MERCER INTERNATIONAL INC.
Form DEF 14A
April 16, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant þ

Filed by a party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to § 240.14a-12

MERCER INTERNATIONAL INC.
(Name of Registrant as Specified in its Charter)

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MERCER INTERNATIONAL INC.

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 2, 2009**

TO The Shareholders of Mercer International Inc.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of Mercer International Inc. (the Company) will be held on June 2, 2009 at the Terminal City Club, 837 West Hastings Street, Vancouver, British Columbia, Canada at 10:00 a.m. (Vancouver time) for the following purposes:

1. To elect the directors for the ensuing year;

2. To ratify the selection of PricewaterhouseCoopers LLP as the independent auditors; and

3. To transact such other business as may properly come before the meeting or any adjournment, postponement or rescheduling thereof.

The board of directors of the Company has fixed the close of business on April 14, 2009 as the record date for the determination of shareholders entitled to vote at the meeting or any adjournment, postponement or rescheduling thereof.

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

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Jimmy S.H. Lee

Jimmy S.H. Lee
Chairman of the Board

April 16, 2009

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on June 2, 2009: Our Proxy Statement and our 2008 Annual Report to Shareholders, which includes our Annual Report on Form 10-K, are available at www.mercerint.com by clicking on 2009 Annual Meeting Materials .

YOUR VOTE IS VERY IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, WE URGE YOU TO COMPLETE, SIGN, DATE AND RETURN IN THE ENCLOSED ENVELOPE THE PROXY CARD THAT ACCOMPANIES THIS NOTICE OF ANNUAL MEETING OF SHAREHOLDERS, OR VOTE USING THE INTERNET OR TELEPHONE, AS PROMPTLY AS POSSIBLE, IN ORDER TO ENSURE THE PRESENCE OF A QUORUM. A PROXY MAY BE REVOKED IN THE MANNER DESCRIBED IN THE ACCOMPANYING PROXY STATEMENT.

PROXY STATEMENT

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MERCER INTERNATIONAL INC.

PROXY STATEMENT

GENERAL INFORMATION

This proxy statement (Proxy Statement) is furnished in connection with the solicitation by management of Mercer International Inc. (the Company) of proxies for use at the annual general meeting of our shareholders (Shareholders) to be held at the Terminal City Club, 837 West Hastings Street, Vancouver, British Columbia, Canada at 10:00 a.m. (Vancouver time) on June 2, 2009 (the Meeting), or any adjournment, postponement or rescheduling thereof. References to we , our , us , the Company or Mercer in this Proxy Statement mean Mercer International Inc. and it subsidiaries unless the context clearly suggests otherwise.

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

A Proxy may be revoked at any time prior to its use by filing a written notice of revocation of proxy or a later dated Proxy with the Company s registrar and transfer agent at BNY Mellon Shareowner Services, P.O. Box 3550, South Hackensack, NJ 07606-9250. A Proxy may also be revoked by submitting another Proxy with a later date over the internet, by telephone, to our registrar and transfer agent or by voting in person at the Meeting. Attending the Meeting will not, in and of itself, constitute revocation of a Proxy.

The holders of one-third of the outstanding Shares entitled to vote at the Meeting, present in person or represented by Proxy, constitutes a quorum for the Meeting. Under applicable Washington State law, abstentions and broker non-votes will be counted for the purposes of establishing a quorum for the Meeting.

Proxies for the Meeting will be solicited by the Company primarily by mail. Proxies may also be solicited personally by our directors, officers or regular employees without additional compensation. We may reimburse banks, broker-dealers or other nominees for their reasonable expenses in forwarding the proxy materials for the Meeting to beneficial owners of Shares. The costs of this solicitation will be borne by the Company.

This Proxy Statement, accompanying Proxy and our annual report for 2008, which includes our annual report on Form 10-K for the fiscal year ended December 31, 2008, (the 2008 Annual Report) will be mailed to Shareholders commencing on or about April 24, 2009. Our board of directors (the Board) has set the close of business on April 14, 2009 as the record date (the Record Date) for the determination of Shareholders entitled to notice of and to vote at the Meeting or any adjournment, postponement or rescheduling thereof.

COMMONLY ASKED QUESTIONS AND ANSWERS

Q: Why am I receiving this Proxy Statement and Proxy?

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

Q: What is the Proxy?

A: 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 36,422,487 Shares outstanding on the Record Date. If you own your Shares through a brokerage account or in another nominee form, you must provide instructions to the broker or nominee as to how your Shares should be voted. Your broker or nominee will generally provide you with the appropriate forms at the time you receive this Proxy Statement. If you own your Shares through a brokerage account or nominee, you cannot vote in person at the Meeting unless you receive a Proxy from the broker or the nominee.

Q: What am I voting on?

A: We are asking you to: (i) vote for the election of the Company s directors for the ensuing year; and (ii) ratify the selection of PricewaterhouseCoopers LLP as our independent auditors. OUR BOARD RECOMMENDS A VOTE IN FAVOR OF EACH OF THESE PROPOSALS.

Q: How do I vote?

A: Registered Shareholders may vote in person at the Meeting, by mail, by phone or on the Internet.

Voting by Mail. Complete, date, sign and mail the Proxy in the enclosed postage pre-paid envelope. 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 attend the Meeting, you may vote as instructed at the Meeting. However, if you hold your Shares in street name (that is, through a broker/dealer or other nominee), you will need to bring to the Meeting a Proxy delivered to you by such nominee reflecting your Share ownership as of the Record Date.

Voting on the Internet. Go to www.proxyvoting.com/merc and follow the instructions. You should have your Proxy in hand when you access the website.

Voting by Telephone. Call the toll-free number listed on the Proxy 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; or

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.

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 (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 a quorum.

Q: How many votes are required to elect directors?

A: The affirmative vote of a majority of the Shares voted at the Meeting is required to elect our directors. However, our corporate governance guidelines (Corporate Governance Guidelines) provide that in uncontested directors elections any nominee for director who receives a greater number of votes Withheld for his or her election than votes For such election (a Majority Withheld Vote) will promptly tender his or her resignation as a director to our Governance and Nominating Committee which will, without participation of any director so tendering his or her resignation, consider the resignation offer and recommend to the Board whether to accept it. The Board, without participation by any director so tendering his or her resignation, will act on the Governance and Nominating

Committee s recommendation within 90 days following certification of the Shareholder vote. We will promptly issue a press release disclosing the Board s decision and, if the Board rejects the resignation offer, its reasons for such decision. We will also promptly disclose this information in a Securities and Exchange Commission (SEC) filing.

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

A: The ratification of the appointment of PricewaterhouseCoopers LLP requires the affirmative vote of a majority of the Shares represented at the Meeting and entitled to vote thereon.

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

A: You can withhold your vote for any nominee in the election of directors. Withheld votes will be excluded entirely from the vote and will have no effect on the outcome (other than potentially triggering the director resignation requirements set forth in our corporate 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 or Abstain on the proposal to ratify the selection of our independent auditors. 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 counted as a For vote in favor of each proposal.

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 our Quarterly Report on Form 10-Q for the second quarter of 2009.

Q: Do you have plans to implement the new rules that allow companies to direct their shareholders to an on-line copy of the proxy materials, rather than sending them paper copies?

A: New SEC rules now allow companies to mail their shareholders a notice that their proxy materials can be accessed over the internet, instead of sending a paper copy of the proxy statement and annual report. We have decided not to adopt this new delivery method for the Meeting. We are considering how to realize the cost savings opportunity and environmental benefits of this new rule while still maintaining a meaningful and convenient proxy process for our Shareholders.

PROPOSAL 1 ELECTION OF DIRECTORS

In accordance with our articles of incorporation and bylaws, as amended, our Board is authorized to fix the number of the Company s directors at not less than three (3) and not more than thirteen (13) and has fixed the current number of directors at seven (7). Directors are elected at each annual meeting of Shareholders to hold office until the next annual meeting. The persons identified below are nominated to be elected at the Meeting for the ensuing year. All of the nominees are currently directors of the Company. Despite the expiration of a director s term, the director shall continue to serve until the director s successor is elected and qualified or until there is a decrease in the number of directors. If for any unforeseen reason any of the nominees for director declines or is unable to serve, Proxies will be voted for the election of such other person or persons as shall be designated by the directors. Proxies received which do not specify a choice for the election of the nominees will be voted FOR each of the nominees.

OUR BOARD RECOMMENDS A VOTE FOR EACH OF THE NOMINEES LISTED BELOW.

Nominees for Election as Directors

Jimmy S.H. Lee, age 52, has been a director since May 1985 and President and Chief Executive Officer since 1992. Previously, during the period that MFC Bancorp Ltd. was our affiliate, he served as a director from 1986 and President from 1988 to December 1996 when it was spun out. During Mr. Lee s tenure with Mercer, we acquired our Rosenthal mill and converted it to the production of kraft pulp, constructed and commenced operations at our Stendal mill and acquired our Celgar mill.

Kenneth A. Shields, age 60, has been a director since August 2003. Mr. Shields is the Chairman and Chief Executive Officer of Conifex Inc., a private Canadian company engaged in the forestry and sawmilling sector. Mr. Shields currently serves as a member of the board of directors of Raymond James Financial, Inc. and serves as the Chairman and a member of the board of directors of its Canadian subsidiary, Raymond James Ltd., since his retirement as Chief Executive Officer of Raymond James Ltd. in February 2006. Mr. Shields has served as past Chairman of the Investment Dealers Association of Canada and Pacifica Papers Inc., and is a former director of each of Slocan Forest Products Ltd., TimberWest Forest Corp. and the Investment Dealers Association of Canada.

