

ADVANTAGE TECHNOLOGIES GROUP INC  
Form DEF 14A  
January 21, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20649

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. \_\_)

Filed by the Registrant  T  
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

ADDvantage Technologies Group, Inc.

\_\_\_\_\_  
(Name of Registrant As Specified In Its Charter)

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1) Amount Previously Paid:  
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3)

Filing Party:

4)

Date Filed:

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ADDvantage Technologies Group, Inc.  
1221 East Houston  
Broken Arrow, Oklahoma 74012

NOTICE OF ANNUAL MEETING

Date: Wednesday, March 2, 2016

Time: 9:00 A.M.

Place: Corporate Office of ADDvantage Technologies Group, Inc.  
1221 East Houston  
Broken Arrow, Oklahoma 74012

Matters to be voted on:

1. Election of six directors.
2. Ratification of the appointment of HoganTaylor LLP as our independent registered public accounting firm for fiscal 2016.
3. Any other business as may properly come before the shareholders at the meeting.

Your vote at the annual meeting is important to us. Please vote your shares of common stock by completing the enclosed proxy card and returning it to us in the enclosed envelope. This proxy statement has information about the annual meeting and was prepared by our management and our Board of Directors. This proxy statement is first being sent to shareholders on or about February 1, 2016. Please note that our annual report accompanies this mailing of the proxy statement.

By Order of the Board of Directors,

/s/ Scott Francis  
Scott Francis, Vice President, Chief Financial Officer and Secretary

January 21, 2016

ADVANTAGE TECHNOLOGIES GROUP, INC.  
PROXY STATEMENT

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ADDvantage Technologies Group, Inc.  
1221 East Houston  
Broken Arrow, Oklahoma 74012

PROXY STATEMENT FOR 2016 ANNUAL MEETING

GENERAL INFORMATION ABOUT THE MEETING AND VOTING

Who can attend the annual meeting?

All shareholders as of the record date, January 13, 2016.

Who can vote?

You can vote your shares of common stock if our records show that you owned the shares on January 13, 2016. A total of 10,063,563 shares of common stock are outstanding and can vote at the annual meeting. You get one vote for each share of common stock. We do not recognize cumulative voting for the election of our directors. The enclosed proxy card shows the number of shares you can vote.

How do I vote by proxy?

Follow the instructions on the enclosed proxy card to vote on each proposal to be considered at the annual meeting. Sign and date the proxy card and mail it back to us in the enclosed envelope. The proxyholder named on the proxy card will vote your shares as you instruct. If you sign and return the proxy card but do not vote on a proposal, the proxyholder will vote for you on that proposal. Unless you instruct otherwise, the proxyholder will vote for each of the six directors, and for the ratification of the appointment of HoganTaylor LLP as our independent registered public accounting firm.

What if other matters come up at the annual meeting?

The matters described in this proxy statement are the only matters we know will be voted on at the annual meeting. If other matters are properly presented at the meeting, any proxies returned to us will be voted as the proxyholder sees fit.

Can I change my vote after I return my proxy card?

Yes. At any time before the vote on a proposal, you can change your vote either by giving our Secretary a written notice revoking your proxy card or by signing, dating and returning to us a new proxy card. We will honor the proxy card with the latest date. Attendance at the annual meeting will not, by itself, revoke your proxy card.

Can I vote in person at the annual meeting rather than by completing the proxy card?

Although we encourage you to complete and return the proxy card to ensure that your vote is counted, you can attend the annual meeting and vote your shares in person. If your shares are held in the name of your broker, a bank, or other nominee, that party should give you instructions for voting your shares.

How are votes counted?

We will hold the annual meeting if holders of a majority of the shares of common stock entitled to vote either sign and return their proxy cards or attend the meeting. If you sign and return your proxy card, your shares will be counted to determine whether we have a quorum even if you abstain or fail to vote on any of the proposals listed on the proxy card. Votes will be tabulated by an inspector of election appointed by our Board of Directors. Abstentions from voting, which you may specify on the proposal for the ratification of the appointment of HoganTaylor LLP as our independent registered public accounting firm, will have the effect of a negative vote.

If your shares are held in the name of a nominee, and you do not tell the nominee how to vote your shares (so-called “broker nonvotes”), the nominee may vote them on the proposal to ratify the appointment of HoganTaylor LLP as our independent registered public accounting firm. Uninstructed nominees are not permitted to vote for directors. Broker nonvotes will be counted as present for all matters to determine if a quorum exists.

What percentage of stock are the directors and executive officers entitled to vote at the annual meeting?

Together, they beneficially own 3,002,852 shares of our common stock, or 29.15% of the stock entitled to vote at the Annual Meeting.

Who are the largest principal shareholders?

David E. Chymiak, our Chairman of the Board and Chief Technology Officer, beneficially owns 2,662,754 shares (26.4%) of our common stock. His brother, Kenneth A. Chymiak, beneficially owns

2,234,366 shares (22.2%) of our common stock.

Who pays for this proxy solicitation?

The accompanying proxy is solicited by and on behalf of our Board of Directors, and the entire cost will be paid by us. In addition to sending you these materials, some of our employees may contact you by telephone, by mail or in person. None of these employees will receive any extra compensation for doing this, but they may be reimbursed for their out-of-pocket expenses incurred while assisting us in soliciting your proxy.

## IDENTIFICATION OF OFFICERS

We have three executive officers. Our officers are elected by our Board of Directors and serve at the pleasure of the Board of Directors.

David L. Humphrey

Biographical information for Mr. Humphrey, President and Chief Executive Officer since April 2012, is set forth below in Proposal No. 1, Election of Directors.

David E. Chymiak

Biographical information for Mr. Chymiak, the Chairman of our Board and Chief Technology Officer, is set forth below in Proposal No. 1, Election of Directors.

Scott A. Francis

Scott A. Francis, 48, has been our Vice President and Chief Financial Officer since September 15, 2008 and was appointed Secretary on August 6, 2009. Mr. Francis has over 25 years of finance and management experience. Prior to joining ADDvantage, he served as a controller of accounting at Vanguard Car Rental USA, Inc. from June 2004 until September 2008. Prior to that, he served as manager of financial reporting for WilTel Communications, Inc. from 1997 through May 2004. Mr. Francis is a certified public accountant with a bachelor of business administration degree in accounting from Oklahoma State University.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table shows the number of shares of common stock beneficially owned (as of January 13, 2016) by:

- each person known by us who beneficially owns more than 5% of any class of our voting stock;
- each director and nominee for director;
- each executive officer named in the Summary Compensation Table on page 15; and
- our directors and executive officers as a group.

Except as otherwise indicated, the beneficial owners listed in the table have sole voting and investment powers of their shares.



Name and Address Of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned (1)		Percent Of Class (1)	
David E. Chymiak 1221 East Houston Broken Arrow, OK 74012	2,662,754	(2) (7)	26.4	%
Kenneth A. Chymiak 15512 Larsen Street Overland Park, KS 66221	2,234,366	(5) (7)	22.2	%
Susan C. Chymiak 15512 Larsen Street Overland Park, KS 66221	2,234,366	(6) (7)	22.2	%
Thomas A. Satterfield, Jr. 2609 Caldwell Mill Lane Birmingham, AL 35243	724,000	(9)	7.2	%
David L. Humphrey	179,274	(3)	1.8	%
Scott A. Francis	70,318	(4)	*	
Thomas J. Franz	41,344		*	
Joseph E. Hart	4,465		*	
James C. McGill	41,364		*	
David W. Sparkman	3,333		*	
All Executive Officers and Directors as a group (7 persons)	3,002,852	(8)	29.2	%

\* Less than one percent.

(1) Shares which an individual has the right to acquire within 60 days pursuant to the exercise of options are deemed to be outstanding for the purpose of computing the percentage ownership of such individual, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. Includes shares for which the person has sole voting and investment power, or has shared voting and investment power with his/her spouse.

(2) Includes 26,667 shares subject to stock options which are fully exercisable.

(3) Includes 153,333 shares subject to stock options which are fully exercisable.

(4) Includes 56,667 shares subject to stock options which are fully exercisable.

(5) Of the shares beneficially owned by Mr. Chymiak, 250,000 are held of record by him as trustee of the Ken Chymiak Revocable Trust and 1,796,000 are held of record by his spouse, Susan C. Chymiak as trustee of the Susan Chymiak Revocable Trust. Mr. Chymiak has sole voting and investment power over those shares held of

record by him. Mr. Chymiak disclaims beneficial ownership of the shares held by his wife.

- (6) Of the shares beneficially owned by Ms. Chymiak, 1,796,000 are held of record by her as trustee of the Susan Chymiak Revocable Trust and 250,000 are held of record by her spouse, Kenneth A. Chymiak as trustee of the Ken Chymiak Revocable Trust. Ms. Chymiak has sole voting and investment power over those shares held of record by her. Ms. Chymiak disclaims beneficial ownership of the shares held by her husband.
- (7) Of the shares beneficially owned by Mr. David Chymiak, Mr. Kenneth Chymiak and Ms. Chymiak, 323,807 shares are owned by Chymiak Investment LLC. Chymiak Investment LLC is equally-owned by Mr. David Chymiak, his spouse, Mr. Kenneth Chymiak and Ms. Chymiak.
- (8) Includes 236,667 shares subject to stock options which are fully exercisable.
- (9) Based on a Schedule 13G/A, filed on February 17, 2015, of Mr. Satterfield's reported ownership, 50,000 shares are held jointly with Mr. Satterfield's spouse; 1,000 shares are held individually by Mr. Satterfield's spouse; 52,000 shares are held by Tomsat Investment & Trading Co., Inc., a corporation wholly-owned by Mr. Satterfield and of which he serves as President; and 220,000 shares are held by Caldwell Mill Opportunity Fund, which fund is managed by an entity of which Mr. Satterfield owns a 50% interest and serves as Chief Investment Manager. Additionally, Mr. Satterfield has limited powers of attorney for voting and disposition purposes with respect to the following shares: A.G. Family L.P. (350,000 shares); Jeanette Satterfield Kaiser (31,000 shares); Richard W. Kaiser, III (8,000 shares); and David Satterfield (5,000 shares). These individuals and entities have the right to receive or the power to direct the receipt of the proceeds from the sale of their respective shares.

The following table provides information at September 30, 2015 with respect to compensation plans under which our equity securities are authorized for issuance.

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	535,000	\$2.88	539,883
Equity compensation plans not approved by security holders	0	0	0
<b>Total</b>	<b>535,000</b>	<b>\$2.88</b>	<b>539,883</b>

**PROPOSAL NO. 1  
ELECTION OF DIRECTORS**

All of the members of our current Board of Directors are included as Nominees to be elected at the annual meeting. The directors will be elected for one-year terms expiring at the next annual meeting. Our bylaws provide that our Board shall consist of not less than one nor more than nine directors, as determined from time to time by board resolution. Our Board has established the number of directors for the 2016 fiscal year to be six.

**Vote Required.** The six nominees receiving the highest number of votes will be elected. Votes withheld for a nominee will not be counted. You get one vote for each of your shares of common stock for each of the directorships.

