our North American program. In 2017, we contributed or accrued \$69,841 and

\$39,257, respectively, on their behalf under the terms of the program.

Similarly, under the terms of our European program, we make contributions to a German government regulated pension plan in an amount equal to 10% of a combined total of 100% of each participating German executive officer's gross salary and 50% of such executive's cash bonus payments. In addition, to the extent that such statutory pension is limited by an annual cap ( 6,395 in 2017), contributions in excess of this amount are remitted to a third party fund and held in an account in the executive officer's name. While the value of such account grows on a tax-free basis while retained with the third party fund, the executive officer will be subject to full taxation of the balance at the time the funds are withdrawn (upon retirement or termination of employment).

The NEOs participating in our European program are Messrs. Ridder and Nossol, on whose behalf, in 2017, we contributed \$35,875 and \$36,666, respectively, under the terms of the program.

**Table of Contents****Non-Qualified Deferred Compensation Table**

The following table sets forth information regarding contributions, earnings and account balances described above for our NEOs under our retirement programs.

<b>Name</b>	<b>Executive Contributions in Last Fiscal Year</b>	<b>Registrant Contributions in Last Fiscal Year<sup>(1)</sup></b>	<b>Aggregate Earnings in Last Fiscal Year<sup>(2)</sup></b>	<b>Aggregate Withdrawals/ Distributions</b>	<b>Aggregate Balance at Last Fiscal Year End<sup>(3)</sup></b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Jimmy S.H. Lee	-	-	-	-	-
David M. Gandossi	-	49,787	15,714	-	448,558 <sup>(4)</sup>
David K. Ure	-	19,203	1,293	-	48,020 <sup>(4)</sup>
Wolfram Ridder	-	28,647	-	-	-
Leonhard Nossol	-	29,438	-	-	-

(1) Amounts in this column reflect our contributions to each of our NEOs' respective retirement plan which is in excess of the amount permitted by applicable tax statute. We also account for these amounts in the Summary Compensation Table on page 41 of this Proxy Statement, under the "Change in Pension Value and Non-Qualified Deferred Compensation Earnings" column for Messrs. Gandossi and Ure and under the "All Other Compensation" column for all of our other NEOs.

(2) The amount in this column reflects interest accrued based on a notional growth rate of 3.78%. We account for Messrs. Gandossi and Ure's amounts in the Summary Compensation Table on page 41 under the "Change in Pension Value and Non-Qualified Deferred Compensation Earnings" column.

(3) No amounts are shown in this column for the NEOs participating in our European retirement program, as contributions in excess of statutory limits are remitted to a third party fund and the Company no longer has any obligation in respect thereof.

(4) Of this balance, \$375,502 and \$26,981 were previously reported as compensation to Mr. Gandossi and Mr. Ure, respectively, in the Non-Qualified Deferred Compensation Table in the prior year's proxy statement. The information in this footnote is provided to clarify the extent to which amounts payable as deferred compensation represent compensation reported in our prior proxy statements rather than additional currently earned compensation.

**Potential Payments upon Termination or Change of Control****Termination**

We have agreed to provide certain benefits to our NEOs in the event of the termination of their employment with us. The following table shows the estimated severance benefits that would have been payable to our NEOs if their employment was terminated without cause on December 31, 2017.

<b>Name</b>	<b>Cash Severance Benefit</b>	<b>Insurance Continuation</b>	<b>Stock Option Acceleration<sup>(1)</sup></b>	<b>Performance Share Unit Awards Acceleration<sup>(1)</sup></b>	<b>Total</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Jimmy S. H. Lee	3,343,352	-	-	2,449,347	5,792,699
David M. Gandossi	1,402,093	-	-	2,157,670	3,559,763
David K. Ure Wolfram Ridder	672,685	-	-	922,021	1,594,706
Leonhard Nossol	268,387	-	-	-	268,387
	228,302	-	-	-	228,302

(1) Based on the closing market price of \$14.30 per Share on the NASDAQ Global Select Market on December 29, 2017.