William D. McCartney, age 53, has been a director since January 2003. Mr. McCartney has been president and chief executive officer of Pemcorp Management Inc., a management services company, since 1990. Mr. McCartney has also served as a director of Exeter Resource Corporation since September 2005. Mr. McCartney is also a member of the Canadian Institute of Chartered Accountants.

Graeme A. Witts, age 70, has been a director since January 2003. Mr. Witts organized Sanne Trust Company Limited, a trust company located in the Channel Islands, in 1988 and was managing director from 1988 to 2000, when he retired. He is now the Chairman of Azure Property Group, SA, a European hotel group. Mr. Witts is also a fellow of the Institute of Chartered Accountants of England and Wales and has previous executive experience with the Procter & Gamble Company, as well as with Clarks shoes. Mr. Witts also has experience in government auditing.

Guy W. Adams, age 58, has been a director since August 2003. Mr. Adams is the managing member of GWA Advisors, LLC, GWA Investments, LLC and GWA Capital Partners, LLC, where he has served since 2002. GWA Investments is an investment fund investing in publicly traded securities managed by GWA Capital Partners, LLC, a registered investment advisor. Prior to 2002, Mr. Adams was the President of GWA Capital, which he founded in 1996 to invest his own capital in public and private equity transactions, and a business consultant to entities seeking refinancing or recapitalization. Mr. Adams has been a director of Vitesse Semiconductor Corp. since October 2007.

Eric Lauritzen, age 71, has been a director since June 2004. Mr. Lauritzen was President and Chief Executive Officer of Harmac Pacific, Inc., a North American producer of softwood kraft pulp previously listed on the Toronto Stock Exchange and acquired by Pope & Talbot Inc. in 1998, from May 1994 to July 1998, when he retired. Mr. Lauritzen was Vice President, Pulp and Paper Marketing of MacMillan Bloedel Limited, a North American pulp and paper company previously listed on the Toronto Stock Exchange and acquired by Weyerhaeuser Company Limited in 1999, from July 1981 to April 1994.

George Malpass, age 69, has been a director since November 2006. Mr. Malpass was formerly the Chief Executive Officer and a director of Primex Forest Products Ltd. and is also a former director of both International Forest Products Ltd. and Riverside Forest Products Ltd.

Majority Withheld Policy in Uncontested Director Elections

In order to provide Shareholders with a meaningful role in the outcome of director elections, our Board has adopted a provision on voting for directors in uncontested elections as part of our corporate governance guidelines. In general, this provision provides that any nominee in an uncontested election who receives more votes Withheld for his or her election than votes For his or her election must promptly tender an offer of resignation following certification of the Shareholder vote to our Governance and Nominating Committee which will, without the participation of any director so tendering his or her resignation, consider the resignation and recommend to the Board whether to accept the resignation offer. The Board, without the participation of any director so tendering his or her resignation, will act on the Governance and Nominating Committee s recommendation within 90 days following certification of the Shareholder vote. Any such tendered resignation will be evaluated in the best overall interests of the Company and its Shareholders. Our Board s decision will be disclosed in a Form 8-K furnished by the Company to the SEC within four business days of the decision. If our Board decides to turn down the tendered resignation, or to pursue any additional action (as described above or otherwise), then the Form 8-K will disclose the Board s reasons for doing so. If each member of the Governance and Nominating Committee receives a Majority Withheld Vote at the same election, then the independent directors who did not receive a Majority Withheld Vote will act as a committee to consider the resignation offers and recommend to the Board whether to accept them. Any director who offers to resign pursuant to this provision will not participate in any actions by either the Governance and Nominating Committee or the Board with respect to accepting or turning down his or her own resignation offer. The complete terms of this provision are included in our corporate governance guidelines which can be found at the Governance Guidelines link on our website at www.mercerint.com.

CORPORATE GOVERNANCE AND BOARD MATTERS

Corporate Governance Guidelines

Our Corporate Governance Guidelines are intended to provide a set of guidelines to assist the Board in ensuring that the Company adheres to proper standards of good governance, and are reviewed regularly and revised as necessary or appropriate in response to changing regulatory requirements and evolving best practices. Our Corporate Governance Guidelines are available on our website at www.mercerint.com under Governance .

Board Meetings and Attendance

Our Corporate Governance Guidelines provide for: (i) the duties and responsibilities of the Board, its committees and the officers of the Company; and (ii) practices with respect to the holding of regular quarterly and strategic meetings of the Board including separate meetings of non-employee directors.

Each current member of the Board attended at least 75% of all meetings of our Board and of the committees of the Board on which they served in 2008. Although we do not have a formal policy with respect to attendance of directors at our annual meetings, all directors are encouraged and expected to attend such meetings if possible. All of our directors attended the annual meeting held in June 2008.

Current committee membership and the number of meetings of our full Board and committees held in 2008 are shown in the table below:

	Board	Audit Committee	Compensation and Human Resources Committee	Governance and Nominating Committee	Environmental, Health and Safety Committee
Jimmy S.H. Lee	Member				Member
Kenneth A. Shields	Lead Director			Chair	
William D. McCartney	Member	Chair		Member	
Guy W. Adams	Member		Member		
Eric Lauritzen	Member	Member	Chair		Chair
Graeme A. Witts	Member	Member		Member	
George Malpass	Member		Member		Member
Number of 2008 Meetings	11	5	4	4	4

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 each current member other than our Chief Executive Officer, Mr. Lee, is independent.

Executive Sessions and Lead Director

Executive sessions of non-employee directors without the presence of management are held regularly, generally before Board meetings, to review, among other things, the criteria upon which the performance of senior officers is based, the Company s governance practices, the reports of our independent registered chartered accountants and any other relevant matters. The lead director of our Board (the Lead Director), with input from our other non-employee directors, develops the agenda for and presides over these meetings. Meetings are also held formally and informally from time to time with our Chief Executive Officer for general discussions of relevant subjects. All of our non-employee directors are independent under applicable laws and regulations and the listing standards of Nasdaq. In 2008, the independent Board members met four times.

Mr. Shields, the Chair of our Governance and Nominating Committee, currently serves as Lead Director.

Committees of the Board

Our Board currently has four standing committees: the Audit Committee, the Compensation and Human Resources Committee, the Environmental, Health and Safety Committee and the Governance and Nominating Committee. Each committee operates under a written charter which is part of our Corporate Governance Guidelines and available on our website at www.mercerint.com under Governance .

Audit Committee

The Nasdaq rules require our Audit Committee to be comprised only of independent directors. The Audit Committee currently consists of three directors and our Board has determined that all three current members meet the independence requirements of the Nasdaq rules. The current members of the Audit Committee are Messrs. McCartney, Witts and Lauritzen. Our Board has also determined that each of Messrs. McCartney and Witts qualifies as an audit committee financial expert as defined in applicable SEC rules and applicable Nasdaq listing standards.

Our Audit Committee oversees, on behalf of the Board, our corporate accounting, financial reporting process and systems of internal accounting and financial controls. For this purpose, the primary responsibilities of our Audit Committee are to:

- Review the financial statements to be included in our annual reports on Form 10-K and quarterly reports on Form 10-Q;
- Meet with and review the results of the annual audit performed by the independent public accountants and the results of their review of our quarterly financial statements;
- Recommend the selection of independent public accountants; and
- Review and approve the terms of all related party transactions.

Our Audit Committee is also responsible for establishing and maintaining procedures for receiving, reviewing and responding to complaints regarding accounting, internal accounting controls or auditing matters.

Compensation and Human Resources Committee

The Compensation and Human Resources Committee currently consists of three directors, all of whom our Board has determined to be independent directors under Nasdaq rules. The current members of the Compensation and Human Resources Committee are Messrs. Lauritzen, Malpass and Adams.

The primary responsibilities of our Compensation and Human Resources Committee are to:

- Review and approve the strategy and design of the Company s compensation, equity-based and benefits programs;
- Analyze executive compensation data, including base salaries, annual bonuses, long-term incentives and pay, as well as executive compensation principles, strategies, trends, regulatory requirements and current programs;

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

Periodically 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 goals and objectives of our key executive officers;

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

Review and approve succession plans for our key executive officers; and

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

Governance and Nominating Committee

The Governance and Nominating Committee currently consists of three directors, all of whom our Board has determined to be independent directors under Nasdaq rules. The current members of the Compensation and Human Resources Committee are Messrs. Shields, Witts and McCartney.

The primary responsibilities of our Governance and Nominating Committee are to:

Manage the corporate governance system of the Board;

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

Assist in the creation of a corporate culture and environment of integrity and accountability;

In conjunction with the Lead Director, monitor the quality of the relationship between the Board and management;

Review management succession plans;

Recommend to the Board nominees for appointment to the Board;

Lead the Board s annual review of the chief executive officer s performance; and

Set the Board s forward meeting agenda.

Environmental Health and Safety Committee

The Environmental Health and Safety Committee currently consists of three directors and our Board has determined that all current members, other than Mr. Lee, are independent directors under Nasdaq rules. The current members of the Environmental Health and Safety Committee are Messrs. Lauritzen, Malpass and Lee.

The primary responsibilities of our Environmental Health and Safety Committee are to:

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

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

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

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 in consultation with our Chairman and Chief Executive Officer. The Governance and Nominating Committee will recommend to the Board a nominee to fill a vacancy on the Board and will also annually evaluate and recommend to the Board nominees for election as directors at annual meetings of Shareholders.

Our Governance and Nominating Committee believes that certain criteria should be met by director nominees to ensure effective corporate governance, support the Company s 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 leadership, judgment, integrity, independence and high personal and professional ethics. Nominees considered by the Governance and Nominating Committee are those that also possess a mix of experience and related attributes, including general business experience, industry knowledge, financial acumen, special business experience and expertise.