**Nominations.** At the annual meeting, we will nominate as directors the persons named in this proxy statement. Although we do not know of any reason why one of these nominees might not be able to serve, our Board of Directors will propose a substitute nominee if any nominee is unavailable for election.

**General Information About the Nominees.** All of the nominees are currently directors of ADDvantage. Each has agreed to be named in this proxy statement and to serve as director if elected. The ages listed for the nominees are as of January 13, 2016.

The following information, including principal occupation or employment for the past five or more years and a summary of each individual's experience, qualifications, attributes or skills that have led to the conclusion that each individual should serve as a director in light of our current business and structure, is furnished with respect to each nominee.

David E. Chymiak

Director since 1999

David E. Chymiak, 70, was appointed as our Company's Chairman of the Board on August 12, 2014. He was appointed as our Company's Chief Technology Officer on April 2, 2012. He was the Chairman of our Board from

1999 until April 2, 2012. Since 1985, Mr. Chymiak has overseen the operations of our Cable Television segment. Mr. Chymiak brings extensive experience with the various technologies and products within the cable television

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industry to our Board of Directors with respect to industry matters. Mr. Chymiak also brings to the Board of Directors business leadership and corporate strategy.

David L. Humphrey

Director since April 2013

David L. Humphrey, 60, is currently our President and Chief Executive Officer since April 2, 2012. Prior to joining the Company, from November 2011 to March 2012, Mr. Humphrey was the Chief Executive Officer of two start-up venture capital companies. From 2010 to 2011, Mr. Humphrey was the Chief Executive Officer and Chief Financial Officer of TokenEx, an early-stage technology company focused on cyber security software, where he oversaw operations production, finance, purchasing, sales, product development and fund raising. From 2003 to 2010, Mr. Humphrey was the Chief Operating Officer of Oklahoma Equity Partners, a venture capital fund, where he was responsible for all operations of the venture fund. Mr. Humphrey graduated with a bachelor of science degree in chemical engineering from the University of Wisconsin and earned an MBA from Texas A&M University. Mr. Humphrey served on the Board of Directors of Macrosolve, Inc. from 2004 to 2012 and during 2014. As discussed below, director James C. McGill served in various executive and board of director positions with Macrosolve. As our current President and Chief Executive Officer, Mr. Humphrey provides a management representative on the Board of Directors with extensive knowledge of our day-to-day operations. As a result, he facilitates the Board of Directors' access to timely and relevant information and its oversight of management's strategy, planning and performance. He has extensive experience in the management of companies in a wide range of industries and brings to the Board of Directors business leadership and corporate strategy.

Thomas J. Franz

Director since August 2007

Thomas J. Franz, 57, is currently head of TJ Franz & Associates, a firm specializing in profitability and contract CFO consulting for small and medium sized businesses, which he founded in 2003. For the 10 years prior, he served as Chief Financial Officer for several businesses and served in a Chief Operating Officer role as well. From 1983 to 1993 Mr. Franz held several public accounting roles for clients in the banking, government, venture capital, not for profit and financial services industries. Mr. Franz is a certified public accountant with a bachelor of business administration degree from Oklahoma State University where he also received a masters degree in accounting. Mr. Franz's background in business leadership, corporate strategy and financial and operating expertise allows him to provide significant input to our Board of Directors.

Joseph E. Hart

Director since August 2015

Joseph E Hart, 65, is currently the CEO of Aero Communications, Inc., which is a company that performs installation, maintenance, and network design and construction for the telecommunications industry, and has served in this capacity since November 2015. From 2006 – 2014, Mr. Hart served as the Executive Vice President of Network Infrastructure Services and Operations for Goodman Networks, Inc., a provider of end-to-end network infrastructure, professional services and field deployment to the wireless telecommunications and satellite television industry. For the previous 20 years, Mr. Hart served in various executive leadership positions for various telecommunication and wireless companies. Mr. Hart holds a masters of science degree in systems management from the University of Southern California and bachelor of business administration degree from Baldwin-Wallace College. Mr. Hart's extensive management experience in operations and corporate strategy in the telecommunications industry allows him to provide significant input to our Board of Directors.

James C. McGill

Director since August 2007

James C. McGill, 72, is currently the President of McGill Resources, which is a venture capital investment company, and has served in that capacity since 1987. In 2015, Mr. McGill formed and owns Ediche, LLC, an importer of women's clothing from South America to the United States. He also served in various executive leadership and board

of director positions of MacroSolve, Inc., which was a high technology Company focused on wireless data collection, from 2002 – 2013. In addition, he is a board member of numerous organizations in the Tulsa, Oklahoma area, and over the last 40 years he has served on numerous public company boards and has served as chief executive officer of several corporations. Mr. McGill served on the MacroSolve audit committee for two years and on The IT Group, Inc. audit committee for 12 years as a member and eight years as its chairman. During his career, Mr. McGill has received 25 U.S. and foreign patents in the field of pollution control and has extensive

experience in helping to develop early-stage and emerging companies. Mr. McGill is a registered professional engineer with a bachelor of science degree in chemical engineering from The University of Tulsa where he graduated Cum Laude. He is a member of the University's College of Engineering and Applied Sciences Hall of Fame and was named a Distinguished Alumni in 2005. Mr. McGill has extensive experience in managing companies in a variety of industries, and his business leadership, corporate strategy background and operating expertise strengthen the Board of Directors.

David W. Sparkman

Director since December 2015

David W. Sparkman, 58, is currently the Chief Financial Officer for a group of oil field service companies: Acid Specialists, LLC; Frac Specialists, LLC; and Cement Specialists, LLC. Mr. Sparkman has served in that capacity since September 2014, and prior to joining this group full-time in this capacity, he provided accounting and financial consulting services to these companies starting in April 2014. From 2010 to 2011, Mr. Sparkman was the CFO for Great White Energy Services until this company was acquired by Archer Well Company in 2011, and then served as the North America Director of Finance for Archer Well Company until 2013. From 2009 - 2010, Mr. Sparkman was President of Ulysses Enterprises, which is a financial consulting company. Mr. Sparkman also spent 12 years with Dollar Thrifty Automotive Group serving in various accounting and financial-related senior management positions. Mr. Sparkman is a certified public accountant and holds a bachelor of business administration degree in accounting from the University of Arkansas where he graduated Cum Laude. Mr. Sparkman's background in business leadership, corporate strategy and financial and operating expertise allows him to provide significant input to our Board of Directors.

Recommendation of the Board of Directors:

The Board of Directors recommends a vote FOR the election of each nominee.

#### Board of Directors

**Board Independence.** The Board of Directors has determined that Messrs. Franz, Hart, McGill and Sparkman have no relationship with us that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that such individuals are independent under the rules and listing standards of The NASDAQ Stock Market ("NASDAQ") and the rules of the Securities and Exchange Commission implemented pursuant to the Sarbanes-Oxley Act of 2002.

**Board Leadership Structure.** The Board of Directors does not have a current requirement that the roles of Chief Executive Officer and Chairman of the Board be either combined or separated, because the Board of Directors believes it is in our best interests to make this determination based on our current position and direction and the constitution of the Board of Directors and management team. The Board of Directors evaluates whether the roles of Chief Executive Officer and Chairman of the Board should be combined or separated. The Board of Directors has determined that having the positions of Chairman and Chief Executive Officer separated is in the best interest of our shareholders at this time. The Chief Executive Officer is primarily responsible for our overall management and the development and implementation of our strategy, and he has access to the people, information and resources necessary to facilitate that function. The Chairman of the Board has extensive industry knowledge in the cable television industry and was the Chairman of the Board from 1999 to 2012. The Board of Directors believes that separating the roles of Chief Executive Officer and Chairman is an appropriate leadership structure as it promotes the strengths and expertise of these two individuals currently serving on the Board of Directors.

**Oversight of Risk Management.** It is management's responsibility to manage our enterprise risks on a day-to-day basis. The Board of Directors is responsible for risk oversight by focusing on our overall risk management strategy and the steps management is taking to manage our risk.

While the Board of Directors as a whole maintains the ultimate oversight responsibility, the Board of Directors has delegated certain risk management oversight responsibilities to its various committees. The Audit Committee reviews and discusses our major financial risk exposures and the steps management has taken to identify, monitor, and control such risks. The Compensation Committee is responsible for overseeing risks related to our compensation programs, including structuring and reviewing our executive compensation programs, considering

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whether such programs are in line with our strategic objectives and incentivizing appropriate risk-taking. The Corporate Governance and Nominating Committee is tasked with risks associated with corporate governance and compliance.

Committees of the Board. The Board of Directors has three standing committees: the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee. The following section describes the functions and membership of each committee and the number of times it met during our fiscal year ended September 30, 2015.

#### AUDIT COMMITTEE

The functions and members of the Audit Committee are set forth below. The members of the Audit Committee are Thomas J. Franz (Chairman), Joseph E. Hart, James C. McGill and David W. Sparkman. The Audit Committee met four times during fiscal year 2015. All of the meetings were held prior to the reporting of our quarterly financial results.

##### Functions

- Selects the firm that will serve as our independent registered public accounting firm;
- Reviews scope and results of audits with our independent registered public accounting firm, compliance with any of our accounting policies and procedures and the adequacy of our system of internal controls;
- Oversees quarterly reporting; and
- Performs the other functions listed in the Charter of the Audit Committee, a current copy of which may be found on our website at [www.addvantagetechologies.com](http://www.addvantagetechologies.com).

##### Report of the Audit Committee

The Audit Committee of our Board of Directors is comprised of four directors who are not officers. Under currently applicable rules, each member is an independent director of the Company and meets the independence standards applicable for audit committee members under the rules of NASDAQ as well as under rules adopted by the Securities and Exchange Commission pursuant to the Sarbanes-Oxley Act of 2002.

The Audit Committee reviews our financial reporting process on behalf of the Board of Directors. The Audit Committee's policy is to review and pre-approve all proposed engagements for audit or non-audit services rendered by our independent registered public accounting firm. Under its pre-approval policy, the Audit Committee approved 100% of the services provided by HoganTaylor LLP ("HoganTaylor") in 2015 as those services are described in the section entitled "Principal Accounting Fees and Services." Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls.

In connection with its function to oversee and monitor our financial reporting process, the Audit Committee has done the following:

- selected HoganTaylor as our independent registered public accounting firm for the audit of the fiscal 2015 financial statements and the review of the interim quarterly financial statements;
-

reviewed and discussed the audited financial statements for the fiscal year ended September 30, 2015 with management;

- discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU Section 380), adopted by the Public Company Accounting Oversight Board in Rule 3200T;

- received the written disclosures and the letter from the independent registered public accounting firm required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and has discussed with the independent registered public accounting firm the independent registered public accounting firm's independence; and
- based on the reviews and discussions referred to above, recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for fiscal year 2015 for filing with the Securities and Exchange Commission (the "SEC").

Thomas J. Franz      Joseph E. Hart      James C. McGill      David W. Sparkman

#### Audit Committee Financial Expert

The SEC has adopted rules pursuant to the provisions of the Sarbanes-Oxley Act requiring audit committees to include an "audit committee financial expert," defined as a person who has the following attributes:

- 1) an understanding of generally accepted accounting principles and financial statements;
- 2) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- 3) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities;
- 4) an understanding of internal control over financial reporting; and
- 5) an understanding of audit committee functions.