**Table of Contents*****Change in Control***

We have agreed to provide certain benefits to our NEOs if their employment is terminated within a specified time after a change of control of the Company. The following table shows the estimated change in control benefits that would have been payable to our NEOs if a change of control had occurred on December 31, 2017.

Name	Cash	Insurance Continuation	Stock Option and Restricted Stock	Performance	Total
	Severance Benefit		Acceleration <sup>(1)(2)</sup>	Award Acceleration <sup>(1)(2)</sup>	
	(\$)	(\$)	(\$)	(\$)	(\$)
Jimmy S. H. Lee	3,343,352	-	-	2,449,347	5,792,699
David M. Gandossi	2,804,186	-	-	2,157,670	4,961,856
David K. Ure	1,009,028	-	-	922,021	1,931,049
Wolfram Ridder	536,773	-	-	790,518	1,327,291
Leonhard Nossol	228,302	-	-	665,031	893,333

(1) For the purposes of the 2010 Plan, these amounts assume a change of control and triggering event have occurred and the vesting of all awards under the plan has been accelerated.

(2) Based on the closing market price of \$14.30 per Share on the NASDAQ Global Select Market on December 29, 2017.

**Narrative Discussion on Potential Payments upon Termination or Change of Control*****2010 Plan***

Under the 2010 Plan, all unvested performance awards granted under the plan will vest if a triggering event occurs within 12 months following a change of control. The 2010 Plan has detailed definitions of change of control and triggering event. Generally speaking, under the 2010 Plan, a change of control occurs if: (i) we sell or otherwise dispose of all our substantially all of our assets; (ii) someone acquires 50% or more of our Shares; or (iii) we complete a merger, consolidation or reorganization, following which 50% or more of the voting shares of the continuing or surviving entity and the parent company of such entity are held by persons who were not Shareholders prior to such merger, consolidation or reorganization. Any one of the following events would constitute a triggering event under our 2010 Plan: (i) the termination of the relevant employee without cause; (ii) the occurrence of constructive termination; or (iii) in connection with a change of control, any outstanding awards are not assumed, replaced,

converted or otherwise continued by the Company or a successor entity thereof. Due to the number of factors that affect the nature and amount of any benefits provided upon the happening of such events, any actual amounts paid or distributed may be different. Factors that could affect these amounts include the achievement of performance thresholds and the Company's stock price.

### ***Contractual Obligations***

#### **Jimmy Lee**

*Termination without cause or voluntary termination for good reason.* The terms of his employment agreement provide that, if Mr. Lee is terminated without cause or voluntarily terminates his employment for good reason, he will be entitled to a severance payment equal to three times the sum of: (A) his then annual salary; and (B) the higher of (i) his current annual bonus and (ii) the highest variable pay and incentive bonus received during the three years last ending prior to his termination. This amount is payable in substantially equal installments over a twelve-month period, unless (i) a change of control occurs following such termination, in which case the unpaid portion of such severance amount is payable in full in a lump sum cash payment immediately following such change of control, or (ii) such termination occurs in contemplation of, at the time of, or within three years after a change of control, in which case this amount is payable in a lump sum cash payment immediately following such termination. In addition, all Mr. Lee's unvested rights in any stock options and any other equity awards will vest in full and become immediately exercisable. Mr. Lee will also be entitled to any accrued benefits.