Our Governance and Nominating Committee may seek recommendations or receive recommendations for Board candidates from various sources, including the Company s directors, management and Shareholders. The Governance and Nominating Committee may also engage a professional search firm.

Our Governance and Nominating Committee will 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., c/o Suite 2840, 650 West Georgia Street, Vancouver, B.C. V6B 4N8, Canada. 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.

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., c/o Suite 2840, 650 West Georgia Street, Vancouver, B.C., V6B 4N8, Canada. 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 chairman of the Audit Committee, Mercer International Inc., c/o Suite 2840, 650 West Georgia Street, Vancouver, B.C., V6B 4N8, Canada.

Code of Business Conduct and Ethics

Our Board has adopted a Code of Business Conduct and Ethics that applies to our directors and all of our executive officers, including our Chief Executive Officer, Chief Financial Officer and Controller, or persons performing similar functions. The Code of Business Conduct and Ethics is available on our website at www.mercerint.com under Governance .

Shareholding Guideline for Non-Employee Directors

Since 2006 we have had a target shareholding guideline in place for our non-employee directors. Pursuant to such guideline, 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 end of 2007, all of the directors with the exception of Mr. Malpass, who only became a director in November 2006, met the shareholding guideline. However, as a result of the decline in the value of our Share price during the year, as of the end of 2008, none of our non-employee directors met the guideline amount.

Review and Approval of Related Party Transactions

Pursuant to the terms of its Charter, the Audit Committee is responsible for reviewing and approving the terms and conditions of all proposed transactions between us, any of our officers or directors, or relatives or affiliates of any such officers or directors, 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.

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.

Succession Planning and Management Development

We engage in a succession planning process whereby our Compensation and Human Resources Committee, together with our Chief Executive Officer, reviews our executive succession planning procedures, including management development activities, annually. We strive to appoint our most senior executives from within the Company. To this end, individuals who are identified as having potential for senior executive positions are evaluated by the Compensation and Human Resources Committee. The careers of such persons are monitored to ensure that over time they have appropriate exposure to our Board and interact with the Board in various ways, including through participation in certain Board meetings and other Board-related activities and meetings with individual directors, both in connection with director visits to our mills and otherwise.

EXECUTIVE OFFICERS

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

David M. Gandossi, age 51, has been Secretary, Executive Vice-President and Chief Financial Officer since August 15, 2003. Mr. Gandossi was formerly the Chief Financial Officer and Executive Vice-President of Formation Forest Products (a closely held corporation) from June 2002 to August 2003. Mr. Gandossi previously served as Chief Financial Officer, Vice-President, Finance and Secretary of Pacifica Papers Inc., a North American specialty pulp and paper manufacturing company previously listed on the Toronto Stock Exchange, from December 1999 to August 2001 and Controller and Treasurer from June 1998 to December 1999. From June 1998 to August 31, 1998, he also served as Secretary to Pacifica Papers Inc. From March 1998 to June 1998, Mr. Gandossi served as Controller, Treasurer and Secretary of MB Paper Ltd. From April 1994 to March 1998, Mr. Gandossi held the position of Controller and Treasurer with Harmac Pacific Inc., a Canadian pulp manufacturing company previously listed on the Toronto Stock Exchange. From February 2007 to present, he has chaired the B.C. Pulp and Paper Task Force, a government industry and labor effort that is mandated to identify measures to improve the competitiveness of the British Columbia pulp and paper industry. Mr. Gandossi is a member of the Institute of Chartered Accountants in Canada.

Claes-Inge Isacson, age 63, has been our Chief Operating Officer since November 2006 and is based in our Berlin office. Mr. Isacson brings over 24 years of senior level pulp and paper management to our senior management team, with a focus on kraft pulp. Mr. Isacson held the positions of President Norske Skog Europe, and then Senior Vice President Production for Norske Skogindustrier ASA between 1989 and 2004. His most recent position was President, AF Process, a consulting and engineering company working worldwide. He holds a Masters of Science, Mechanical Engineering.

Leonhard Nossol, age 51, has been our Group Controller for Europe since August 2005. He has also been a managing director of Rosenthal since 1997 and the sole managing director of Rosenthal since September 2005. Mr. Nossol had a significant involvement in the conversion of Rosenthal to the production of kraft pulp in 1999 and increases in the mill s annual production capacity to 325,000 ADMTs, as well as the reduction in production costs at the mill.

Niklaus Grünenfelder, age 51, became the Managing Director of Stendal in January 2009. Previously, from 1989 until 2006, Mr. Grünenfelder held a variety of positions in Switzerland, China, Germany, and Pakistan with Swiss chemicals manufacturer Ciba Specialty Chemicals Holding Inc. (formerly Ciba-Geigy AG). In 2006, Huntsman Corporation, a global chemical and chemical products company, acquired the textile effects business from Ciba and Mr. Grünenfelder was the Managing Director and Head of Technical Operations at Huntsman s Langweid am Lech site in Germany from 2006 until 2008. Mr. Grünenfelder holds a PhD in Technical Science and an MBA.

Wolfram Ridder, age 47, was appointed Vice President of Business Development in August 2005, prior to which he was a managing director of Stendal. Mr. Ridder was the principal assistant to our Chief Executive Officer from November 1995 until September 2002.

David Ure, age 42, has been our Vice President, Controller, since October 16, 2006. Mr. Ure was formerly the Controller of Catalyst Paper Corporation from 2001 to 2006 and Controller of Pacifica Papers Inc. from 2000 to 2001. He also served as U.S. Controller of Crown Packaging Ltd. in 1999 and the Chief Financial Officer and Secretary of Finlay Forest Industries Inc. from 1997 to 1998. He is on the Board of Trustees of the Pulp and Paper Industry Pension Plan and has over fifteen years experience in the forest products industry. Mr. Ure is a member of the Certified General Accountants Association of Canada.

David M. Cooper, age 55, has been Vice President of Sales and Marketing for Europe since June 2005. Mr. Cooper previously held a variety of senior positions around the world with Sappi Ltd., a large global forest products group, from 1982 to 2005, including the sales and marketing of various pulp and paper grades and the management of a manufacturing facility. He has more than 25 years of diversified experience in the international pulp and paper industry.

Eric X. Heine, age 45, has been 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., a global pulp and paper corporation, from 1999 to 2005. He has over 18 years of experience in the pulp and paper industry, including developing strategic sales channels and market partners to build corporate brands.

Genevieve Stannus, age 39, has been our Treasurer since July 2005, prior to which she was a Senior Financial Analyst with Mercer from August 2003. Prior to joining Mercer, Ms. Stannus held Senior Treasury Analyst positions with Catalyst Paper Corporation and Pacifica Papers Inc. She has over ten years experience in the forest products industry. Ms. Stannus is a member of the Certified General Accountants Association of Canada.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

There were 36,422,487 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 April 16, 2009 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
Peter R. Kellogg(1) 120 Broadway, 6th Floor New York, NY 10271	9,691,555	21.5%(6)
Platinum Investment Management Ltd.(2) Level 4, 55 Harrington Street Sydney, NSW 2000, Australia	5,669,847	15.6%(5)
Franklin Resources, Inc.(3) One Franklin Parkway San Mateo, CA 94403	2,885,598	6.4%(6)
William R. Huff(4) 67 Park Place Morristown, NJ 07960	1,841,701	5.1%(5)

(1) Based on Form 4 filed on September 25, 2008 jointly with IAT Reinsurance Co Ltd. The number of Shares owned includes 1,645,161 Shares issuable upon conversion of convertible senior subordinated notes.

(2) Based on Schedule 13G filed on February 11, 2009.

(3) Based on Schedule 13G filed January 30, 2009 jointly with Charles B. Johnson, Rupert H. Johnson, Jr. and Franklin Advisory Services, LLC. The number of Shares owned includes 903,210 Shares issuable upon conversion of convertible senior subordinated notes.

(4) Based on Schedule 13G filed on December 19, 2008.

(5) The percentage of outstanding Shares is calculated out of a total of 36,422,487 Shares issued and outstanding on the Record Date.

(6) The percentage of outstanding Shares is calculated out of a total of 45,100,551 Shares, which number gives pro forma effect to the 8,678,064 Shares issuable upon conversion of the remaining outstanding convertible senior

subordinated notes.

Share Ownership of Directors and Executive Officers

The following table sets forth information regarding the ownership of our Shares as of April 16, 2008 by: (i) each of our directors; (ii) our Chief Executive Officer, Chief Financial Officer and three other most highly compensated executive officers (collectively referred to as the Named Executive Officers or NEOs); and (iii) all of our directors and executive officers as a group. Unless otherwise indicated, each person has sole voting and

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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 in favor of each of the proposals to be considered at the Meeting.

Name of Owner	Number of Shares Owned	Percent of Outstanding Shares(9)
Jimmy S.H. Lee(1)	2,379,679	6.5%
Kenneth A. Shields(2)	112,000	*
Guy W. Adams(3)	21,000	*
William D. McCartney(3)	16,000	*
Graeme A. Witts(3)	28,685	*
Eric Lauritzen(3)	37,500	*
George Malpass(3)	36,000	*
David M. Gandossi(4)(7)	220,000	*
Wolfram Ridder(5)(7)	40,000	*
Leonhard Nossol(6)(7)	55,050	*
Claes-Inge Isacson(7)	15,000	*
Directors and Executive Officers as a Group (16 persons)(8)	3,102,004	8.5%

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

(1) Includes 1,679,679 Shares and presently exercisable options to acquire up to 700,000 Shares. Does not include 116,460 performance shares granted pursuant to the Performance Incentive Supplement (as defined below) established under our Stock Incentive Plan (as defined below) details of which grant are set out on page 23 of this Proxy Statement, that are subject to forfeiture and represent Shares that could not be acquired within 60 days of the date of this table.