The financial expert will have to possess all of the attributes listed above to qualify as an audit committee financial expert.

Our Board of Directors has determined that each of Thomas J. Franz, James C. McGill and David W. Sparkman meets the definitions of an audit committee financial expert.

#### COMPENSATION COMMITTEE

The current members of the Compensation Committee are James C. McGill (Chairman), Thomas J. Franz and Joseph E. Hart. The Compensation Committee met six times during fiscal 2015. The functions of the Compensation Committee are set forth below.

#### Functions

- Evaluates performance and sets compensation and benefits of Chief Executive Officer;
- Approves compensation and benefits programs of our other named executive officer(s);

- Approves compensation and benefits of our non-employee Board of Directors; and
- Performs the other functions listed in the Charter of the Compensation Committee, a current copy of which may be found on our website at [www.advantagetechologies.com](http://www.advantagetechologies.com).

## Composition and Delegation

The Compensation Committee of our Board of Directors is currently comprised of three directors who are not officers. All functions of the Compensation Committee are to be performed by the Committee members and are not authorized to be delegated outside of the Committee. Under currently applicable rules, each member is an “independent director” as defined under Rule 5605(a)(2) of NASDAQ, a “non-employee director” (within the meaning of Rule 16b-3(b)(3) of the Securities Exchange Act of 1934) and satisfies the requirements of an “outside director” as defined by Section 162(m) of the Internal Revenue Code.

## CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

The functions and members of the Corporate Governance and Nominating Committee are set forth below. The current members of the Corporate Governance and Nominating Committee are Thomas J. Franz (Chairman), Joseph E. Hart and James C. McGill. The Committee met six times during fiscal year 2015.

### Functions

- Provides oversight of the governance of the Board of Directors;
- Makes recommendations to the Board as a whole concerning board size, composition and compensation;
- Identifies individuals qualified to become Board members;
- Selects or recommends that the Board select the director nominees to stand for election at the annual meeting of shareholders;
- Recommends to the Board nominees for the positions of Chairman of the Board, chairmen of the various committees of the Board, and members of the various committees of the Board; and
- Performs other functions listed in the Charter of the Corporate Governance and Nominating Committee, a current copy of which may be found on our website at [www.advantagetechologies.com](http://www.advantagetechologies.com).

The Corporate Governance and Nominating Committee is currently comprised of three directors who are not officers. Under currently applicable rules, each member is an “independent director” as defined under the NASDAQ rules as well as under rules adopted by the SEC pursuant to the Sarbanes-Oxley Act of 2002.

The Corporate Governance and Nominating Committee’s criteria and process for identifying and evaluating the candidates that it selects, or recommends to the full Board for selection, as director nominees, are: (i) regular review of composition and size of the Board; (ii) review of qualifications of candidates properly recommended or nominated by any qualifying shareholder; (iii) evaluation of the performance of the Board and qualification of members of the Board eligible for re-election; and (iv) consideration of the suitability of each candidate, including current members of the Board, in light of the size and composition of the Board. After such review and consideration, the Corporate Governance and Nominating Committee will recommend a slate of director nominees.

While the Corporate Governance and Nominating Committee has not established specific minimum requirements for director candidates, other than they be at least 21 years of age, the Committee believes that candidates and nominees must reflect a board that is comprised of directors who: (i) are predominantly independent; (ii) are of high integrity; (iii) have qualifications that will increase overall board effectiveness; and (iv) meet other requirements as may be required by applicable rules, such as financial literacy or financial expertise with respect to Audit Committee

members. The Committee does not have a formal policy regarding the consideration of diversity in identifying director nominees, but the Committee does consider, among other things, a director nominee's potential contribution to the diversity of background and experience of our Board of Directors, including with respect to age, gender, international background, race and specialized experience.

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The Corporate Governance and Nominating Committee has adopted a policy with regard to the consideration of director candidates recommended by shareholders. The Corporate Governance and Nominating Committee will consider director candidates recommended by any shareholder holding 10,000 shares of our common stock for at least 12 months prior to the date of submission of the recommendation or nomination. Additionally, a recommending shareholder shall submit a written statement in support of the candidate, particularly within the context of the criteria for board membership, including issues of character, judgment, age, independence, expertise, corporate experience, other commitments and the like, personal references, and a written indication by the candidate of his or her willingness to serve, if elected, and evidence of the recommending person's ownership of our stock sufficient to meet the stock ownership requirements described above.

## BOARD MEETINGS

Our Board held six meetings during fiscal year 2015. Each director attended all of the meetings of the Board and the committees on which he served.

### Shareholder Communication with the Board of Directors and Committees

Communication with the Board of Directors or any of the Committees should be directed to the attention of Thomas J. Franz. Written correspondence to Mr. Franz may be delivered to our executive offices, 1221 East Houston, Broken Arrow, Oklahoma, 74012. All shareholder communications directed to Mr. Franz will be promptly forwarded to him. All Board members are encouraged, but not required, to attend our annual meeting. Last year, all of our Board members attended our annual meeting.

## CODE OF ETHICS

We have adopted a Code of Business Conduct and Ethics which is applicable to all of our directors, officers and employees. A copy of our Code of Business Conduct and Ethics is posted on our website at [www.advantagetech.com](http://www.advantagetech.com). We intend to satisfy the disclosure requirements, including those of Item 406 of Regulation S-K, regarding certain amendments to, or waivers from, provisions of our Code of Business Conduct and Ethics by posting such information on our website.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In fiscal 2015, there were no related party transactions required to be disclosed under the SEC rules and regulations.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than 10% of our common stock to report their initial ownership of our common stock and any subsequent changes in that ownership to the SEC and to furnish us with a copy of each of these reports. SEC regulations impose specific due dates for these reports and we are required to disclose in this proxy statement any failure to file by these dates during fiscal year 2015.

Based solely on the review of the copies of these reports furnished to us and written representations that no other reports were required, during and with respect to the fiscal year ended September 30, 2015, we believe that these persons have complied with all applicable filing requirements.





## COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

## Compensation of Directors

We paid our non-employee directors \$500 per quarter and \$500 for each board meeting and \$250 for each committee meeting or telephonic board or committee meeting the director attended before March 3, 2015. Beginning March 3, 2015, we paid our non-employee directors \$750 for each board meeting and \$375 for each committee meeting or telephonic board or committee meeting the director attended. The non-employee chairman of the Board received an additional \$750 per quarter, and the chairman of the Audit Committee received an additional \$250 per meeting before March 3, 2015. Beginning March 3, 2015, the non-employee chairman of the Board receives an additional \$1,000 per meeting, the chairman of the Audit Committee receives an additional \$375 per meeting, and the chairmen of the Compensation and Governance and Nominating Committees receive an additional \$150 per meeting. In addition, all directors are eligible to receive awards of restricted shares, which are subject to a 12-month holding period, or options to purchase shares of our common stock each year after the annual shareholders meeting. These annual awards generally total \$10,000 to \$15,000 and have ranged between 1,000 and 6,667 shares. We reimburse all directors for out-of-pocket expenses incurred by them in connection with their service on our Board and any Board committee. The following table reflects the total compensation earned by each non-employee director during the last fiscal year:

## Fiscal Year 2015 Director Compensation (A)

Name	Fees Earned or Restricted Stock		Total Compensation
	Paid in Cash	Awards	
Thomas J. Franz (1) (2) (3)	\$11,750	\$15,000 (4)	\$26,750
Joseph E. Hart (1) (2) (3) (6)	\$1,625	\$0	\$1,625
Paul F. Largess (5)	\$8,000	\$0	\$8,000
James C. McGill (1) (2) (3)	\$10,925	\$15,000 (4)	\$25,925

(A) David W. Sparkman joined the Board of Directors on December 1, 2015 after the fiscal year end of September 30, 2015.

(1) Member of the Audit Committee.

(2) Member of the Corporate Governance and Nominating Committee.

(3) Member of the Compensation Committee.

(4) The amounts shown represent the total fair value of the stock award of 6,383 shares on the date of grant for fiscal 2015. The fair value of the stock awards are amortized over the 12-month holding period to compensation expense in the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K. The fair value of the stock award was based on the closing market price of the stock on the date of grant.

(5) Mr. Largess left the Board of Directors on June 30, 2015.

(6) Mr. Hart joined the Board of Directors on August 6, 2015.

## SUMMARY COMPENSATION TABLE

The following table reflects the compensation of the named executive officers of the Company for the fiscal years ended September 30, 2015 and 2014.

Name and Principal Position	Year	Salary	Bonus	Restricted Stock Awards (1)	Option Awards (2)	Non-Equity Incentive Plan Compensation (3)	All Other Compensation (4)	Total Compensation
David L. Humphrey	2015	\$ 250,000	\$-	\$ 15,000	\$-	\$ 28,783	\$ 16,499	\$ 310,282
David L. Humphrey	2014	\$ 236,923	\$ -	\$ 48,000	\$ 81,635	\$ 24,312	\$ 14,772	\$ 405,642
David E. Chymiak	2015	\$ 294,580	\$-	\$ 15,000	\$-			
David E. Chymiak	2014	\$ 292,221	\$ -	\$ 29,000	\$ 18,670			

**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 certain of our officers including our CEO;

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.

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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.

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 and other applicable anti-corruption laws.

**Board Meetings and Attendance**

In 2018:

each current member of the Board attended at least 75% of all meetings of our Board and each committee on which he or she serves;

each of our current independent directors attended at least 75% of our executive sessions for independent directors without management; and

all of our directors attended the annual meeting held in May 2018. (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 in person or through the virtual meeting, if possible.)

Current committee membership and the number of meetings of our full Board and committees held in 2018 are shown in the table below.

	<b>Audit</b>	<b>Compensation and Human Resources</b>	<b>Governance and Nominating</b>	<b>Environmental, Health and Safety</b>
<b>Board</b>	<b>Committee</b>	<b>Committee<sup>(1)</sup></b>	<b>Committee</b>	<b>Committee</b>

Jimmy S.H. Lee

David M. Gandossi

William D. McCartney

Bernard Picchi

James Shepherd

R. Keith Purchase

Marti Morfitt

Alan Wallace

Linda Welty

Number of 2018 Meetings	10	4	4	4	4
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(1) Upon Mr. Picchi's retirement from the Board, Ms. Morfitt will become the Chair of the Compensation and Human Resources Committee.

Chair

Member

Lead Independent  
Director





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**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 six director nominees are independent and represent 75% of our director nominees:

Director Nominee Independence	Independent Director Nominees
	William D. McCartney
	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.

In 2019, after its review of our Governance Guidelines, the Committee recommended and our Board adopted new amended and restated Governance Guidelines.

**Our Board Leadership Structure**

**Practices**

Leadership:

Our Board leadership structure includes practices such as:

Executive Chairman

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

Lead Director

Audit, Compensation and Human Resources and Governance and Nominating Committees led by and composed solely of independent directors

holding regular executive sessions at each Board meeting to allow for the active engagement of independent directors and appropriate oversight of management.

Active engagement by all directors

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 currently 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.