Mr. Lee's employment agreement defines a change of control as the occurrence of any of certain specified events including: (1) the receipt by the Company of a Schedule 13D or other statement filed under Section 13(d) of the Exchange Act indicating that any person, directly or indirectly, (a) has become the beneficial owner of more than 50% of the outstanding Shares or (b) has sole and/or shared

## Table of Contents

voting or dispositive power over more than 50% of the outstanding Shares; (2) a change in the composition of the Board occurring within a two-year period prior to such change, as a result of which fewer than a majority of the Board members are incumbent Board members; (3) the solicitation of a dissident proxy, the purpose of which is to change the composition of the Board with the result or potential result that fewer than a majority of the Board will be incumbent members; (4) the consummation of a merger, amalgamation or consolidation of the Company with or into another entity if more than 50% of the combined voting power of the continuing entity's securities outstanding immediately after such event are owned by persons who were not Shareholders prior to such event; (5) the sale of all or substantially all of our assets; or (6) the approval by our Shareholders of a plan of complete liquidation or dissolution.

*Termination for cause or voluntary termination without good reason.* The terms of his employment agreement provide that, if Mr. Lee is terminated for cause or voluntarily terminates his employment without good reason, he is not entitled to any additional payments or benefits, other than accrued benefits (including, but not limited to, any then vested stock options and other equity grants) and a prorated bonus, which is payable immediately upon such termination.

*Death or termination for disability.* The terms of his employment agreement provide that, in the event of Mr. Lee's death or if Mr. Lee is terminated in connection with a disability, he is not entitled to any additional payments or benefits, other than accrued benefits, any amounts payable under the Company's incentive plan then in effect, and a prorated bonus, which is payable at the same time as the Company's other senior executives are paid under any cash bonus or long-term incentive plan. In addition, all Mr. Lee's unvested rights in any stock options and any other equity awards will vest in full and become immediately exercisable.

## David Gandossi

*Termination without cause or voluntary termination for good reason.* The terms of his employment agreement provide that, if Mr. Gandossi is terminated without cause or voluntarily terminates his employment for good reason, he will be entitled to a severance payment equal to one and a half times the sum of: (A) his then annual salary; and (B) the higher of (i) his current annual bonus, (ii) the highest variable pay and incentive bonus received during the three years last ending prior to his termination and (iii) 50% of his then annual salary. This amount is payable in substantially equal installments over an

eighteen-month period, unless a change of control occurs following such termination, in which case the unpaid portion of such severance amount is payable in full in a lump sum cash payment immediately following such change of control.

The terms of his employment agreement further provide that, if Mr. Gandossi is terminated without cause or voluntarily terminates his employment for good reason in contemplation of, at the time of, or within twelve months after a change of control, instead of the amounts and payment terms described above, he will be entitled to a lump sum severance payment equal to three times the sum of: (A) his then annual salary; and (B) the higher of (i) his current annual bonus, (ii) the highest variable pay and incentive bonus received during the three years last ending prior to his termination and (iii) 50% of his then annual salary.

In addition, if Mr. Gandossi is terminated without cause or voluntarily terminates his employment for good reason, all Mr. Gandossi's unvested rights in any stock options and any other equity awards will vest in full and become immediately exercisable. Mr. Gandossi will also be entitled to any accrued benefits.

Mr. Gandossi's employment agreement defines a change of control as the occurrence of any of certain specified events including: (1) the receipt by the Company of a Schedule 13D or other statement filed under Section 13(d) of the Exchange Act indicating that any person, directly or indirectly, (a) has become the beneficial owner of more than 50% of the outstanding Shares or (b) has sole and/or shared voting or dispositive power over more than 50% of the outstanding Shares; (2) a change in the composition of the Board occurring within a two-year period prior to such change, as a result of which fewer than a majority of the Board members are incumbent Board members; (3) the solicitation of a dissident proxy, the purpose of which is to change the composition of the Board with the result or potential result that fewer than a majority of the Board will be incumbent members; (4) the consummation of a merger, amalgamation or consolidation of the Company with or into another entity if more than 50% of the combined voting power of the continuing entity's securities outstanding immediately after such event are owned by persons who were not Shareholders prior to such event; (5) the sale of all or substantially all of our assets; (6) the commencement by a person of a tender offer for more than 20% of our Shares; (7) the commencement by or against us of a bankruptcy proceeding; or (8) the approval by our Shareholders of a plan of complete liquidation or dissolution.