(2) Includes Shares which Mr. Shields holds through a Registered Retirement Savings Plan. In July 2008, Mr. Shields was granted 6,000 restricted shares in connection with his role as our Lead Director. These Shares vest and become non-forfeitable in July 2009 unless a change in control of the Company occurs prior thereto.

(3) In July 2008, 3,000 restricted shares were granted to each non-employee director (other than our Lead Director) in connection with his role as a non-employee director of Mercer. These Shares vest and become non-forfeitable in July 2009 unless a change in control of the Company occurs prior thereto.

(4) Includes 120,000 Shares and presently exercisable options to acquire up to 100,000 Shares.

(5) Includes 20,000 Shares and presently exercisable options to acquire up to 20,000 Shares.

(6) Includes 50 Shares and presently exercisable options to acquire up to 55,000 Shares.

(7) Does not include awards of performance units granted in 2008 pursuant to our Performance Incentive Supplement (as defined below) that are subject to forfeiture and represent Shares that could not be acquired within 60 days of the date of this table. Details of such grants are set out on page 23 of this Proxy Statement.

(8) Includes presently exercisable options to acquire up to 905,000 Shares.

(9) Based on 36,422,487 Shares outstanding on the Record Date.

INFORMATION REGARDING EQUITY COMPENSATION PLANS

The following table sets forth information as at December 31, 2008 regarding our equity compensation plans. 1,000,000 of our Shares may be issued pursuant to options, stock appreciation rights and restricted shares under our 2004 Stock Incentive Plan (the Stock Incentive Plan) and as performance shares or performance units under the long-term performance incentive supplement created under the Stock Incentive Plan (the Performance Incentive Supplement). Our Amended and Restated 1992 Non-Qualified Stock Option Plan expired in 2008 and we no longer grant any options under this plan.

	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Shares Available for Future Issuance Under Plan
2004 Stock Incentive Plan	30,000	$ 7.30	166,700(1)
Amended and Restated 1992 Non-Qualified Stock Option Plan	898,000	$ 6.41	(2)

(1) An aggregate of 232,685 restricted shares have been issued under the Stock Incentive Plan and grants for up to 530,623 Shares have been made under the Performance Incentive Supplement established under the Stock Incentive Plan which will vest and become issuable only upon the attainment of designated performance objectives.

(2) Our 1992 Amended and Restated Stock Option Plan expired in 2008 but an aggregate of 898,000 unexercised options that were previously granted under this plan remain outstanding.

The terms of our Stock Incentive Plan permit us to grant awards under other plans, programs or agreements which may be settled in shares under the Stock Incentive Plan. Pursuant to such terms we created the Performance Incentive Supplement under the Stock Incentive Plan in February 2008. The function of the Performance Incentive Supplement, in accordance with the purposes of the Stock Incentive Plan, is to promote the long-term success of the Company and the creation of shareholder value by aligning the interests of our employees, including senior management, with those of our shareholders. Any grants made under the Performance Incentive Supplement are settled in the form of shares issued under the Stock Incentive Plan and any shares issued pursuant to the Performance Incentive Supplement reduce the number of shares available under the Stock Incentive Plan.

The Performance Incentive Supplement is administered by our Compensation and Human Resources Committee and provides for the grant of restricted stock, restricted stock units and performance awards comprised of performance shares and performance units to salaried employees of the Company and its affiliates.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (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, 2008.

REPORT OF THE AUDIT COMMITTEE

Our Audit Committee monitors and oversees the Company s financial reporting process on behalf of our Board. Management has primary responsibility for the Company s 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 the Company s independent registered chartered accountants, PricewaterhouseCoopers LLP, regarding the fair and complete presentation of the Company s results and the assessment of the Company s internal control over financial reporting. The Audit Committee has discussed significant accounting policies applied by the Company in its financial statements, as well as alternative treatments. Management represented to the Audit Committee that the Company s 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 auditor 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 the PricewaterhouseCoopers LLP s provision of non-audit services to the Company is compatible with the auditor s independence. The Audit Committee has concluded that PricewaterhouseCoopers LLP are 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 the Company s internal controls, and the overall quality of the Company s financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board, and the Board has approved, that the audited financial statements be included in our annual report on Form 10-K for the fiscal year ended December 31, 2008, 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 chartered accountants.

Submitted by the members of the Audit Committee.

William D. McCartney, Chairman
Graeme A. Witts
Eric Lauritzen

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, or the Exchange Act except to the extent that the Company specifically incorporates the report by reference therein.

DIRECTORS COMPENSATION

Directors Compensation

Our non-employee directors, other than our Lead Director, receive a $30,000 annual retainer for their services and a $1,000 attendance fee for each Board or Committee meeting that they attend in person or $500 for each such meeting that they attend by teleconference. Our Lead Director, Mr. Shields, receives a $60,000 annual retainer for his services. We also reimburse our directors for expenses incurred in connection with their duties as our directors. The chairman of the Audit Committee receives $20,000 annually, the chairman of each of the Compensation and Human Resources Committee and Governance and Nominating Committee receives $10,000 annually and the chairman of the Environmental Health and Safety Committee receives $5,000 annually for his services.

In addition to cash compensation, our directors also receive equity-based compensation under our Stock Incentive Plan. Immediately after each annual meeting of Shareholders, each of our non-employee directors who is not elected to the Board for the first time at such annual meeting and who will continue to serve as a member of the Board after the meeting, receives 3,000 restricted shares for their services, provided that each such director has served on the Board for at least six months. Similarly, following each annual meeting of Shareholders, our Lead Director receives 6,000 restricted shares for his or her services. In 2008, Messrs. McCartney, Witts, Lauritzen, Adams and Malpass each received 3,000 restricted shares for their services as directors and Mr. Shields, as Lead Director, received 6,000 restricted shares.

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

Directors Compensation Table

The following table sets forth information regarding compensation paid to our non-employee directors in their capacity as directors during the fiscal year ended December 31, 2008. Mr. Lee, as our Chief Executive Officer, does not receive any additional compensation for his services as a director.

Name	Fees Earned or Paid in Cash(1) ($)	Stock Awards(2)(3) ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
William D. McCartney	66,000	28,403					94,403
Kenneth A. Shields	82,000	56,807					138,807
Guy W. Adams	42,000	28,403					70,403
Eric Lauritzen	65,500	28,403					93,903
Graeme A. Witts	46,500	28,403					74,903
George Malpass	46,000	28,403					74,403

(1) Fees earned or paid in cash include $30,000 which is paid to each of our directors, other than our Lead Director, plus $1,000 for each meeting of directors that they attend in person or $500 for each such meeting that they attend by teleconference. Our Lead Director receives $60,000 annually for his services. The chairman of each of the Compensation and Human Resources Committee and the Governance and Nominating Committee receives $10,000 annually, the chairman of the Audit Committee receives $20,000 annually and the chairman of the Environmental Health and Safety Committee receives $5,000 annually for their services in that regard.

(2) In July 2008, following our annual meeting of Shareholders, we granted 3,000 restricted shares to each of our non-employee directors (other than our Lead Director) and 6,000 restricted shares to our Lead Director. Such stock awards will vest and become non-forfeitable in July 2009 unless a change in control of the Company occurs prior thereto, and as such were outstanding as at December 31, 2008.

(3) Stock awards consist of restricted shares. The amounts shown represent the expense recognized in 2008 by the Company for restricted shares held by our directors, as determined under the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), share-based payment (FAS 123R), excluding any forfeiture adjustments. For a discussion of the valuation assumptions, see Note 11 to our consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended

December 31, 2008. The FAS 123R value reflects the Company s cost of the stock awards over the one year vesting period of the award.

The aggregate number of unvested restricted shares outstanding as at December 31, 2008 for each of our non-employee directors was 3,000, with the exception of our Lead Director for whom 6,000 restricted shares remain outstanding.

COMPENSATION AND HUMAN RESOURCES COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation and Human Resources Committee currently consists of Messrs. Lauritzen, Malpass and Adams. No member of the Compensation and Human Resources Committee is a current or former employee of the Company. There are no Compensation and Human Resources Committee interlocks between the Company and any other entities involving any of the executive officers or directors of such entities. No interlocking relationship exists between any member of our Board or our Compensation and Human Resources Committee and any member of the Board or Compensation and Human Resources Committee of any other company and no such interlocking relationship has existed in the past.

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 annual report on Form 10-K for the fiscal year ended December 31, 2008.

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

Eric Lauritzen, Chairman
George Malpass
Guy W. Adams

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis discusses the key objectives, policies, elements and designs of our compensation program, as well as the considerations and reasons driving the Compensation and Human Resources Committee s decisions on compensation for our Named Executive Officers in respect of 2008.

Compensation Framework

Our compensation philosophy for our Named Executive Officers is principally performance-based to support the Company s overall business objectives and increase long-term Shareholder value. We also believe that it is appropriate for certain components of compensation to decline during periods of economic stress, reduced earnings and significantly lower share prices, which belief had a significant impact on our compensation decisions in respect of 2008.

Overall, the principal objectives of the compensation program for our Named Executive Officers are to:

- Reward and compensate our NEOs for their contribution to our overall success and for their individual performance during the relevant fiscal year;
- Attract, retain and motivate our NEOs, whose efforts and judgments are vital to our continued success;
- Create an environment in which our NEOs are motivated to achieve and maintain superior performance levels and goals consistent with our overall business strategy; and
- Align the interests of our NEOs with the long-term interests of our Shareholders.