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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**

Lead Director	Primary Responsibilities
<p><b>Lead Director</b></p>	<p>Provide leadership to non-employee directors on the Board.</p>
<p>R. Keith Purchase</p>	<p>Ensure that the Board can operate independently of management.</p>
<p><b>Executive Sessions Led in 2018:</b> 4</p>	<p>Serve as a liaison between the independent directors and the Chairman.</p>
<p><b>Average Attendance of Independent Directors at Executive Sessions in 2018:</b> 94%</p>	<p>Ensure that the Board has adequate resources to support its decision-making process and is appropriately approving strategy and supervising management's progress against that strategy.</p>
<p>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 a three-year term.</p>	<p>Ensure, with the Chairman, that the committees are working effectively.</p> <p>Establish, in consultation with the Chairman and Chief Executive Officer, procedures to govern the Board's work, ensuring that the Board is appropriately approving strategy and supervising management's progress against that strategy.</p>

The Lead Director shall serve in such capacity for not more than two consecutive three-year terms.

Providing input and help to develop with the Chairman Board agendas and timetables for Board and committee meetings.

Mr. Purchase was appointed Lead Director and Chair of our Governance and Nominating Committee in June 2018.

Annually review the effectiveness of the Board and committees in conjunction with the Governance and Nominating Committee.

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

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.

## **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.

Mr. Purchase was appointed our Lead Director effective June 1, 2018. After his appointment, he chaired all four executive sessions of our independent directors. Our independent directors generally hold 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.

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<b>Audit Committee</b>	<b>Primary Responsibilities</b>
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<b>Members in 2018:</b>	Oversee our accounting and financial reporting 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, the external audit process and our systems of internal accounting and financial controls.
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William D. McCartney (Chair)

Marti Morfitt

Alan Wallace

Provide an open avenue of communication between the Board, management and our independent registered public accounting firm;

<b>Meetings in 2018:</b> 4	Appoint and approve the Company’s independent registered public accounting firm, all audit engagement terms and fees to be paid to the independent auditor.
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**Average Attendance in 2018:** 92%

Oversee the relationship, including reviewing auditor independence, the scope of their work and the pre-approval of audit and non-audit services.

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

Review our quarterly and financial results with management and our independent registered public accounting firm and, based on such review, recommend to the Board that quarterly and annual financial statements be included in our annual reports on Form 10-K and quarterly reports on Form 10-Q.

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.

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

Review and approve the terms of all related party transactions.

Review management's assessment of the effectiveness of our internal controls over financial reporting and consider with management and our independent registered public accounting firm whether any changes to such internal controls are appropriate.

Review periodically and discuss with management our major risk exposures.

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

Review and reassess the adequacy of our Audit Committee Charter annually and recommend any changes to the Board for approval.



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**Primary Responsibilities**

**Compensation and Human Resources Committee**

**Members in 2018:** Oversee appropriate compensation practices and determine the compensation and other benefits for executive officers.

Bernard Picchi (Chair)

James Shepherd

Marti Morfitt

Alan Wallace

Periodically review and advise the Board on our overall compensation philosophy and plans and assessing the competitiveness and adequacy of our compensation 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 2018:** 4

**Average Attendance in 2018:** 94% Recommend compensation packages for both our Executive Chairman and Chief Executive Officer and approve the compensation packages for our other executive officers.

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

Based on discussions with our independent directors, the Chair of the Governance and Nominating Committee and the Chair of the Compensation and Human Resources Committee, annually review the performance of our Executive Chairman and Chief Executive Officer.

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

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

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

Annually review and approve the peer group companies used for the purposes of assessing executive officer compensation.

Review and approve succession plans for our key executive officers.

Review and assess the adequacy of its charter and recommend any changes to the Board for approval.

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**Governance and Nominating Committee**

**Primary Responsibilities**

**Members in 2018:**

Provide leadership with respect to corporate governance.

R. Keith Purchase (Chair)

Recommend to the Board nominees for appointment to the Board, including identifying and screening potential Board candidates and committee members.

William D. McCartney

Linda Welty

Make recommendations to the other independent directors for their selection of the Lead Director.

**Meetings in 2018: 4**

**Average Attendance in 2018: 100%**

Determine the skills, qualifications and other expertise required of directors and develop criteria to be considering in selecting potential Board candidates.

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

Develop and monitor our overall approach to corporate governance issues.

Review with the Board, on a regular basis, the methods and processes by which the Board fulfills its duties and responsibilities.

Evaluate the overall effectiveness of the Board and its performance.

Based on discussions with our independent directors, the Chair of the Governance and Nominating Committee and the Chair of the Compensation and Human Resources Committee, annually review the performance of our Executive Chairman and Chief Executive Officer.

Review our Governance Guidelines, including committee charter, in light of changing conditions and make recommendations to the Board on appropriate modifications.

Monitor compliance with our Governance Guidelines.

## **Environmental, Health and Safety Committee Primary Responsibilities**

### **Members in 2018:**

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

James Shepherd (Chair)

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

Jimmy S.H. Lee

R. Keith Purchase

David Gandossi

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

Linda Welty

### **Meetings in 2018: 4**

Review and assess its charter and recommend any changes to the Board for approval.

**Average Attendance in 2018: 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 business objectives.

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**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.

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, a Code of Business Conduct and Ethics 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 and Ethics, 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, risks relating to growth strategies, social licence 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.

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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 chairing 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 2018, risk areas of particular Board and committee focus included:

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

expansion and growth of our business in the pulp and related or ancillary businesses, including our acquisition of MPR, the financing thereof and the acquisition of Indian sandalwood plantations in Western Australia;

cybersecurity;

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

Shareholder distributions; and

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 forest products companies focused on kraft pulp, energy and chemical production, lumber and extractives;

**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.

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### *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 2018.

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 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. Picchi electing not to stand for re-election at the Meeting, the Governance and Nominating Committee recommended and the Board unanimously approved that the number of directors serving on the Board for the ensuing year be fixed at eight.

*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, reviews our executive succession planning procedures, including management development activities. We generally strive to appoint our most senior executives from within. To this end,

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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 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. In some years, select

directors, along with management representatives, have attended meetings with customers and other market participants, including in China, to broaden their understanding of our key markets. 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

## **INTEGRITY**

Works for our greater good

Demonstrates high ethical standards

Upholds our values

## **BUSINESS ACUMEN**

Focuses on the right performance outcomes

Balances short-, medium- and longer-term objectives

Exhibits sound judgment and thoughtfully balances trade-offs

### **ENGAGEMENT**

Engages fully and makes a meaningful contribution at all meetings

Actively promotes collegiality

Considers the input of others and provides thoughtful advice

### **COURAGE**

Appropriately challenges the status quo

Can make tough decisions

Champions change

### **STRATEGIC ORIENTATION**

Discusses pros and cons of strategic initiatives

Assesses global opportunities for alignment with our overall strategy

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### **Shareholder Engagement**

We believe that effective corporate governance should include regular, constructive conversations with our Shareholders. Over the past year, we have continued our engagement of shareholders, including through the following:

Our NEOs meet regularly with financial analysts, investors and shareholders and attend and present at investor conferences.

We broadcast live quarterly and annual earnings calls and archive them on our website.

Shareholders are encouraged to attend our annual meetings, where they have the opportunity to direct questions to our Chief Executive Officer and other NEOs. We have implemented a process for Shareholders to attend the Meeting through the Internet in order to better facilitate Shareholder participation.

Shareholders can communicate with the Board as described below under **Shareholder Communications with Board**.

We also annually evaluate proxy season trends, corporate governance best practices, regulatory developments, shareholder feedback and our current practices.

### **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 and NEOs**



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.

In 2019, we adopted a share ownership policy for our NEOs which requires our CEO and Executive Chairman to hold Shares having a value equal to at least five times their base salary and our other NEOs to hold Shares with a value equal to three times their base salary. NEOs will have five years to achieve the required threshold.

### **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%

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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.

**DIRECTORS' COMPENSATION**

**Directors' Compensation**

During the 2018 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"):

	Cash Retainer	Restricted Stock Awards
Non-Employee Directors (other than the Lead Director)	\$ 60,000	\$ 70,000 <sup>(1)</sup>

Lead Director	\$ 100,000	\$ 100,000 <sup>(1)</sup>
Chairman of Audit Committee	\$ 20,000	
Chairman of Compensation and Human Resources Committee	\$ 20,000	
Chairman of Governance and Nominating Committee	\$ 20,000	
Chairman of Environmental, Health and Safety Committee	\$ 20,000	

(1) 5,990 and 4,190 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 2018 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. The grant date fair value is based on a Share value of \$16.70, 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 2018, 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.

**Table of Contents****Director Compensation Table**

The following table sets forth information regarding compensation paid to our non-employee directors in their capacity as directors during the 2018 fiscal year. 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.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards <sup>(1)(2)</sup> (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-	All Other Compensation (\$)	Total (\$)
					Qualified Deferred Compensation Earnings (\$)		
William D. McCartney	80,000	69,973	-	-	-	-	149,973
James Shepherd	80,000	69,973	-	-	-	-	149,973
Bernard Picchi	80,000	69,973	-	-	-	-	149,973
Keith Purchase	95,000	100,033	-	-	-	-	195,033
Marti Morfitt	60,000	69,973	-	-	-	-	129,973
Alan Wallace	35,000	69,973	-	-	-	-	104,973
Linda Welty	35,000	69,973	-	-	-	-	104,973
Eric Lauritzen <sup>(3)</sup>	45,833	-	-	-	-	-	45,833
Nancy Orr <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 11 to our consolidated financial statements included in the 2018 Annual Report.

(2) The grant date fair value is based on a Share value of \$16.70 per Share, being the trading price at the time of grant, multiplied by stock awards of 4,190 shares of restricted stock which were granted to each of our non-employee directors, or 5,990 shares of restricted stock to our Lead Director, after our annual meeting of Shareholders held in 2018, 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 2018 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) Neither Mr. Lauritzen nor Ms. Orr stood for re-election at our annual meeting in 2018.

### 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 52, was our Senior Vice President, Finance from September 2013 to July 2015 and became Chief Financial Officer and Secretary in 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 58, 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.

**Wolfram Ridder**, age 57, 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.

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Mr. Ridder has a Master of Business Administration and a Master of Wood Science and Forest Product Technology from Hamburg University.

**Leonhard Nossol**, age 61, 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.

**Richard Short**, age 51, 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 55, 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 Forestry (Wood Science) from the University of Toronto, Canada.

**Genevieve Stannus**, age 49, 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 45, 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.

**Table of Contents****SHARES OUTSTANDING AND OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

There were 65,651,056 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  c/o IAT Reinsurance Co. Ltd.  48 Wall Street, 30 <sup>th</sup> Floor  New York, NY 10005 Dimensional Fund Advisers LP	23,000,000 <sup>(2)</sup>	35.0%
Building One  6300 Bee Cave Road  Austin, TX 78746 Gates Capital Management, L.P.	4,806,112 <sup>(3)</sup>	7.3%
1177 Ave. of the Americas  46 <sup>th</sup> Floor  New York, NY 10036	3,872,309 <sup>(4)</sup>	5.9%

(1) The percentage of outstanding Shares is calculated out of a total of 65,651,056 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 22,590,000 Shares indirectly via various entities, including IAT Reinsurance Co. Ltd.