## Table of Contents

*Termination for cause or voluntary termination without good reason.* The terms of his employment agreement provide that, if Mr. Gandossi is terminated for cause or voluntarily terminates his employment without good reason, he is not entitled to any additional payments or benefits, other than accrued benefits (including, but not limited to, any then vested stock options and other equity grants) and a prorated bonus, which is payable immediately upon such termination.

*Death or termination for disability.* The terms of his employment agreement provide that, in the event of Mr. Gandossi's death or if Mr. Gandossi is terminated in connection with a disability, he is not entitled to any additional payments or benefits, other than accrued benefits, any amounts payable under the Company's incentive plan then in effect, and a prorated bonus, which is payable at the same time as the Company's other senior executives are paid under any cash bonus or long-term incentive plan. In addition, all Mr. Gandossi's unvested rights in any stock options and any other equity awards will vest in full and become immediately exercisable.

## David Ure

*Termination without cause or voluntary termination for good reason.* The terms of his employment agreement provide that, if Mr. Ure is terminated without cause or voluntarily terminates his employment for good reason, he will be entitled to a severance payment equal to one time the sum of: (A) his then annual salary; and (B) the higher of (i) his current annual bonus and (ii) the highest variable pay and average incentive bonus received during the two years last ending prior to his termination. This amount is payable in substantially equal installments over a twelve-month period, unless a change of control occurs following such termination, in which case the unpaid portion of such severance amount is payable in full in a lump sum cash payment immediately following such change of control.

The terms of his employment agreement further provide that, if Mr. Ure is terminated without cause or voluntarily terminates his employment for good reason in contemplation of, at the time of, or within twelve months after a change of control, instead of the amounts and payment terms described above, he will be entitled to a lump sum severance payment equal to one and a half times the sum of: (A) his then annual salary; and (B) the higher of (i) his current annual bonus and (ii) the highest variable pay and average incentive bonus received during the two years last ending prior to his termination.

In addition, if Mr. Ure is terminated without cause or voluntarily terminates his employment for good

reason, all Mr. Ure's unvested rights in any stock options and any other equity awards will vest in full and become immediately exercisable. Mr. Ure will also be entitled to any accrued benefits.

Mr. Ure's employment agreement defines a "change of control" as the occurrence of any of certain specified events including: (1) the receipt by the Company of a Schedule 13D or other statement filed under Section 13(d) of the Exchange Act indicating that any person, directly or indirectly, (a) has become the beneficial owner of more than 50% of the outstanding Shares or (b) has sole and/or shared voting or dispositive power over more than 50% of the outstanding Shares; (2) a change in the composition of the Board occurring within a two-year period prior to such change as a result of which fewer than a majority of the Board members are incumbent Board members; (3) the consummation of a merger, amalgamation or consolidation of the Company with or into another entity if more than 50% of the combined voting power of the continuing entity's securities outstanding immediately after such event are owned by persons who were not Shareholders prior to such event; (4) the sale of all or substantially all of our assets; (5) the commencement by or against us of a bankruptcy proceeding; or (6) the approval by our Shareholders of a plan of complete liquidation or dissolution. Notwithstanding, a "change of control" in respect of items (1) to (4) above will not be deemed to occur unless such transaction constitutes a change in ownership of the Company or a change in

effective control of the Company.

*Termination for cause or voluntary termination without good reason.* The terms of his employment agreement provide that, if Mr. Ure is terminated for cause or voluntarily terminates his employment without good reason, he is not entitled to any additional payments or benefits, other than accrued benefits (including, but not limited to, any then vested stock options and other equity grants) and a prorated bonus, which is payable immediately upon such termination.

*Death or termination for disability.* The terms of his employment agreement provide that, in the event of Mr. Ure's death or if Mr. Ure is terminated in connection with a disability, he is not entitled to any additional payments or benefits, other than accrued benefits, any amounts payable under the Company's incentive plan then in effect, and a prorated bonus, which is payable at the same time as the Company's other senior executives are paid under any cash bonus or long-term incentive plan. In addition, all Mr. Ure's unvested rights in any stock options and any other equity awards will vest in full and become immediately exercisable.