To achieve our objectives, we use the following principles in the design and administration of the compensation program for our Named Executive Officers:

- *Market Competitiveness.* Our Named Executive Officers 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.

At Risk Incentive Pay. A greater percentage of compensation for senior management should be tied to performance against measurable objectives, the majority of which are directly tied to Company performance, to achieve payouts.

Pay-for-Performance. Compensation should be linked to individual and Company performance.

Shareholder Alignment. Rewards should be linked to the creation of long-term Shareholder value through the use of equity-based awards as a portion of our Named Executive Officers compensation.

Flexible Short-Term and Long-Term Incentives. Fixed and variable and short and long-term compensation programs should be balanced to reinforce a performance-based culture.

Employee Understanding. Overall compensation simplicity should be maintained to ensure broad employee understanding and acceptance.

Administration, Procedure and Role of the Compensation and Human Resources Committee

Our Named Executive Officers compensation levels and programs are established, approved and administered by the Compensation and Human Resources Committee. The Compensation and Human Resources Committee, which is comprised entirely of independent directors, 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.

In making compensation decisions, the Compensation and Human Resources Committee considers a number of other sources, including:

Individual Officer Performance Evaluations. In consultation with the Board, the Compensation and Human Resources 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 below. Further, as part of the evaluation, the Compensation and Human Resources Committee meets and reviews with our Chief Executive Officer his evaluation of the performance of each of the other NEOs.

Information Provided by our Executive Officers. Among the information considered by the Compensation and Human Resources Committee in making its compensation decisions are projections for financial performance provided by our Chief Financial Officer including revenues, total mill production and sales, mill margins, commission and selling expenses, non-recurring asset impairment charges, net earnings and Operating EBITDA which we define as operating income from continuing operations plus depreciation and amortization. In addition, our Chief Operating Officer also provides certain mill performance information relating to our operations, financial results and those of some of our competitors.

Independent Consultants. The Compensation and Human Resources Committee has the authority to engage independent compensation consultants. It has previously engaged and expects in the future to engage an outside consultant to assist the Compensation and Human Resources Committee in assessing the Company s executive compensation programs, appropriate peer groups for comparison, the structure of the Company s executive compensation programs and the level of compensation paid to our Named Executive Officers. Our Compensation and Human Resources Committee did not use any independent consultants in making its compensation decisions for 2008.

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

Peer Group Comparisons. In addition to periodically seeking advice from independent consultants, the Compensation and Human Resources Committee considers and evaluates executive compensation levels and programs through comparisons on an annual basis based on available information for certain peer group companies principally comprised of mid-cap North American forest products companies. We review compensation paid at these companies because their business and size make them most comparable to us and to ensure that our compensation levels are within the range of comparative norms. In 2008, using public filings, the Compensation and Human Resources Committee considered the executive compensation levels, including benefits and perquisites, of a number of such companies, including TimberWest Forest Corp., SFK Pulp Income Fund, Catalyst Paper Corporation, Weyerhaeuser Inc. and Canfor Pulp Income Fund.

In the past, the Compensation and Human Resources Committee has also referred to a range of companies outside of the forest products industry with which we compete for executive talent, particularly in Germany where available information for compensation levels in the forest products industry is more limited. In 2008, the Compensation and Human Resources Committee did not consider any such companies.

The Compensation and Human Resources Committee considers the total direct compensation for our Named Executive Officers, long-term incentives and program costs in the context of the performance of the Company relative to the peer group companies. We target salaries, bonuses and incentive compensation towards a median level or 50th 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 our Compensation and Human Resources Committee to provide compensation above or below the 50th percentile in cases of exceptional individual performance or other individual factors relating to a Named Executive Officer 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 we believe 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 used in structuring our executive compensation program.

Total Compensation. The Compensation and Human Resources Committee reviews total compensation levels for our Named Executive Officers at least annually, including each element of compensation provided to an individual Named Executive Officer and the proportion of his total compensation represented by each such element. In determining the appropriate target total compensation for each NEO, the Compensation and Human Resources Committee reviews each individual separately and considers a variety of factors in establishing his target compensation. These factors may include the Named Executive Officer s time in position, unique contribution or value to the Company, recent performance, and whether there is a particular need to strengthen the retention aspects of the NEO s compensation.

In its review, the Compensation and Human Resources Committee also considers benchmarking information with respect to our peer companies with the goal of targeting overall compensation for our Named Executive Officers within the median range. The Compensation and Human Resources 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 Compensation and Human Resources Committee s practice is to consider peer 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.

Participation of Executive Officers. Our Named Executive Officers, with the exception of our Chief Executive Officer and to a lesser extent our Chief Financial and Operating Officers, typically do not play a role in evaluating or determining executive compensation programs or levels. For fiscal 2008, our Chief Executive Officer submitted for consideration to our Compensation and Human Resources Committee performance evaluations for our other Named Executive Officers and recommendations as to their compensation levels, including bonuses. Our Chief Financial Officer also made recommendations with respect to bonuses. These recommendations were subjective determinations based on the information discussed above and were consistent with our compensation objectives. Such recommendations also took into account the current economic crisis and its effect on the Company.

Compensation Elements

We use a range of components in the overall compensation of our Named Executive Officers.

Base Salaries. Base salaries for our Named Executive Officers provide base compensation for day-to-day performance and are based primarily upon job responsibilities, level of experience and skill as well as performance compared with annually established financial or individual objectives. In addition, the impact a Named Executive Officer is expected to make to our business in the future is considered. We also consider our base salaries in the context of the markets in which we operate. The Compensation and Human Resources Committee normally considers salary adjustments for executive officers annually in the first quarter of the year.

Bonuses. We generally provide annual incentive opportunities in the form of cash bonuses to our Named Executive Officers to motivate their performance in meeting our current year s business goals and encourage superior performance. These bonuses are awarded based on the expectations of the directors and management for our financial and operating performance in a particular period and the contribution of a Named Executive Officer in achieving the Company s goals as well as the individual goals which are established for each NEO based upon such

NEO position and responsibility. Each year, the Company establishes a business plan for the forthcoming year. Considering the business plan, the Compensation and Human Resources Committee considers the financial, strategic and other goals for the Company outlined by our NEOs. The Compensation and Human Resources Committee uses this business plan as one benchmark to measure our NEOs performance in achieving the Company s goals. The Compensation and Human Resources Committee also considers the contribution of a Named Executive Officer to our business and operations generally. The Compensation and Human Resources Committee awards bonuses on a discretionary basis without a predetermined formula or specific weighting for any particular factor. Also, in determining the bonuses to be paid to our NEOs other than our Chief Executive Officer and Chief Financial Officer, the Compensation and Human Resources Committee considers recommendations by our Chief Executive Officer and Chief Financial Officer.

Incentive Equity Grants or Awards. Our NEOs may be granted long-term equity incentives in the form of options, restricted shares and/or share appreciation rights under our Stock Incentive Plan. Additionally, NEOs may be awarded performance shares and performance units under the Stock Incentive Plan s Performance Incentive Supplement. Awards under the Stock Incentive Plan are generally granted 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 those targets. Awards under the Stock Incentive Plan generally produce value to our NEOs if the price of our Shares appreciates, thereby aligning the interests of our Named Executive Officers with those of Shareholders through increased Share ownership. Equity-based compensation and ownership is used to ensure NEOs have a continuing stake in the long-term success of the Company and for retention purposes.

In accordance with the Stock Incentive Plan and our standard practice, all equity awards thereunder are granted at fair market value as of the date of grant. We define fair market value as the closing price of our Shares quoted on Nasdaq on the business day immediately preceding the date of grant.

The Compensation and Human Resources Committee reviews incentive grants on an annual basis as part of its analysis of total compensation and the balance between the different elements thereof.

Benefits. In addition to the components of the compensation discussed above, we provide a number of other benefits to our Named Executive Officers for the purpose of providing security for current and future needs of executives which are structured to be within a reasonably competitive range relative to peer companies. These benefits are set forth in Footnote 11 to the Summary Compensation table on page 24 of this Proxy Statement and consist primarily of automobile, health and retirement programs. Automobile benefits include the lease of a vehicle along with the fuel and maintenance costs thereon. Health benefits may include periodic physical consultations, dental and pharmaceutical benefits. Under our retirement programs contributions are 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.

Pursuant to the terms of his employment agreement with us, our Chief Executive Officer receives, in lieu of other benefits such as automobile, medical and retirement programs, a lump sum living allowance of 75,000 in recognition of his significant travel schedule. No specific allocation is made in connection with the living allowance for any particular perquisite.

Change of Control and Severance Agreements

A number of the employment agreements we have entered into with our Named Executive Officers 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 25 and under "Potential Payments upon Termination or Change in Control" beginning on page 29 of this Proxy Statement. The purpose of the change of control agreements is to encourage key management personnel to remain with the Company and to help avoid distractions and conflicts of interest in the event of a potential or actual change of control of the Company 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 the Named Executive Officer in the event of employment loss due to a change of control. In addition, our Stock Incentive Plan provides for accelerated vesting and exercisability of options and restricted share awards upon a change of control. Additionally, certain of the award agreements relating to grants of performance shares and performance units under the Performance Incentive Supplement also provide for accelerated vesting. The accelerated vesting and exercisability in the event of a change of control is intended to allow executives to recognize the value of their contributions to the Company and not affect management decisions following terminations.

The employment agreements of our NEOs provide for severance payments in certain circumstances. The specific amounts that a particular Named Executive Officer would receive as a severance payment are described under Potential Payments Upon Termination of Change of Control beginning on page 29 of this Proxy Statement.