(3) Based on Schedule 13G/A filed on February 8, 2019.

(4) Based on Schedule 13G/A filed on February 14, 2019 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 3,872,309 Shares.





**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 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>	1,834,698	2.8%
David M. Gandossi <sup>(2)</sup>	165,627	*
William D. McCartney <sup>(3)</sup>	67,200	*
Bernard Picchi <sup>(3)</sup>	60,200	*
James Shepherd <sup>(3)</sup>	30,840	*
Keith Purchase <sup>(3)</sup>	46,000	*
Marti Morfitt	9,190	*
Alan Wallace	4,190	*
Linda Welty	4,190	*
David K. Ure <sup>(2)</sup>	51,544	*
Adolf Koppensteiner <sup>(2)</sup>	19,715	*
Wolfram Ridder <sup>(2)</sup>	54,533	*
Directors, Director Nominees and Executive Officers as a Group (19 persons)	2,581,507	3.9%

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

(1) Based on 65,651,056 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 2018, 4,190 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 2019 unless a change in control of the Company occurs prior thereto.

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**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

Marti Morfitt

Alan Wallace

*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.*

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**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 it in assessing the Company's executive compensation programs. In 2018, in connection with its annual compensation review and in particular with respect to its review of annual bonuses and our short-term incentive plan, the Committee engaged Willis Towers Watson (WTW) as its compensation consultant. WTW was paid a fee of \$78,077 for such consulting work.

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 2018, WTW provided ongoing annual services in connection with the salaried pension plan for our Celgar mill and was paid \$289,582 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 Compensation and Human Resources 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.

**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 2018 Form 10-K.

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

Bernard Picchi, Chairman

James Shepherd

Marti Morfitt

Alan Wallace

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**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 2018, as well as the key objectives, policies, elements and designs of our executive compensation program. In this discussion and under Executive Compensation Tables, Committee or Compensation Committee means the Compensation and Human Resources Committee.

**Named Executive Officers (NEOs)**

Jimmy S.H. Lee, Executive Chairman and Director;

Adolf Koppensteiner, Chief Operating Officer; and

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

Wolfram Ridder, Vice President of Business  
Development.

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, Koppensteiner 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 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 2019, the Committee approved bonuses and awards for fiscal 2018, together with fixed base salaries for 2019. 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 43 and the Grants of Plan-Based Awards Table appearing on page 45 only reflect plan-based awards actually issued in fiscal 2018, which were based on fiscal 2017 performance.

**Fiscal 2018 Executive Summary**

2018 was a successful year for us. In 2018, we had strong financial and operating performance, significantly expanded our business, implemented a number of strategic capital projects to enhance our operations and continued to return capital to our shareholders via dividend payments.

In fiscal 2018, we:

generated record Operating EBITDA of \$364.6 million and net income of \$128.6 million, a 44% and 82% increase, respectively, over the prior year;

generated Return on Assets and Return on Equity of 7.9% and 22.6%, a 49% and 52% increase respectively over the prior year;

achieved improved safety performance including a reduction in our Total Recordable Incident Rate to 2.86 as compared to 2.89 in the prior year;

significantly expanded our pulp operations by acquiring MPR in December 2018 for approximately \$345 million. This acquisition increased our annual aggregate pulp production capacity by 42% and our electrical generation capacity by 29%;

issued \$350 million of 7.375% senior notes due 2025 to finance acquiring MPR and consolidated, extended and expanded our revolving credit facilities including establishing a new pan-German 200 million facility with a five year term;

implemented \$86.9 million of capital projects at our mills to reduce costs, increase production and improve efficiencies and reliability;

expanded our operations through the acquisition of Indian sandalwood plantations in Western Australia; and

returned \$32.6 million to our shareholders through the declaration of regular dividend payments.

**Table of Contents****Fiscal 2018 Financial and Operating Highlights**

The table below summarizes our selected key financial and operating results for 2018 compared to 2017.

	<b>Year Ended December 31,</b>		
	<b>2018<sup>(1)</sup></b>	<b>2017</b>	<b>Change (%)</b>
	<b>(in millions, other than where indicated)</b>		
<b><i>Pulp Segment</i></b>			
Pulp production ( 000 ADMTs)			
NBSK	1,451.3	1,507.0	(4)
NBHK	21.3		
Pulp sales ( 000 ADMTs)			
NBSK	1,418.0	1,515.1	(6)
NBHK	22.9		
Energy production ( 000 MWh)	1,625.2	1,888.3	(14)
Energy sales ( 000 MWh)	615.2	822.1	(25)
<b><i>Wood Products Segment</i></b>			
Lumber production (MMfbm)	398.7	281.3	42
Lumber sales (MMfbm)	412.9	213.5	93
Energy production and sales ( 000 MWh)	86.3	73.7	17
<b>Statement of Operations Data:</b>			
Pulp segment revenues	\$ 1,268.2	\$ 1,071.7	18
Wood products segment revenues	189.0	97.4	94
Corporate and other revenues	0.5	-	
Total revenues	\$ 1,457.7	\$ 1,169.1	25
Costs and expenses	\$ 1,189.9	\$ 1,000.6 <sup>(3)</sup>	19
Pulp segment operating income	\$ 274.4	\$ 171.3 <sup>(3)</sup>	60
Wood products segment operating income	6.2	5.6	11
Corporate and other operating loss	(12.7)	(8.3)	(53)
Total operating income	\$ 267.9	\$ 168.6	59
Operating EBITDA	\$ 364.6	\$ 253.8 <sup>(3)</sup>	44
Net income	\$ 128.6	\$ 70.5	82
	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>
	<b>(in millions, other than ratio)</b>		
			<b>(%)</b>
<b>Balance Sheet and Other Data:</b>			
Cash and cash equivalents	\$ 240.5	\$ 143.3	68
Working capital	\$ 615.3	\$ 421.9	46



Net debt	\$	800.9	\$	498.2	61
Total equity	\$	581.4	\$	550.7	6
Net debt to equity ratio		1.4 to 1		0.9 to 1	56
Return on Assets		7.9%		5.3%	49
Return on Equity		22.6%		14.9%	52
Total Recordable Incident Rate		2.86		2.89	1

	Year Ended December 31,		Change (%)		
	2018	2017			
<b>Share Price and Dividend Data</b>					
Price per Share as of fiscal year end <sup>(4)</sup>	\$	10.44	\$	14.30	(27)
Price per Share High for year	\$	19.14	\$	15.00	28
Dividends declared per Share	\$	0.50	\$	0.47	6

(1) Includes results of MPR since December 10, 2018.

(2) Excludes energy production and sales relating to our 50% joint venture interest in the Cariboo mill, which is accounted for as an equity investment.

(3) Adjusted as a result of our adoption of Accounting Standards Update 2017-7, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost*, in the current year.

(4) Represents the closing market price of our shares of common stock on the NASDAQ Global Select Market on December 31, 2018 and December 29, 2017, respectively.

**Table of Contents****Fiscal 2018 Compensation Decisions**

In accordance with our emphasis on pay for performance, fiscal 2018 compensation awarded to our NEOs reflected record Operating EBITDA, our overall strong operating performance, improved safety performance, in-line production, reasonable cost control in a rising cost environment particularly for fiber costs, a significant expansion of our business through acquisitions, including MPR and other complementary investments, and new capital projects to reduce costs and improve our operating efficiencies.

In making decisions on performance-based compensation for fiscal 2018, the Committee also weighed and considered our generally favorable performance against our Peer Group Companies (as

hereinafter defined) and the return of capital to shareholders pursuant to our regular quarterly dividends.

For fiscal 2018, the Committee did not rely upon any predetermined formulas or limited set of criteria when it evaluated the performance of our NEOs, but rather focused on individual objectives and their effects in respect of our overall business goals.

Following fiscal 2018, based on a review of our compensation practices by the Committee and its independent compensation consultant, the Committee implemented a new short-term incentive program (the 2019 STIP ), which will be effective for fiscal 2019 and thereafter. See [New Short-Term Incentive Plan](#) on page 37.

*Base Salaries.* The Committee generally reviews and adjusts base salaries annually at its February meeting with any adjustments generally commencing at the start of the following month. The Committee also makes periodic adjustments, as required, in connection with promotions, changes in position or competitive changes in market pay levels.

In February 2019, the Committee adjusted the salaries of our NEOs for 2019 as follows:

<b>Name</b>	<b>2019 Base Salary</b>	<b>2018 Base Salary</b>	<b>(%) Increase</b>
Jimmy S.H. Lee	\$ 572,939	\$ 547,743	4.6
David M. Gandossi	\$ 631,082	\$ 601,030	5.0
David K. Ure	\$ 368,572	\$ 357,143	3.2

Adolf Koppensteiner	\$ 450,366	\$ 437,249	3.0
Wolfram Ridder	\$ 392,427	\$ 380,997	3.0

The Committee effected adjustments to the salaries of our NEOs as a result of general industry compensation practices and trends and in recognition of their accomplishments in the last fiscal year.

*Short-Term Annual Cash Bonuses.* In making its compensation decisions regarding annual bonuses for our NEOs in respect of their fiscal 2018 performance, the Committee reviewed and considered:

Operating EBITDA which we view as one of the best indicators of our ability to successfully manage our business, including our ability to invest in our business, pursue growth opportunities, service our financial obligations, provide competitive compensation to our employees and return capital to our Shareholders through dividends;

our financial performance, with focus on production and operating costs, relative to prior performance, budgeted forecasts and to Peer Group Companies;

health and safety performance as providing a safe working environment for our employees is critical for our business and is directly correlated to efficient operations and manufacturing performance;

expansion of our business through acquisitions such as those of MPR and the Australian sandalwood plantations;

successfully financing the acquisition of MPR and improving our overall liquidity by extending and enlarging our revolving credit facilities;

executing capital projects to improve efficiency, reduce costs and improve our operations; and

each NEO's achievement of their individual and our overall 2018 performance objectives.

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*Chief Executive Officer and Executive Chairman Performances.* The Committee evaluated both Messrs. Gandossi and Lee's achievement of their 2018 performance objectives and leadership roles and guidance in, among other things:

*Mr. Gandossi*

improving mill operations and efficiencies and achieving strong operating performance which in 2018 generated \$364.6 million in Operating EBITDA and \$128.6 million in net income;

leading an initiative to focus and improve our health and safety performance including rolling out a new company-wide program, driving a safety culture throughout our operations and setting the tone from the top on health and safety;

effecting the acquisition of MPR and leading its integration including, on an operational, personnel and cultural basis;

leading and implementing a disciplined approach to identify, analyze and execute large capital projects to enhance our operating performance;

leading and helping to drive improved productivity, including long-term culture change at our mills; focusing on and leading the development of our management talent including our next level of younger managers; and

leading our focus on long-term sustainability and engaging with affected stakeholders including customers and suppliers, local communities, employees, governmental and regulatory authorities and non-governmental organizations.