## **Table of Contents**

### **Leonhard Nossol**

The terms of Mr. Nossol's employment agreement provide for a six-month notice period in case of termination by the Company and a three-month notice period in case of termination by Mr. Nossol. The agreement does not contain a change of control provision.

### **Wolfram Ridder**

The terms of Mr. Ridder's employment agreement provide for a six-month notice period in case of termination and 12 months in the event of a change of control, which is defined as a direct or indirect

change in majority ownership of Stendal Pulp Holding GmbH.

In addition to the terms provided for in the individual employment agreements, our 2010 Plan contains provisions for accelerated vesting and exercisability of options, stock appreciation rights, restricted stock, restricted stock rights and performance awards upon termination of employment within 12 months of a change of control. The Committee also has the discretion to vest and make exercisable any outstanding award previously issued under the 2010 Plan upon the closing of a transaction that results in a change of control.

## **CEO Pay Ratio**

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, we are providing the following information about the relationship of the annual total compensation of our employees and the annual total compensation of Mr. David Gandossi, our President and Chief Executive Officer:

For 2017, our last completed fiscal year:

the annual total compensation of the employee identified at median of our company (other than Mr. Gandossi), was \$59,746;

the annual total compensation of Mr. Gandossi for purposes of determining the pay ratio was \$1,503,343; and

the ratio of the annual total compensation of Mr. Gandossi, to the median of the annual total compensation of all employees was estimated to be 25 to 1.

This pay ratio is a reasonable estimate calculated in a manner consistent with SEC rules based on our

payroll and employment records and the methodology described below. The SEC rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow

companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their compensation practices. As such, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies may have different employment and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios.

To identify the median employee, we determined that, as of December 31, 2017, our employee population consisted of approximately 1,450 individuals globally. To identify the median employee from our employee population, we collected actual base salary, bonus paid, and any overtime paid during the year ending December 31, 2017. In making this determination, we annualized the compensation of all newly hired permanent employees during this period. We did not include employees of the Friesau Facility, which we acquired during the 2017 fiscal year.

**Table of Contents****INFORMATION REGARDING EQUITY COMPENSATION PLANS****Equity Compensation Plan Information**

Since specific grants under the 2010 Plan are discretionary, they may vary from year to year and participant to participant and are not yet determinable. The following table provides certain information as at December 31, 2017 with respect to the Company's equity compensation plans.

<b>Plan Category</b>	<b>Number of Shares to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of Shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
Equity compensation plans approved by Shareholders <sup>(1)</sup>	-(2)	\$ -	3,172,344 <sup>(3)</sup>
Equity compensation plans not approved by Shareholders	-	-	-

(1) The 2010 Plan.

(2) Excludes 43,635 outstanding restricted shares which vest in 2018 and a maximum of 1,867,158 outstanding performance share units, 414,138 of which were eligible for vesting as at December 31, 2017. (In February 2018, based upon an assessment of the achievement of the Performance Criteria, 153,243 Shares were awarded and vested in respect thereof and the balance of underlying Shares therefor is again available under the 2010 Plan.) Of the remaining 1,453,020 performance share units, 931,844 are eligible to vest at December 31, 2018 and 521,176 are eligible to vest at December 31, 2019. The actual number of Shares issued in respect of unvested performance share units will vary from 0% to 200% of performance share units granted, based upon achievement of performance objectives established for such awards.

(3) Represents the number of Shares remaining available for issuance under the 2010 Plan as of December 31, 2017. As at the date hereof, the amount available is 2,850,251 Shares.

**Table of Contents****PROPOSAL 2 - INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM****Ratification of Independent Registered Public Accounting Firm**

The Board requests that Shareholders ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm as a matter of good corporate practice.