Post-Retirement Compensation

We provide retirement benefits to our Named Executive Officers 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 statute, the amount that exceeds the limit is credited to an unfunded account. Our Chief Financial Officer is the only Named Executive Officer participating in the North American program.

The European 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 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. Isacson, Ridder and Nossol are the Named Executive Officers participating in the European program.

Performance Measures

As part of the annual performance evaluations it conducts for our NEO s, the Compensation and Human Resources Committee, among other things, considers the following performance measures:

- Operating EBITDA We consider Operating EBITDA to be a meaningful supplement to operating income as a performance measure primarily because depreciation expense and non-recurring capital asset management changes are not an actual cost, and depreciation expense varies widely from company to company in a manner we consider largely independent of the underlying cost efficiency of their operating facilities;

- Operating EBITDA per tonne of NBSK pulp as compared to our peer group;

- Our financial and operating targets for a period and the contributions of our Named Executive Officers in achieving these targets;

- Contributions of our NEOs to our business and operations generally;

- Our NEOs progress on meeting approved individual goals for the year;

- The Company s Share performance relative to our peer group; and

- Contributions of our NEOs to the successful completion of major transactions such as material acquisitions or financing related transactions.

The above performance measures are evaluated based on the overall judgment of the Compensation and Human Resources Committee without giving fixed of specific weighting to any particular measure.

2008 Compensation Decisions

Base Salaries. In 2008, based on the criteria underlying our base salary compensation and a review of market compensation, we made incremental cost of living adjustments to the base salary of the majority of our NEOs. Such pay adjustments represented a less than 5% increase from the 2007 level.

For 2009, in light of the extraordinary economic environment that evolved during 2008 and in order to align compensation with our financial performance, the Compensation and Human Resources Committee has implemented a salary freeze for all of our Named Executive Officers.

Bonuses. In making its compensation decisions regarding bonuses for our Named Executive Officers in respect of their fiscal 2008 performance, the Compensation and Human Resources Committee reviewed the Company s financial performance and each NEO s achievement of his annual performance objectives for 2008. The current adverse market conditions also played a significant role in the determination of the level of bonus compensation to be paid to each NEO.

Chief Executive Officer Performance. The Compensation and Human Resources Committee evaluated Mr. Lee s achievement of his 2008 performance objectives and his role and guidance in, among other things, the Company s:

progress on its energy initiatives including the commencement of the new green energy project at the Celgar mill and the finalization of an electricity purchase agreement with the Province of British Columbia s primary public utility provider for the supply of energy from the Celgar energy project;

successful restructuring of the project loan facility for the Company s majority-owned subsidiary Stendal, which operates the Stendal mill;

implementation of a variety of company-wide cost reductions measures in response to the current economic crisis; and

achievement of record production at all three mills.

The Compensation and Human Resources Committee does not rely upon any predetermined formulas or limited set of criteria when it evaluates the performance of our Named Executive Officers but rather focuses on individual objectives and their effects in respect of the Company s overall goals. To this end, no fixed or specific weighting is applied to any element of performance.

Notwithstanding the leadership displayed by our Chief Executive Officer during these challenging times, the Compensation and Human Resources Committee determined to accept Mr. Lee s recommendation that he forego a bonus for fiscal 2008.

Other NEO Performance. In determining the bonus compensation for our other Named Executive Officers, the Compensation and Human Resources Committee weighed the Company s overall financial performance, evaluated each NEO s contributions to the Company s accomplishments set out above and reviewed each NEO s individual performance and achievement of 2008 performance objectives. Notwithstanding the individual achievements by each NEO, the Compensation and Human Resources Committee determined that the Company s performance in 2008 warranted an adjustment to the level of bonus compensation for our NEO s. In order to more appropriately align compensation with Company financial performance our Compensation and Human Resources Committee determined that, other than for our Chief Financial Officer, bonuses be maintained at 2007 levels, be limited to a maximum of two months salary and be deferred until at least the third quarter of 2009. At such time the Compensation and Human Resources Committee will review the Company s performance and make a determination with respect to the payment thereof. Additionally and notwithstanding the leadership displayed by our Chief Financial Officer throughout the challenging conditions encountered by the Company in the second half of 2008, the Compensation and Human Resources Committee determined to reduce Mr. Gandossi s bonus by 50% from the amount awarded in respect of 2007. Payment of Mr. Gandossi s has also been deferred until further determination by the Compensation and Human Resources Committee in the third quarter.

The Compensation and Human Resources Committee s cash bonus awards to our Named Executive Officers are set forth in the following table:

Name		**Cash Bonus**
Jimmy S.H. Lee(1)	$	
David M. Gandossi(2)	$	79,670
Claes-Inge Isacson(2)	$	67,643
Wolfram Ridder(2)	$	62,937
Leonhard Nossol(2)	$	56,320

(1) Mr. Lee determined to forgo any cash bonus for 2008

(2) Awarded but payment deferred until until such time determined by the Compensation and Human Resources Committee

Incentive Equity Grants or Awards. In 2008, in accordance with the principles guiding our compensation program and to focus our NEOs on the Company s long-term, competitive performance and the creation of Shareholder value, the Compensation and Human Resources Committee granted the following performance awards to all of our NEOs under the Performance Incentive Supplement.

Name	**Performance Award**
Jimmy S.H. Lee	116,460 Performance Shares
David M. Gandossi	62,271 Performance Units
Claes-Inge Isacson	58,230 Performance Units
Wolfram Ridder	44,291 Performance Units
Leonhard Nossol	39,865 Performance Units

Each performance share or performance unit represents one Share and up to the maximum number of Shares will vest after three years depending upon the achievement of performance objectives tied to specific performance measures including Operating EBITDA, Share price performance and individual performance. A description of the material terms applicable to the performance shares and performance units is included in the narrative disclosure to the Grant of Plan-Based Awards Table on page 27 of this Proxy Statement.

Deductibility of Compensation

Section 162(m) of the Internal Revenue Code limits to $1,000,000 per person the amount the Company may deduct for compensation paid to any of its most highly compensated executives in any year. The levels of salary and bonus generally paid by us do not exceed this limit. Upon the exercise of non-qualified stock options, the excess of the current market price over the option price (the spread) is treated as compensation and therefore it may be possible for option exercises by an executive in any year to cause the executive s total compensation to exceed $1,000,000. Under U.S. income tax regulations, the spread compensation from options that meets certain requirements will not be subject to the $1,000,000 cap on deductibility and it is the Company s current policy generally to grant options that meet these requirements. To this end, the Stock Incentive Plan has been approved by our Shareholders. However, in the future, the Compensation and Human Resources Committee may elect to exceed the tax deductible limits if it determines it is necessary to meet competitive market pressures and to ensure that it is able to attract and retain top talent to successfully lead the Company.

Summary

We believe that our executive compensation program has been appropriately designed to attract, retain and motivate our Named Executive Officers, drive financial performance, encourage teamwork throughout our Company and align the interests of our NEOs with the long-term interests or our Shareholders. We believe that our 2008 compensation levels fairly reflect our performance and the impact of the extraordinary macroeconomic challenges we began to face in the latter part of 2008 on our revenues and earnings from operations. We also believe that our 2008 compensation levels are appropriate relative to our peer companies. We monitor our programs in the marketplaces in which we compete for talent and changing trends in compensation practices in an effort to maintain an executive compensation program that is competitive, performance driven, consistent with shareholder interests and fair and reasonable overall.

EXECUTIVE COMPENSATION TABLES

Summary Compensation Table

The following table sets forth information regarding the compensation awarded to, earned by, or paid to our Named Executive Officers. All of our NEOs are paid in currencies other than United States dollars. In this Proxy Statement, unless otherwise noted, such amounts have been converted into United States dollars using the relevant average exchange rate for the year based on the noon buying rates posted by the Federal Reserve Board:

Name and Principal Position	Year(1)	Salary(2) ($)	Bonus(3) ($)	Stock Awards(9) ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-qualified Deferred Compensation Earnings(10) ($)	All Other Compensation(11) ($)	Total ($)
Jimmy S. H. Lee(4)	2008	514,675		33,126				110,288	658,089
Chief Executive Officer	2007	476,389	311,880	36,454				102,818	927,541
	2006	420,749	376,788	125,707				94,197	1,017,441
David M. Gandossi(5)	2008	318,680	79,670	15,744			25,489	32,037	471,620
Secretary, Executive	2007	314,963	158,257	27,340			27,362	29,679	557,601
Vice President and									
Chief Financial Officer	2006	290,903	198,343	94,281			20,723	28,364	632,614
Claes-Inge Isacson(6)	2008	477,913	67,643	34,911				31,128	611,595
Chief Operating Officer	2007	445,543	63,061	64,869				46,168	619,641
	2006	63,350	25,119	58,967				40,206	187,642
Wolfram Ridder(7)	2008	377,624	62,937	10,078				53,263	503,902
Vice President of	2007	349,854	52,780					48,504	451,138
Business Development	2006	307,461	50,239					15,946	373,646
Leonhard Nossol(8)	2008	336,133	56,320	9,071				51,997	453,521
Group Controller,	2007	304,148	48,393					47,601	400,142
Europe and									
Managing Director of Rosenthal	2006	268,777	45,214					41,014	355,005

(1) Year to year changes reflect both increases in compensation and foreign exchange fluctuations. Based upon the exchange rate as at December 31, 2008, the U.S. dollar had increased by approximately 4.7% in value against the Euro and approximately 19.3% against the Canadian dollar since December 31, 2007.

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

(3) Mr. Lee did not receive a bonus after recommending to the Compensation and Human Resources Committee that he forgo his bonus in respect of 2008. Bonuses for all of our other Named Executive Officers for 2008 were awarded but payment thereof deferred until further determination by the Compensation and Human Resources Committee in the third quarter of 2009.