*Mr. Lee*

continuing to lead and drive our focus on new strategic initiatives, including expanding our business through acquisitions, two of which were completed in 2018;

leading our strategic initiatives with respect to the extractives business, plantation harvesting and potential expansion into ancillary or related business opportunities;

representing us in critical negotiations in acquisition transactions; and

providing critical guidance and support to our other NEOs and executives.

Based upon the foregoing performance review of our NEOs, the Committee awarded short-term annual cash bonuses for fiscal 2018, as set forth in the following table:

<b>Name</b>	<b>Cash Bonus<sup>(1)(2)</sup></b>	<b>Percentage of 2018 Base Salary</b>
Jimmy S.H. Lee	\$ 590,877	108%
David M. Gandossi	\$ 821,622	137%
David K. Ure	\$ 319,691	90%
Adolf Koppensteiner	\$ 288,348	66%
Wolfram Ridder	\$ 194,989	51%

(1) Awarded in February 2019 in respect of fiscal 2018.

(2) For awards declared in February 2018 in respect of fiscal 2017, see the Summary Compensation Table on page 43 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>2018 Cash Bonus (Local Currency)</b>	<b>2017 Cash Bonus (Local Currency)</b>	<b>Change from 2017 to 2018 (%)</b>
Jimmy S.H. Lee	500,000	425,000	17.6

David M. Gandossi	C\$ 1,064,000	C\$ 500,000	112.8
David K. Ure	C\$ 414,000	C\$ 392,000	5.6
Adolf Koppensteiner	244,000	90,000	171.1
Wolfram Ridder	165,000	82,000	101.2

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For fiscal 2018, the bonuses paid to our NEOs reflect the Committee's assessment of the individual and overall Company factors discussed above.

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

Pursuant to our long-term incentive compensation program (the LTIP), the Committee primarily uses performance stock units, or PSUs, to provide long-term equity based compensation to our executives, including our NEOs.

Such 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. As a result, 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 also 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. Until 2019, the performance criteria were comprised of:

Absolute Return on Average Assets ;

Total Shareholder Return ; and

New Business Initiatives ,  
(the Performance Criteria ).

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 the applicable performance criteria for PSUs based upon the audited financial statements of a completed three-year performance period.

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 components of the applicable 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.

Our PSU awards and vesting of Shares occurs as follows:

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In February 2019, the Committee amended the Performance Criteria to delete the New Business Initiatives component (the Amended Performance Criteria). The Committee amended such criteria in order to better ensure that such criteria are best aligned with Shareholder interests. After consideration, the Committee further determined that successful New Business Initiatives originate yearly and are better recognized in the annual individual

performance assessments of relevant executives and through the payment of short term annual bonuses. If such individuals create value for Shareholders, they will be measured in the Amended Performance Criteria. Additionally, commencing in 2019, the Committee increased the target level and maximum award our Executive Chairman can earn as a percentage of his base salary from 100% to 150% and 200% to 300%, respectively.

**Fiscal 2018 PSU Grant**

For fiscal 2018, the Committee issued an aggregate of 652,548 PSUs (the 2018 PSUs) to our executives which are eligible to vest over a three-year performance period ending on December 31, 2020.

The following table sets forth the target level and number of 2018 PSUs awarded to our NEOs for fiscal 2018:

<b>Name</b>	<b>Target Level for 2018 PSUs<sup>(1)(2)</sup></b>	<b>Target Level as a Percentage of 2018 Base Salary<sup>(1)</sup></b>	<b>Maximum 2018 PSUs<sup>(1)(2)</sup></b>	<b>Maximum 2018 PSUs as a Percentage of 2018 Base Salary<sup>(1)</sup></b>
Jimmy S.H. Lee	44,834	100	89,668	200
David M. Gandossi	49,798	100	99,596	200
David K. Ure Adolf	21,709	75	43,418	150
Koppensteiner	17,895	50	35,790	100
Wolfram Ridder	15,593	50	31,186	100

(1) Each 2018 PSU awarded on February 14, 2018 was valued at \$12.75, 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, 2020, based upon the Performance Criteria.

**Vesting of Fiscal 2016 PSUs**

The three-year performance period for an initial 991,552 PSUs awarded by the Committee for fiscal 2016 (the 2016 PSUs) to our executives, including our NEOs, ended on December 31, 2018.

In February 2019, the Board, based on the recommendation of the Committee, approved the vesting and awarding of 449,395 Shares to our executives (including our NEOs) pursuant to the then outstanding 2016 PSUs. This vesting represents the Committee's assessment of achievement against the three Performance Criteria as follows:

Component	Achievement to Target
Absolute Return on Average Assets	140%
Total Shareholder Return	60%
New Business Initiatives	100%
The vesting on a weighted basis was equal to 100% 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. It is focused on the following principles:

*Emphasize Variable Pay.* Our executive compensation program emphasizes and focuses on performance-based and at risk compensation, especially compensation for our Executive Chairman and CEO, rather than on fixed compensation.

*Pay for Performance.* We believe that it is appropriate for certain components of compensation to decline during periods of economic stress, reduced Operating EBITDA and net income and significantly lower Share prices as well as to increase during periods of increased Operating EBITDA and net income and higher Share prices.

*Align executive interests with long-term interests of Shareholders.* A significant portion of the total compensation opportunity for senior executives is directly linked to the performance of our Shares.

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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>Closely align compensation with our business purpose and commitment to shareholder value creation by focusing on long-term sustainable growth.</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>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>Pay-for-Performance.</i> Compensation should be linked to both individual and overall Company performance.</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>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>Align the interests of our executives with the long-term interests of our Shareholders.</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>Given the cyclical nature of the industry in which we operate, provide the Board the discretion to modify compensation plans to meet business needs at the time.</p>	<p><i>Simple Pay Programs.</i> Overall compensation simplicity should be maintained to ensure broad employee understanding and acceptance and control</p>

costs.

*Clear Communication.* Compensation should clearly communicate desired behavior and incentive pay programs should 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.

For fiscal 2018, our CEO's and Executive Chairman's percentage of variable performance based compensation to total compensation was 71% and 68%, respectively.

*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

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equity incentive grants, closely aligns the interests of our executives 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 and with our competitors.

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 are also made to reflect cost of living increases.

## **Annual Incentive Bonuses**

### **Form**

### **Objectives and Basis**

#### **Cash**

Provide incentives and motivate performance of NEOs to advance, with some urgency, our current year's business goals and encourage superior performance.

Provide assessment criteria that are simple, consistent, transparent and representative of individual and team 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.

Bonuses, which up to and including fiscal 2018, were awarded on a discretionary basis without a predetermined formula or specific weighting for any particular factor. In 2019, the Committee adopted a new short-term incentive plan. See [New Short-Term Incentive Plan](#) on page 37.

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.

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**Long-Term Equity Incentives**

**Form**

**Objectives and Basis**

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

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.

Restricted stock rights

Performance shares

Primarily delivered in the form of PSUs with a three-year vesting period.

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**



**Form**

**Objectives and Basis**

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.

Living/housing

Automobile benefits include the lease of a vehicle along with the fuel and maintenance expenses 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 \$86,632) 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.

Our COO receives a housing allowance of 10,200 (approximately \$12,054) as he is required to live near the Stendal mill for much of the work week.

**Other**

**Form**

**Objectives and Basis**

Severance and change in control provisions      Provide protection against termination of employment for reasons beyond the executive's control.

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

The Committee is comprised entirely of independent directors and determines our compensation objectives, philosophy and forms of compensation and benefits for executives. The Committee submits key compensation elements for our executives 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 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 2018 compensation for our CEO or Executive Chairman. 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, operating costs, energy generation and sales, mill margins, Operating EBITDA and net income measured against both budgets and our competitors' performances. 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 against targets, prescribed requirements and against our competitors (to the extent available).

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

*Use of Board Discretion.* The Board, through the Committee, retains the discretion to lower the compensation of our executives, including NEOs, even when the performance goals or targets of any aspect of the plans are achieved. In making such decisions, the Committee will consider a number of factors including the recommendation of the CEO, the financial condition of the company, the state of the markets generally, and any other factor the Committee considers relevant.

*Use of Consultants in Executive Compensation Process.* For fiscal 2018, the Committee engaged WTW as its outside independent compensation consultant. The consultant attends meetings and has telephonic consultations with the Committee and its members as requested by the Committee Chair. During fiscal 2018, WTW assisted in reviewing and considering our:

total direct compensation for our NEOs (primarily base salaries);

short-term incentives and plans (primarily annual cash incentive bonuses);

long-term equity incentives and plans (primarily PSUs);

Share ownership policy for our NEOs; and

selecting an appropriate group of peer companies for benchmarking and comparative purposes.

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The consultant assisted the Committee in reviewing the foregoing compensation elements on a relative basis to that of the Peer Group Companies. Additionally, the consultant provided input in reviewing and validating information, programs and recommendations.

*Peer Group Companies and Benchmarking.* The Committee reviews executive compensation levels and programs at least annually at certain peer group companies. For fiscal 2018, 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).

For fiscal 2018, using information provided by its independent compensation consultant, WTW, and public filings, the Committee used for benchmarking the following companies:

Canfor Corporation;

Cascades Inc.;

Clearwater Paper Corporation;

Interfor Corporation;

Domtar Corporation;

Neenah, Inc.;

P.H. Glatfelter Company;

Resolute Forest Products Inc.;

Schweitzer-Mauduit International, Inc.; and

West Fraser Timber Co. Ltd.,  
(collectively the Peer Group Companies ).

The Committee, with the assistance of WTW, reviewed the performance of the Peer Group Companies because their industries, businesses, size, geographic location and general business challenges make them comparable to us and to ensure that our compensation levels are within the range of comparative norms. In addition, these companies have complete executive compensation data publicly available. 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 and corporate 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 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.

*New Short-Term Incentive Plan.* In February 2019, based upon its review of our compensation goals, market and industry practices, including the Peer Group Companies and with the assistance of WTW, the Committee adopted the 2019 STIP, which will take effect starting in fiscal 2019.

The 2019 STIP provides that:

awards will be based upon three components, being an overall corporate component, a team component and an individual component;

the corporate component will comprise 40% of the 2019 STIP for all executives and be measured by how our Operating EBITDA achievement compares to the target Operating EBITDA ( STIP Target EBITDA ) as it is established and determined by the Committee and which for fiscal 2019 is targeted to generate a 6.0% return on assets. At the end of the year, actual Operating EBITDA will be compared to the STIP Target EBITDA, as determined by the Committee, and the achievement of the corporate component will be measured as follows:

<b>% of STIP Target EBITDA Achieved</b>	<b>Payout of Target</b>
<60%	0%
100%	100%
>150%	200%

the team component will include different elements depending upon an executive's particular role or job function (e.g., the team component for a corporate manager will differ from that of a mill manager). Overall weighting for the team component will vary between 10% and 40%. The team component will contain a

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10% weighting for health and safety for all eligible executives. The achievement of the health and safety element will be measured as follows:

<b>Health &amp; Safety Target</b>	<b>Payout of Target</b>
TRIR <sup>(1)</sup> exceeding highest TRIR in last 3 years	0%
TRIR is equal or better than 90% of the average of last 3 years	100%
TRIR is equal to or better than 90% of lowest TRIR in any of past 3 years	200%

## (1) Total Recordable Incident Rate

the individual component will vary between 20% to 50% based upon the role of the executive. The individual component will be measured against annual goals and performance targets provided by management and accepted by the Committee;

the measurement period will be a fiscal year and awards will be determined after year-end audited financial statements have been provided to and reviewed by the Committee; and

the initial awards under the 2019 STIP will be determined in February 2020 for fiscal 2019.