We initially appointed PricewaterhouseCoopers LLP as our independent registered public accounting firm effective May 10, 2007 and received Shareholder ratification of such appointment at our annual meeting held in June 2007. The appointment of PricewaterhouseCoopers LLP was approved by the Audit Committee and by the Board.

Representatives of PricewaterhouseCoopers LLP are not expected to be present at the Meeting but have been given an opportunity to make a statement if they so desire and will be available should any matter arise requiring their participation at the Meeting.

The selection of PricewaterhouseCoopers LLP must be ratified by a majority of the votes cast at the Meeting, in person or by Proxy, in favor of such ratification.

**OUR BOARD RECOMMENDS A VOTE FOR THE RATIFICATION OF  
PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT  
REGISTERED PUBLIC ACCOUNTING FIRM.**

In the event PricewaterhouseCoopers LLP are not ratified as our registered public accounting firm at the Meeting, the Audit Committee will consider whether to retain PricewaterhouseCoopers LLP or select another firm. The Audit Committee may select another firm as our registered public accounting firm without the approval of Shareholders, even if Shareholders ratify the selection of PricewaterhouseCoopers LLP at the Meeting.

**Fees of Independent Registered Public Accounting Firm**

The following table sets forth the fees for services provided by PricewaterhouseCoopers LLP in 2017 and 2016:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Audit Fees <sup>(1)</sup>	\$ 1,231,705	\$ 937,886
Audit-Related Fees <sup>(2)</sup>	\$ 182,157	\$ 23,777
Tax Fees <sup>(3)</sup>	\$ 110,764	\$ 114,659
All Other Fees	\$ 136,092 <sup>(4)</sup>	\$ 554,572 <sup>(4)</sup>

\$	1,660,718	\$	1,630,894
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- (1) Represents fees for services rendered for the integrated audit of our annual financial statements and review of our quarterly financial statements, including fees relating to an internal control review conducted pursuant to the Sarbanes-Oxley Act of 2002.
- (2) Represents fees for due diligence transaction services and services rendered for assurance and related services reasonably related to the performance of the audit or review of our financial statements but not reported under Audit Fees , including fees related to audit and attestation services for the Celgar pension plan, due diligence related to financings and consultations concerning financial accounting and reporting standards.
- (3) Represents fees for services rendered for tax compliance, tax advice and tax planning.
- (4) The majority of all other fees incurred during 2017 and 2016 was in connection with advisory and government relations services related to new green energy legislation in Germany in 2016 and 2017.

**Policy on Audit Committee Pre-Approval of Audit and Permitted Non-Audit Services**

Our Audit Committee is responsible for appointing, setting compensation for and overseeing the work of PricewaterhouseCoopers LLP. The committee has established a policy requiring its pre-approval of all audit and permissible non-audit services provided by PricewaterhouseCoopers LLP. The Audit Committee from time to time will provide a general pre-approval of specific types of services and provide specific guidance as to the specific services which may be eligible for pre-approval and will obtain appropriate cost estimations for each type of service. The Audit

Committee also specifically pre-approves all other permitted services. For all pre-approval of services, the Audit Committee considers whether such services are consistent with the rules of the SEC on registered public accounting firm independence. Under the policy, the Audit Committee must pre-approve services prior to the commencement of the specified service. In 2016 and 2017, all services provided by our independent registered public accounting firm, PricewaterhouseCoopers LLP, had been pre-approved by the Audit Committee.