(4) 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 Compensation and Human Resources Committee which amount is reflected in the column All Other Compensation .

(5) In 2008, we contributed $39,835 to Mr. Gandossi s retirement plan under our North American retirement program which amount is reflected in the columns Change in Pension Value and Non-Qualified Deferred Compensation Earnings and All Other Compensation . Details of our North American and European retirement programs are set out beginning on page 28 of this Proxy Statement.

(6) Mr. Isacson joined us in November 2006, at which time he received a one-time signing bonus in the amount of $25,119. In 2008, we contributed $30,684 to Mr. Isacson s retirement plan under our European retirement program which amount is reflected in the column All Other Compensation .

(7) In 2008, we contributed $42,164 to Mr. Ridder s retirement plan under our European retirement program which amount is reflected in the column All Other Compensation .

(8) In 2008, we contributed $36,208 to Mr. Nossol s retirement plan under our European retirement program which amount is reflected in the column All Other Compensation .

(9) Stock awards consist of restricted shares, performance shares and performance units. The amounts shown represent the compensation expense recognized by the Company during the indicated fiscal year with respect to awards granted to our Named Executive Officers in 2008 and prior fiscal years as determined in accordance with FAS 123R, excluding any forfeiture adjustments. For a discussion of the valuation assumptions, see Note 12 to our consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended December 31, 2008. Depending on the type of award, the FAS 123R value reflects the Company s cost of the stock awards over the two or three year vesting period of the award. Details on the stock awards can be found in the Grant of Plan-Based Awards Table and the Outstanding Equity Awards At Fiscal Year End Table on pages 26 and 28 of this Proxy Statement.

(10) The amount set forth in this column for Mr. Gandossi reflects the annual change in the value, including interest, of his unfunded account which account records those retirement plan contributions in excess of the applicable statutory limit.

(11) Included in All Other Compensation for the fiscal years ended December 31, 2008, 2007 and 2006 are benefits and perquisites which consist of the following:

Name	**Year**	**Auto ($)**	**Retirement Plan Contributions ($)**	**Other ($)**
Jimmy S. H. Lee	2008			$110,288 (living allowance)
	2007			$102,818 (living allowance)
	2006			$94,197 (living allowance)
David M. Gandossi	2008	11,334	18,746	$1,957 (life insurance and special medical)
	2007	10,579	17,222	$1,878 (life insurance and special medical)
	2006	9,705	16,308	$2,351 (life insurance and special medical)
Claes-Inge Isacson	2008	444	30,684	
	2007	1,614	44,554	
	2006	1,464	38,742	
Wolfram Ridder	2008	11,099	42,164	
	2007	10,348	38,156	
	2006	9,480	6,466	
Leonhard Nossol	2008	15,789	36,208	
	2007	14,719	32,882	
	2006	12,001	29,013	

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.

Mr. Lee is a party to an amended and restated employment agreement with us dated effective April 28, 2004 which provides for an annual base salary of 325,000 (which number is reviewed by the Board or the Compensation and Human Resources Committee annually), housing and other perquisites not to exceed in aggregate 75,000 annually and other compensation as determined by the Board or the Compensation and Human Resources Committee as applicable. 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. Gandossi is a party to an employment agreement with us dated effective August 7, 2003 which provides for an annual base salary of CDN$320,000 (which number is reviewed by the Board or the Compensation and Human

Resources Committee annually), participation in our bonus program and North American retirement program as well as certain other benefits and perquisites. The agreement provides for the continued employment of Mr. Gandossi as Chief Financial Officer, Executive Vice-President and Secretary 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. Isacson is a party to an employment agreement with us dated effective November 6, 2006 which provides for an annual base salary of 325,000 (which number is reviewed by the Board or the Compensation and Human Resources Committee annually), an annual bonus based on two months salary and the achievement of specific objectives with an opportunity to exceed same in the event of exceptional performance. Mr. Isacson is also entitled to certain other benefits and perquisites including participation in our European retirement program.

Mr. Ridder is a party to an employment agreement with our wholly owned subsidiary Stendal Pulp Holding GmbH dated effective October 2, 2006 which provides for an annual base salary of 247,200 (which number is reviewed by the Board or the Compensation and Human Resources Committee annually) and a yearly bonus of up to 25% of the annual gross salary depending upon targets mutually agreed upon between 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 as of June 30 or December 31 of each year by giving six months notice and in any event will terminate at the time Mr. Ridder reaches the age of 65. In the event of a direct or indirect change in majority ownership of the Company, the notice period increases to twelve months.

Mr. Nossol is a party to an employment agreement with our wholly-owned subsidiary ZPR GmbH (formerly ZPR Geschäftsführungs GmbH) dated effective August 18, 2005 which provides for an annual base salary of 200,000 (which number is reviewed by the Board or the Compensation and Human Resources Committee annually), an annual bonus based on two months salary and certain benefits and perquisites including participation in our European retirement program. The agreement may be terminated by either party by giving six months notice and in any event will terminate at the time Mr. Nossol reaches the age of 65.

Grant of Plan-Based Awards Table

The following table sets forth information regarding awards granted pursuant to our Stock Incentive Plan during 2008 to our Named Executive Officers:

	Estimated Future Payouts	**Estimate Future Payouts Under Equity Incentive**	**All Other Stock Awards: Number of Shares of**	**All Other Option Awards: Number of Securities Underlying**	**Exercise or Base Price of Option**	**Grant Date Fair Value of Stock and Option**

		Under Non-Equity Incentive Plan Awards			Plan Awards(2)						
Name	Grant Date(1)	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	Stock or Units (#)	Options (#)	Awards ($)	Awards(3) ($)
Jimmy S.H. Lee						87,345	116,460				
David Gandossi						41,514	62,271				
Claes-Inge Isacson						34,938	58,230				
Wolfram Ridder						26,574	44,291				
Leonhard Nossol						23,919	39,865				

(1) In 2008, the Compensation and Human Resources Committee granted performance awards to all of our NEOs under our Performance Incentive Supplement, granting performance shares to our Chief Executive Officer and performance units to all of our other Named Executive Officers. Please see the narrative disclosure below for a description of the material terms of such performance awards. All of the performance awards were made on February 19, 2008. In accordance with FAS 123R, the Company does not disclose this date as the grant date, but rather as the service inception date as the terms of the performance conditions in the awards were not final at December 31, 2008.

(2) The Threshold amount reported reflects the fact that, if threshold performance is not satisfied, a NEO s rights with respect to the award are forfeited. The Target amount reported represents vesting of a minimum percentage of the performance award if the minimum acceptable objective is achieved (as determined by the Compensation and Human Resources Committee) and the Maximum amount reported represents vesting of 100% of the performance award if the maximum realistic objective is achieved (as determined by the Compensation and Human Resources Committee).

(3) As computed in accordance with FAS 123R, the grant date fair value of the stock awards is nil as the awards had not been granted by December 31, 2008, based on the definition of grant date within FAS 123R. The Company recorded stock compensation expense in its consolidated financial statements for the fiscal year ended December 31, 2008 commencing from the service inception date based on the fair value of the Company s stock as at December 31, 2008. The Company anticipates the terms of the awards will be finalized in 2010. Any formal award modifications will be disclosed in subsequent periods.

Narrative Disclosure to Grant of Plan-Based Awards Table

Performance Incentive Supplement

As we reported in our proxy statement last year, in 2008, the Compensation and Human Resources Committee granted performance awards to all of our NEOs under the Performance Incentive Supplement, granting performance shares to our Chief Executive Officer and performance units to all of our other Named Executive Officers. Performance shares are subject to certain restrictions and are required to be deposited with the Company until vesting and the lapse of such restrictions. The lapse of the restrictions on the performance shares and the vesting of such performance shares are contingent upon the achievement of certain specified performance objectives including Company performance, Share price performance and individual performance. Similarly, the vesting of the performance units is also contingent upon the achievement of such performance objectives.

Performance is measured over a three year-period which commenced on January 1, 2008 and will end on December 31, 2010. Determinations as to the achievement of the performance objectives by a Named Executive Officer and the number of Shares that ultimately vest and are awarded are made by the Compensation and Human Resources Committee at the end of the three-year period with reference to the following performance criteria:

40% is based upon the Company s Operating EBITDA (as measured by the Company at the beginning of the performance cycle) per tonne of northern bleached softwood kraft, or NBSK , pulp as compared to a chosen peer group;

40% is based upon the Company s Share price performance relative to a chosen peer group; and

20% is based upon the strategic leadership, direction and other overall performance by the Named Executive Officer, all subject to adjustment by the Compensation and Human Resources Committee in its sole discretion to remove the effect of charges for restructurings, discontinued operations, acquisitions, divestitures, extraordinary items and all items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent occurrence, related to the disposal or a segment or a business, or related to a change in accounting principle or otherwise.

In the event that the threshold performance stipulated for each Named Executive Officer is not satisfied, the NEO s rights with respect to the performance award will be forfeited. The Compensation and Human Resources Committee also has discretion to decrease the amount of Shares issued pursuant to the performance awards, if, in the

Compensation and Human Resources Committee s view, the financial performance of the Company as a whole during the performance cycle justifies such adjustment, regardless of the extent to which the performance objectives were achieved.