In the case of our CEO, Executive Chairman, CFO and COO, individual components will be weighted at 20% and they will participate in the overall 40% weighting for STIP Target EBITDA (measured as aforesaid). Each of their team components will be weighted 10% for divisional achievements of health and safety (measured as aforesaid) and 20% for divisional achievements of productivity and 10% for divisional achievements for costs measured as follows:

<b>Budgeted Production</b>	<b>Payout of Target</b>
<95%	0%
100%	100%
>103%	200%

**Budgeted Costs****Payout of Target**

>115%	0%
100%	100%
<90%	200%

Mr. Ridder's 2019 STIP components will be based 40% on STIP Target EBITDA, 10% on health and safety achievements and 50% on his individual component. For each of the 2019 STIP components,

the Committee will interpolate performance within ranges.

The following sets out the annual bonus opportunities of our NEOs as a percentage of their 2019 base salary upon achieving the 2019 STIP Target components:

**Target****Maximum**

Jimmy S.H. Lee	100%	200%
David M. Gandossi	100%	200%
David K. Ure	67%	134%
Adolf Koppensteiner	50%	100%
Wolfram Ridder	35%	70%

The Committee has discretion to lower awards under the 2019 STIP if it determines that circumstances so warrant.

The Committee determined that the 2019 STIP would more closely align with Shareholder interests than its predecessor program. The 2019 STIP is designed to reward our NEOs and executives by producing objective outcomes that are closely aligned with the interests of Shareholders. The Committee also determined that the 2019 STIP is more transparent to executives and Shareholders and less subjective than its predecessor.

*Total Compensation.* At least annually, the Committee reviews total compensation levels for our NEOs, including each element of compensation 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 Group Company data and these relationships in the context of our compensation philosophy to determine the overall balance and reasonableness of our NEOs' total compensation packages.





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Our executive compensation program provides that a majority 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 2018, 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 2018 base salary.

**Fiscal 2018 Total Direct Compensation Paid**

<b>% of variable compensation to total:</b> <b>68%</b>	<b>% of variable compensation to total:</b> <b>71%</b>	<b>% of variable compensation to total:</b> <b>56%</b>
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**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 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. Koppensteiner and Ridder are the NEOs participating in the European program.

### **Performance Measures**

For fiscal 2018, as part of the annual performance evaluations it conducts for our NEOs, the Committee, among other things, considered the following performance measures:

*Operating EBITDA* We consider Operating EBITDA to be the leading and best indicator of our ability to successfully manage our business. It is a meaningful supplement to net income as a performance measure primarily because

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depreciation expense and non-recurring capital asset management charges are not actual cash costs, 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. We also measure Operating EBITDA versus applicable Peer Group Companies, both on an absolute basis and on an Operating EBITDA per tonne of NBSK pulp production basis;

*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 production and costs, and the contributions of our NEOs in achieving these targets. We believe health and safety is critical for our business and directly correlated to efficient operations and manufacturing performance; and

*Individual Goals* Our NEOs' progress on meeting pre-set and approved individual goals for the fiscal year. For fiscal 2018, the above performance measures were 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 components of the Performance Criteria and the Amended Performance Criteria, as applicable, are equally weighted as to each component thereof.

Commencing with fiscal 2019, short term cash incentives will be determined pursuant to the 2019 STIP.

*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;

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;

Committee discretion to lower annual incentive award amounts;

a prohibition on hedging and pledging Company stock; and

clawback provisions for performance and variable pay.

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 growth opportunities and his overall 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

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incentive compensation and at risk compensation is consistent with our compensation objectives, market practices and appropriately reflects his contribution.

We believe the fiscal 2018 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

## **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 44 and under **Potential Payments upon Termination or Change of Control** beginning on page 50 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 50 of this Proxy Statement.

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.

## **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 2018 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 a policy for 2018 that all compensation must qualify as deductible under Section 162(m). Therefore, certain amounts paid in 2018 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 Applicable Policies and Provisions**

*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.

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*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.

*NEO Share Ownership Policy.* In 2019, we adopted a share ownership policy for our NEOs which requires our CEO and Executive Chairman to hold Shares having a value equal to at least five times their base salary and our other NEOs to hold Shares with a value equal to three times their base salary. NEOs will have five years to achieve the required threshold.

## **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 2018 Advisory Vote on Our Compensation Program**

We provided Shareholders a say on pay advisory vote on our executive compensation in 2018. At our 2018 annual meeting of Shareholders, Shareholders expressed very substantial support for the compensation of our NEOs, with approximately 99.7% 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 NEOs, 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 2018 say-on-pay advisory vote.





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

The following table sets forth information regarding the fiscal 2018, 2017 and 2016 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 45 only reflect plan-based awards actually issued in fiscal 2018.

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:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
C\$	0.7722	\$ 0.7710	\$ 0.7558
euro	1.1817	\$ 1.1301	\$ 1.1072

Principal	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 and Non-Qualified Deferred Compensation Earnings <sup>(4)</sup>	All Other Compensation <sup>(5)</sup>
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
ee <sup>(6)</sup>	2018	547,743	590,877	571,634	-	-	-	88,632
rman	2017	523,788	480,280	490,620	-	-	-	84,755
	2016	513,175	470,549	524,541	-	-	-	83,038
lossi <sup>(7)</sup>	2018	601,030	821,622	634,925	-	-	77,871	32,560
e	2017	511,437	385,505	511,104	-	-	65,500	29,797
	2016	471,116	366,563	455,858	-	-	57,766	30,193

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	2018	357,143	319,691	276,790	-	-	33,027	33,995
	2017	340,529	302,236	229,992	-	-	20,496	32,456
	2016	296,022	102,033	193,922	-	-	15,699	30,721
8)(9)(10)	2018	437,249	288,348	228,161	-	-	-	64,728
	2017	380,997	194,989	198,811	-	-	-	49,707
	2016	355,407	92,666	166,452	-	-	-	46,778
	2016	339,681	83,038	173,605	-	-	-	45,457

- (1) Year to year changes reflect both increases in compensation and foreign exchange fluctuations. Based upon the exchange rate as at December 31, 2018, the dollar had decreased by approximately 5% in value against the euro and decreased by approximately 0.2% against the Canadian dollar since December 31, 2017.
- (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 PSUs 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 2018 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, 2018, 2017 and 2016, respectively. On February 14, 2018, we granted 2018 PSUs to all our NEOs. The grant date fair values are reported based upon the Share price of \$12.75, 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 2018 PSUs granted in February 2018, assuming maximum vesting of 200% (and not target of 100%) of the performance awards, would have been: (i) Mr. Lee - \$1,143,268; (ii) Mr. Gandossi - \$1,269,850; (iii) Mr. Ure - \$553,580; (iv) Mr. Koppensteiner - \$456,322; and (v) Mr. Ridder - \$397,622. Details on the awards can be found in the Grants of Plan-Based Awards Table on page 45 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.

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(5) Included in All Other Compensation for the fiscal years ended December 31, 2018, 2017 and 2016 are benefits and perquisites which consist of the following:

Name	Year	Auto (\$)	Retirement Plan Contributions (\$)	Other (\$)
Jimmy S. H. Lee	2018	-	-	88,632 (living allowance)
	2017	-	-	84,755 (living allowance)
	2016	-	-	83,038 (living allowance)
David M. Gandossi	2018	7,963	20,255	4,342 (life insurance and special medical)
	2017	7,435	20,054	2,308 (life insurance and special medical)
	2016	8,707	19,175	2,311 (life insurance and special medical)
David K. Ure	2018	11,059	20,255	2,681 (life insurance and special medical)
	2017	11,228	20,054	1,174 (life insurance and special medical)
	2016	10,350	19,175	1,196 (life insurance and special medical)
Adolf Koppensteiner	2018	12,940	39,734	12,054 (housing allowance)
Wolfram Ridder	2018	12,100	37,607	-
	2017	10,903	35,875	-
	2016	10,682	34,775	-

(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 2018, we contributed \$20,255 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) Mr. Koppensteiner was appointed Chief Operating Officer effective January 1, 2018.

(9) The terms of Mr. Koppensteiner's employment agreement entitle him to a housing allowance of 10,200 annually.

(10) In 2018, we contributed \$39,734 to Mr. Koppensteiner's retirement plan under our European retirement program, which amount is reflected in the column All Other Compensation.

(11) In 2018, we contributed \$37,607 to Mr. Ridder's retirement plan under our European retirement program, which amount is reflected in the column All Other Compensation.

#### **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 initial 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 initial 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 initial annual base salary of C\$350,000 (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

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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.

**Chief Operating Officer.** Mr. Koppensteiner is a party to an employment agreement dated January 1, 2016, as amended effective January 1, 2018, which provides for an initial annual base salary of \$370,000 (which amount is reviewed by the Board or the Committee annually), an annual bonus depending on the economic result as determined by our Board or

the Committee and certain benefits and perquisites including participation in our European retirement program. The agreement may be terminated by us and by Mr. Koppensteiner by either party giving 12 months' notice and, in any event, will terminate at the time Mr. Koppensteiner 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 initial 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 2018 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 or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Award (\$ per Share)
	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)			
February 14, 2018	-	-	-	22,417	44,834	89,668	-	-	-
February	-	-	-	24,899	49,798	99,596	-	-	-

14, 2018									
February	-	-	-	10,855	21,709	43,418	-	-	-
14, 2018									
February	-	-	-	8,948	17,895	35,790	-	-	-
14, 2018									
February	-	-	-	7,797	15,593	31,186	-	-	-
14, 2018									

- (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 2018 consist of the 2018 PSUs granted to all our NEOs on February 14, 2018. Pursuant to ASC 718, grant date fair values of the 2018 PSUs granted in February 2018 are based on the Share price of \$12.75, 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 2018, we issued an aggregate of 652,548 2018 PSUs to our executives, including an aggregate of 299,658 2018 PSUs to our NEOs.

Each PSU represents one Share. As a result, the number of 2018 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 applicable performance criteria established by the Committee described below. The Performance Criteria for the PSUs granted in 2018, 2017 and 2016 are the same. The performance period for 2018 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 2018 PSUs ends December 31, 2020.

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 2018, 2017 and 2016 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%

In February 2019, the Committee amended the ROAA component to increase the ranges at each payout level for PSUs granted on and after 2019.



(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 TSR Group Companies (as listed below) and determined as follows:

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

The TSR Group Companies are:

Borregaard ASA;

Canfor Pulp Products Inc.;

Domtar Corporation;

ENCE Energia y Celulosa SA;

Fibria Celulose SA;

Resolute Forest Products Inc.;

Rottneros AB;

Stora Enso Oyj;

UPM-Kymmene Oyj; and

West Fraser Timber Co. Ltd.