Table of Contents

**PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION**

The Company believes that the compensation policies for our NEOs are designed to attract, motivate and retain talented executive officers and are aligned with the long-term interests of our Shareholders. This advisory Shareholder vote, commonly referred to as a "say-on-pay" vote, gives you as a Shareholder the opportunity to approve or not approve the compensation of our NEOs that is disclosed in this Proxy Statement. This advisory Shareholder vote occurs every year and will next occur at our annual meeting of Shareholders to be held in 2019 (the "2019 Annual Meeting"). The non-binding resolution approving our executive compensation was approved by 95% of the Shareholders present or represented by proxy at our 2017 annual meeting of Shareholders. This vote is not intended to address any specific item of executive compensation, but rather the overall compensation of our NEOs and the philosophy, policies and practices described in this Proxy Statement. Accordingly, the Company asks that you indicate your support for our executive compensation policies and practices as described in the Company's Compensation Discussion and Analysis, accompanying tables and

related narrative contained in this Proxy Statement by voting **FOR** the following resolution:

**RESOLVED that the Company's Shareholders approve, on an advisory basis, the compensation of the Company's executives named in the Summary Compensation Table, as disclosed in the Company's 2018 Proxy Statement pursuant to the executive compensation disclosure rules of the Securities and Exchange Commission, which disclosure includes the Compensation Discussion and Analysis, compensation tables, narrative disclosure and other related tables and disclosure.**

Since this say-on-pay vote is advisory, it will not be binding on the Board or the Compensation and Human Resources Committee. However, the Board and our Compensation and Human Resources Committee value the opinions of our Shareholders and will review the voting results and take them into consideration when making future decisions regarding executive compensation. The affirmative vote of the holders of a majority of the Shares represented in person or by proxy entitled to vote on the proposal will be required for approval.

**OUR BOARD RECOMMENDS A VOTE FOR THIS PROPOSAL.**

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires that our officers and directors and persons who own more than 10% of our Shares file reports of ownership and changes in ownership with the SEC and furnish us with copies of all such reports that they file. Based solely upon a review of the copies of these reports received by us, and upon written representations by

our directors and officers regarding their compliance with the applicable reporting requirements under Section 16(a) of the Exchange Act, we believe that all of our directors and officers filed all required reports under Section 16(a) in a timely manner for the year ended December 31, 2017.





**Table of Contents**

**FUTURE SHAREHOLDER PROPOSALS**

Any proposal which a Shareholder wishes to include in the proxy statement and proxy relating to the 2019 Annual Meeting must be received by the Company on or before December 14, 2018. The Company reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with Rule 14a-8 under the Exchange Act and all other applicable requirements.

Shareholders wishing to bring any other item before the 2019 Annual Meeting, other than in accordance with the process of Rule 14a-8 under the Exchange Act, must submit written notice of such proposal to

the Company no earlier than February 1, 2019 and no later than March 3, 2019. If the Company receives notice of a Shareholder proposal after March 3, 2019, such notice will be considered untimely and the Company's management will have discretionary authority to vote proxies received with respect to such proposal.

Please direct any proposal or notice of intention to present a proposal to the care of the Secretary, Mercer International Inc., Suite 1120, 700 West Pender Street, Vancouver, B.C., Canada V6C 1G8.

**OTHER MATTERS**

The directors know of no matters other than those set out in this Proxy Statement to be brought before the Meeting. If other matters properly come before the Meeting, it is the intention of the proxy holders to vote the Proxies received for the Meeting in accordance with their judgment.

**Notice Regarding Forward-Looking Statements**

This Proxy Statement includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Statements herein that describe our business, strategy, plans, goals, future capital spending levels and potential for growth, improved profit margins and cash generation are forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results and amounts to differ materially from those in forward-looking statements. For a detailed discussion of the risks and uncertainties, see the "Risk Factors" discussion in Item 1A of our 2017 Annual Report.

The forward-looking statements included in this Proxy Statement are made only as of the date of this Proxy Statement and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

**This Proxy Statement and our 2017 Annual Report are available at [www.mercerint.com](http://www.mercerint.com). Copies of our 2017 Form 10-K, may be obtained from Mercer International Inc. Attention: Shareholder Information, Suite 1120, 700 West Pender Street, Vancouver, British Columbia, Canada V6C 1G8 (Tel: (604) 684-1099). This Proxy Statement and our 2017 Form 10-K are also available on the SEC's website at [www.sec.gov](http://www.sec.gov) and on our website**

at [www.mercerint.com](http://www.mercerint.com).

Web links and QR codes throughout this document are provided for convenience only, and the content on the referenced websites does not constitute a part of this proxy statement.

**BY ORDER OF THE BOARD OF DIRECTORS**

/s/ Jimmy S.H. Lee  
Jimmy S.H. Lee  
*Executive Chairman*

Date: April 13, 2018

**Table of Contents**

**Mercer International Inc.**

**Electronic Voting Instructions**

**Available 24 hours a day, 7 days a week!**

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

**Proxies submitted by the Internet or telephone must be received by 11:59 p.m., EST, the day before the meeting date.**

**Vote by Internet**

Go to [www.investorvote.com/merc](http://www.investorvote.com/merc)

Or scan the QR code with your smartphone

Follow the steps outlined on the secure website

**Vote by telephone**

Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada on a touch tone telephone

Follow the instructions provided by the recorded message

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

**Annual Meeting Proxy Card**

**q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q**

**Proposals The Board of Directors recommends a vote FOR each of the following nominees listed and FOR Proposals 2 and 3.**

- |                           |                          |                        |                           |
|---------------------------|--------------------------|------------------------|---------------------------|
| 1. Election of Directors: | 01 - Jimmy S.H. Lee      | 02 - David M. Gandossi | 03 - William D. McCartney |
|                           | 04 - Bernard J. Picchi   | 05 - James Shepherd    | 06 - R. Keith Purchase    |
|                           | 07 - Martha A.M. Morfitt | 08 - Alan C. Wallace   | 09 - Linda J. Welty       |

**Mark here to vote**

**Mark here to WITHHOLD**

**For All EXCEPT - To withhold authority to vote for any**

**FOR all nominees**

**vote from all nominees**

nominee(s), write the name(s) of such nominee(s) below.

- |   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---|------------|----------------|----------------|---|------------|----------------|----------------|
| 2. Ratification of the selection of PricewaterhouseCoopers LLP as independent registered public accounting firm for 2018.     |            |                |                | 3. Approval of the advisory (non-binding) resolution to approve executive compensation. |            |                |                |
| 4. In his discretion, the proxyholder is authorized to vote upon such other business as may properly come before the meeting. |            |                |                |   |            |                |                |

**Non-Voting Items**

**Change of Address** Please print new address below.

**Comments** Please print your comments below.

**Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below**

Please sign exactly as name appears on your share certificate(s). When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Date (mm/dd/yyyy) below.	Please print date	Signature 1 within the box.	Please keep signature	Signature 2	Please keep signature
/ /					within the box.

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**Table of Contents**

You can view the 2017 Annual Report on Form 10-K, and the Proxy Statement at: [www.mercerint.com](http://www.mercerint.com)

q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.q

**PROXY MERCER INTERNATIONAL INC.**

**Suite 1120, 700 West Pender Street**

**Vancouver, British Columbia**

**Canada V6C 1G8**

**THIS PROXY IS SOLICITED ON BEHALF OF THE DIRECTORS OF MERCER INTERNATIONAL INC.**

The undersigned hereby appoints Jimmy S.H. Lee, or failing him David M. Gandossi, as proxy, with the power of substitution, to represent and vote as designated below all the shares of common stock of Mercer International Inc. that the undersigned is entitled to vote at the Annual Meeting of Shareholders to be held on June 1, 2018, or at any adjournment, postponement or rescheduling thereof.

This proxy when properly signed will be voted in the manner directed herein by the undersigned shareholder. **If no direction is made, this proxy will be voted FOR each of the director nominees listed in Proposal 1, FOR Proposal 2 and FOR Proposal 3. If any other business is presented at the Meeting, this proxy will be voted by the proxies on such matters as determined by the proxies, in their discretion.**

**(Continued on reverse side.)**