The TSR Group Companies against which relative TSR is measured were selected to ensure a close alignment with our business in terms of both product mix and geographic footprint which we believe is the best comparator for shareholder returns.

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(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.

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 2018 and, as the end price, the average trading price of the securities for the last 20 days of trading in 2020. Any awards under the LTIP that do not vest pursuant to the Performance Criteria are forfeited.

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

In February 2019, our Board, based upon the Committee's assessment of the achievement of the Performance Criteria, approved the vesting and awarding of 449,395 Shares to our executives (including our NEOs) pursuant to the 2016 PSUs. The 449,395 Shares represent 100% of the potential Share award range previously set at between 0% and 200%. See *Vesting of Fiscal 2016 PSUs* on page 32 hereof.

In February 2019, the Committee determined that the vesting of PSUs issued in 2019 and thereafter will be based upon the Committee's assessment of achievement of the Amended Performance Criteria.

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* .

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

The following table sets forth information regarding outstanding equity awards for our NEOs at December 31, 2018:

Option Awards					Stock Awards		
Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	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 Vested <sup>(2)</sup> (#)
-	-	-	-	-	-	-	172,852
-	-	-	-	-	-	-	168,114
-	-	-	-	-	-	-	73,088
-	-	-	-	-	-	-	62,439

- (1) Based on the closing Share price of \$10.44 per Share on the NASDAQ Global Select Market as at December 31, 2018.
- (2) Reflects the number of PSUs that may be earned upon achievement of target performance of the 2018 PSUs awarded to our NEOs in 2018, the 2017 PSUs awarded to our NEOs in 2017 and the 2016 PSUs awarded to our NEOs in 2016, based on the Compensation Committee's assessment of the achievement of the Performance Criteria respecting the 2016 PSUs in February 2019. As at December 31, 2018, 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, 2018 and ending on December 31, 2020, in the case of the 2018 PSUs, from January 1, 2017 and ending on December 31, 2019, in the case of the 2017 PSUs, and from January 1, 2016 and ending on December 31, 2018, in the case of the 2016 PSUs. The 2018 PSUs are eligible to vest in 2021, the 2017 PSUs are eligible to vest in 2020 and the 2016 PSUs vested in February 2019.

#### 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 2018.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Jimmy S.H. Lee	-	-	-	-
David M. Gandossi	-	-	-	-
David K. Ure	-	-	-	-
Adolf				
Koppensteiner	-	-	-	-
Wolfram Ridder	-	-	-	-
<b>Non-Qualified Deferred Compensation</b>				

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\$26,230 in 2018). 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 3.83%. 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 2018, we contributed or accrued \$20,255 on each of their behalves under the terms of the program.

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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 ( 6,473 in 2018), 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. Koppensteiner and Ridder, on whose behalf, in 2018, we contributed \$39,734 and \$37,607, respectively, under the terms of the program.

**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>
Jimmy S.H. Lee	-	-	-	-	-
David M. Gandossi	-	59,153	18,718	-	527,122 <sup>(4)</sup>
David K. Ure Adolf Koppensteiner	-	30,595	2,432	-	81,120 <sup>(4)</sup>
Wolfram Ridder	-	32,085	-	-	-
	-	29,957	-	-	-

(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 43 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 3.83%. We account for Messrs. Gandossi and Ure's amounts in the Summary Compensation Table on page 43 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, \$448,558 and \$48,020 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.

**Table of Contents****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, 2018.

<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>
Jimmy S. H. Lee	3,311,376	-	-	1,804,575	5,115,951
David M. Gandossi	2,049,252	-	-	1,755,110	3,804,362
David K. Ure Adolf	644,239	-	-	763,039	1,407,278
Koppensteiner Wolfram	705,027	-	-	-	705,027
Ridder	213,744	-	-	-	213,744

(1) Based on the closing market price of \$10.44 per Share on the NASDAQ Global Select Market on December 31, 2018.

***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, 2018.

<b>Name</b>	<b>Cash Severance Benefit (\$)</b>	<b>Insurance Continuation (\$)</b>	<b>Stock Option and Restricted Stock Acceleration<sup>(1)(2)</sup> (\$)</b>	<b>Performance Award Acceleration<sup>(1)(2)</sup> (\$)</b>	<b>Total (\$)</b>
Jimmy S. H. Lee	3,311,376	-	-	1,804,575	5,115,951
David M. Gandossi	4,098,505	-	-	1,755,110	5,853,615



David K. Ure	966,359	-	-	763,039	1,729,398
Adolf					
Koppensteiner	705,027	-	-	558,644	1,263,671
Wolfram					
Ridder	427,489	-	-	608,673	1,036,162

(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 \$10.44 per Share on the NASDAQ Global Select Market on December 31, 2018.

### **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 or 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.

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**Table of Contents*****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 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

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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.

*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

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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.

### Adolf Koppensteiner

The terms of Mr. Koppensteiner's employment agreement provide for a 12 month notice period in case of termination by either party. 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 2018, our last completed fiscal year:

the annual total compensation of the employee identified at median of our company (other than Mr. Gandossi), was \$56,148;

the annual total compensation of Mr. Gandossi for purposes of determining the pay ratio was \$2,168,088; 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 39 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

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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, 2018, our employee population consisted of approximately 1,900 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 ended December 31, 2018. In making this determination, we annualized the compensation of all newly hired permanent employees during this period. We did not include employees of MPR and Santanol, which we acquired during the 2018 fiscal year.

**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, 2018 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)	\$	2,819,121 <sup>(3)</sup>
Equity compensation plans not approved by Shareholders			

(1) The 2010 Plan.

(2) Excludes 31,130 outstanding restricted shares which vest in 2019 and a maximum of 2,036,008 outstanding PSUs, 898,700 of which were eligible for vesting as at December 31, 2018. (In February 2019, based upon an assessment of the achievement of the Performance Criteria, 449,395 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 1,137,218 PSUs, 503,344 are eligible to vest at December 31, 2019 and 633,874 are eligible to vest at December 31, 2020. The actual number of Shares issued in respect of unvested PSUs will vary from 0% to 200% of PSUs 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, 2018. As at the date hereof, the amount available is 2,640,758 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 2018 and 2017:

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Audit Fees <sup>(1)</sup>	\$ 1,182,684	\$ 1,231,705
Audit-Related Fees <sup>(2)</sup>	\$ 316,165	\$ 182,157
Tax Fees <sup>(3)</sup>	\$ 242,232	\$ 110,764
All Other Fees	\$ 63,925 <sup>(4)</sup>	\$ 136,092 <sup>(4)</sup>
	<b>\$ 1,805,006</b>	<b>\$ 1,660,718</b>

- (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 2018 was in connection with services related to our acquisition of MPR and advisory and governmental relations services related to new green energy legislation in Germany and 2017 was in connection with such advisory and governmental relations services.

**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 2017 and 2018, all services provided by our independent registered public accounting firm, PricewaterhouseCoopers LLP, had been pre-approved by the Audit Committee.

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**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 2020 (the 2020 Annual Meeting ). The non-binding resolution approving our executive compensation was approved by 99.7% of the Shareholders present or represented by proxy at our 2018 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 2019 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, 2018.

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**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 65,651,056 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, (including through the virtual 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 2019; 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

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the Meeting, you will first need to obtain a legal 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.

Virtual Meeting. If you are a registered Shareholder, you may also attend and vote at the Meeting via the Internet. In order to do so, please follow the instructions in the accompanying Proxy and Meeting materials.

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 2019, 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 Governance Guidelines provide that in uncontested directors' elections

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any nominee for director who receives more votes Withheld than For for his or her election will have his or her term as a director terminate on the earlier to occur of: (i) 90 days after the election results are certified; (ii) the date such director resigns; or (iii) the date the Board fills the position.

**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 majority voting 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 or through the virtual meeting, please cast your vote as soon as possible by:**

using the Internet at

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

(for registered shareholders)

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

(for beneficial shareholders)

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

scanning the QR code provided in your  
proxy with your smartphone

mailing your signed proxy or voting  
instruction form

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**FUTURE SHAREHOLDER PROPOSALS**

Any proposal which a Shareholder wishes to include in the proxy statement and proxy relating to the 2020 Annual Meeting must be received by the Company on or before December 17, 2019. 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 2020 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 January 31, 2020 and no later than March 2, 2020. If the Company receives notice of a Shareholder proposal after March 3, 2020, 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 2018 Annual Report.

Date: April 16, 2019

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 2018 Annual Report are available at [www.mercerint.com](http://www.mercerint.com). Copies of our 2018 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 2018 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*

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

**Your vote matters here's how to vote!**

You may vote online or by phone instead of mailing this card.

**Online**

Go to [www.investorvote.com/merc](http://www.investorvote.com/merc) or scan the QR code login details are located in the shaded bar below.

**Phone**

Call toll free 1-800-652-VOTE (8683) within the USA, US territories and Canada

**Save paper, time and money!**

**Sign up for electronic delivery at [www.investorvote.com/merc](http://www.investorvote.com/merc)**

q **IF VOTING BY MAIL, SIGN, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

**A Proposals** The Board of Directors recommend a vote FOR all the nominees listed and FOR Proposals 2 and 3.

1. Election  
of  
Directors:

**For Withhold**

**For Withhold**

**For Withhold +**

01 -  
Jimmy  
S.H. Lee

02 - David M. Gandossi

03 - William D. McCartney

04 -  
James  
Shepherd

05 - R. Keith Purchase

06 - Martha A.M. Morfitt

07 - Alan  
C.  
Wallace

08 - Linda J. Welty

**For Against Abstain**

**For Against Abstain**

2. Ratification of the selection of PricewaterhouseCoopers LLP as independent registered public accounting firm for 2019.

3. Approval of the advisory (non-binding) resolution to approve executive compensation.

4. In his or her discretion, the proxyholder is authorized to vote upon such other business as may properly come before the meeting.

**B 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) Please print date Signature 1 Please keep signature Signature 2 Please keep signature  
below. within the box. within the box.

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**The 2019 Annual Meeting of Shareholders of Mercer International Inc. will be held on May 31, 2019 at 10:00 a.m. (Vancouver time) at Suite 1120, 700 West Pender Street, Vancouver, British Columbia, Canada. You will be able to attend and participate online, vote your shares electronically and submit your questions prior to and during the meeting by visiting: [www.meetingcenter.io/244576515](http://www.meetingcenter.io/244576515) at the meeting date and time prescribed in the accompanying proxy statement.**

**To access the virtual meeting, you must have the information that is printed in the shaded bar located on the reverse side of this form.**

**The password for this meeting is `MERC2019`.**

**Important notice regarding the Internet availability of proxy materials for the Annual Meeting of Shareholders.**

**You can view the material, the 2018 Annual Report on Form 10-K, and the Proxy Statement at: [www.mercerint.com](http://www.mercerint.com)**

**Small steps make an impact.**

Help the environment by consenting to receive electronic  
delivery, sign up at [www.investorvote.com/merc](http://www.investorvote.com/merc)

**q IF VOTING BY MAIL, SIGN, 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**

**+**

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 May 31, 2019, 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.**

**(Items to be voted appear on reverse side)**

## **C** Non-Voting Items

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

**Comments** Please print your comments below.

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