Outstanding Equity Awards at Fiscal Year-End Table

The following table sets forth information regarding outstanding equity awards for our Named Executive Officers at December 31, 2008:

	Option Awards					Stock Awards			
Name	**Number of Securities Underlying Unexercised Options Exercisable(1) (#)**	**Number of Securities Underlying Unexercised Options Unexercisable (#)**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested(2) (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
Jimmy S. H. Lee	700,000			6.375	January 19, 2010			116,460	223,603
David M. Gandossi	100,000			5.65	September 10, 2013			62,271	119,560
Claes-Inge Isacson								58,230	111,802
Wolfram Ridder	20,000			7.92	September 10, 2015			44,291	85,039
Leonhard Nossol	30,000			6.375	January 19, 2010				
	25,000			7.92	September 10, 2015			39,865	76,541

(1) Mr. Lee s options to acquire up to 700,000 Shares became fully vested on January 19, 2003. Mr. Gandossi s options to acquire up to 100,000 Shares became fully vested on September 10, 2006. Mr. Ridder s options to acquire up to 20,000 Shares became fully vested on September 9, 2007. Mr. Nossol s options to acquire up to 25,000 Shares became fully vested on September 9, 2007 and his options to acquire up to 30,000 Shares became fully vested on January 19, 2003.

(2) Reflects performance awards granted to our Named Executive Officers in February 2008. The vesting of such awards is contingent upon the achievement of specified performance objectives at the end of a three-year performance cycle.

Option Exercises and Stock Vested

The following table discloses the amounts received by our Named Executive Officers upon exercise of options or similar instruments or the vesting of stock or similar instruments during 2008.

Name	Option Awards Number of Shares Acquired on Exercise (#)	Option Awards Value Realized Upon Exercise or Vesting ($)	Stock Awards Number of Shares Acquired on Vesting (#)	Stock Awards Value Realized on Vesting ($)
Jimmy S.H. Lee				
David M. Gandossi				
Claes-Inge Isacson			5,000	11,200
Wolfram Ridder				
Leonhard Nossol				

Non-Qualified Deferred Compensation

We maintain two separate retirement programs for our 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 (CDN$20,000 in 2008). 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 5.5%. 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 Financial Officer, is our only NEO participating in our North American program. In 2008, we contributed $39,835 on Mr. Gandossi s behalf under the terms of the program.

Similarly, under the terms of our European program, we make a contribution to a German government regulated pension plan in an amount equal to 10% of a combined total of 100% gross salary and 50% cash bonus payments. In addition, to the extent that such statutory pension is limited by an annual cap (5,373 in 2008), 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. Isacson, Ridder and Nossol, for whom, in 2008, we contributed on their behalf under the terms of the program, $30,684, $42,164 and $36,208, respectively.

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

Name	Executive Contributions in Last Fiscal Year ($)	Registrant Contributions in Last Fiscal Year(1) ($)	Aggregate Earning in Last Fiscal Year(2) ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End(3) ($)
Jimmy S.H. Lee					
David M. Gandossi		21,089	4,400		25,489
Claes-Inge Isacson		22,783			
Wolfram Ridder		34,263			
Leonhard Nossol		28,307			

(1) Amounts in this column reflect our contributions to each of our Named Executive Officers respective retirement plan which are in excess of the amount permitted by applicable tax statute. We also account for these amounts in the Summary Compensation Table on page 24 of this Proxy Statement, under the Change in Pension Value and Non-Qualified Deferred Compensation Earnings column for Mr. Gandossi 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 5.5%.

(3) No amounts are shown in this column for the Named Executive Officers 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.

Potential Payments upon Termination or Change of Control

Termination

We have agreed to provide certain benefits to our Named Executive Officers 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, 2008.

Name	Cash Severance Benefit ($)	Insurance Continuation ($)	Stock Option Acceleration ($)	Restricted Stock Acceleration ($)	Performance Awards Acceleration ($)	Total ($)
Jimmy S. H. Lee	2,867,475					2,867,475
David M. Gandossi	529,572					529,572
Claes-Inge Isacson	796,521					796,521
Wolfram Ridder	251,331					251,331
Leonhard Nossol	225,961					225,961

Change in Control

We have agreed to provide certain benefits to our Named Executive Officers 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, 2008.

Name	Cash Severance Benefit ($)	Insurance Continuation ($)	Stock Option Acceleration(1) ($)	Restricted Stock Acceleration ($)	Performance Awards Acceleration(2) ($)	Total ($)
Jimmy S. H. Lee	2,867,475				190,063	3,057,538
David M. Gandossi	1,588,715				101,626	1,690,341
Claes-Inge Isacson	796,521				95,031	891,552
Wolfram Ridder	502,661				72,283	574,944
Leonhard Nossol					65,060	65,060

(1) None of the stock options exercisable upon a change of control had intrinsic value as at December 31, 2008, as the exercise price of such stock options was in all cases greater than the closing Share price on December 31, 2008.

(2) The terms of Messrs. Lee and Gandossi s performance awards provide for 100% vesting of the award in case of a change of control. For our other Named Executive Officers, the extent to which their performance awards become vested in the event of a change of control is at the discretion of the Compensation and Human Resources Committee. For the purposes of this table, we have assumed a vesting of 85% of the performance award for each such NEO.

The terms of his employment agreement provide that, if Mr. Lee is terminated without cause or resigns for good reason, he will be entitled to a severance payment equal to three times the sum of his then annual salary plus 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) if such termination occurs in contemplation of, at the time of, or within three years after a change of control, this amount is payable in a lump sum cash payment immediately following such termination. In addition, all 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. If Mr. Lee s employment with us is terminated for cause, he is not entitled to any additional payments or benefits under the agreement, 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. Mr. Lee s employment agreement defines a change of control as the occurrence of any of certain specified events including: (1) a person, directly or indirectly: (a) becoming the beneficial owner of the greater of 15% or more of our Shares then outstanding and the Shares issuable upon conversion of our convertible notes or 20% of our then outstanding Shares; (b) having sole and/or shared voting or dispositive power over the greater of 15% or more of our Shares then outstanding and the Shares issuable upon conversion of our convertible notes or 20% of our then 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 result of which is to change the composition of the Board so that fewer than a majority of the Board are 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 stockholders 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.

Pursuant to terms of his employment agreement with us, if Mr. Gandossi is terminated without cause or resigns for good reason other than in connection with the change in control, he shall be entitled to a severance payment equal to the sum of his base salary for the remaining term of the agreement plus the annual bonuses payable for the years (or portions thereof) remaining in the term of the agreement, calculated as set forth in the agreement. The agreement also provides that, if in connection with or within eighteen months of a change in control, Mr. Gandossi voluntarily terminates his employment for good reason or is involuntarily discharged, he shall be entitled to a severance payment of three times the sum of his then current annual base salary plus the highest of (i) his then-current annual bonus, (ii) his highest variable pay and annual incentive bonus for the last three years and (iii) 50% of his current annual base salary. Mr. Gandossi s employment agreement defines a change of control as the occurrence of any of certain specified events including: (1) notification by us that a person has become the beneficial owner of or has sole and/or shared voting or dispositive power over more than 20% of our 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 result of which is to change the composition of the Board so that fewer than a majority of the Board are 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 stockholders prior to such event; (5) the commencement by a person of a tender offer for more than 20% of our shares; (6) the sale of all or substantially all of our assets; (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. In addition, all unvested rights in any stock option or other benefit plans will vest in full.

The terms of Mr. Isacson s employment agreement obligate us to provide, in the event of dismissal without cause or a change of control, a specified severance entitlement equal to eighteen months base salary plus the target bonus. The agreement defines a change of control as the completion of a merger, amalgamation or consolidation of the Company with or into another entity if more than 50% of the voting equity of the new entity is held by persons who were not stockholders prior to the transaction.

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 the Company.

The terms of Mr. Nossol s employment agreement provide for a six month notice period in case of termination. The agreement does not contain a change of control provision.

In addition to the terms provided for in the individual employment agreements, our Stock Incentive Plan, including the Performance Incentive Supplement created thereunder, contains provisions for accelerated vesting and exercisability of options, restricted shares and performance awards upon a change of control including, in the case of our Stock Incentive Plan, the Compensation and Human Resources Committee s discretion to determine, at the time of granting restricted shares or performance awards or thereafter, whether all or part of such restricted shares or performance awards shall become vested in the event a change in control occurs with respect to the Company.

PROPOSAL 2 INDEPENDENT ACCOUNTANTS AND AUDITORS

Ratification of Independent Auditors

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

We appointed PricewaterhouseCoopers LLP as our independent auditors in place of Deloitte & Touche LLP 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.

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 AUDITORS.

In the event PricewaterhouseCoopers LLP are not ratified as our auditors 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 auditors without the approval of Shareholders, even if Shareholders ratify the selection of PricewaterhouseCoopers LLP at the Meeting.

Replacement of Independent Auditors

In April 2007, the Audit Committee recommended replacing Deloitte and Touche LLP as the Company s independent auditors. On April 25, 2007 Deloitte & Touche LLP was dismissed effective May 10, 2007. The reports of Deloitte & Touche LLP on the financial statements of the Company as of and for the fiscal years ended December 31, 2005 and 2006 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

There were no disagreements with Deloitte & Touche LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure during the fiscal years ended December 31, 2005 and 2006 and through April 25, 2007, which disagreements, if not resolved to Deloitte & Touche LLP s satisfaction, would have caused Deloitte & Touche LLP to make reference to the subject matter of the disagreement in its report on the Company s financial statements for such years.

There were no reportable events pursuant to Item 304(a)(1)(v) of Regulation S-K during the fiscal years ended December 31, 2005 and 2006 and through April 25, 2007.

Accountants Fees

The following table sets forth the fees for services our accountants provided in 2008 and 2007:

	Year Ended December 31,		
	2008 PricewaterhouseCoopers LLP	2007 PricewaterhouseCoopers LLP	2007 Deloitte & Touche LLP
Audit Fees(1)	$ 1,370,464	$ 1,068,009	$ 814,115
Audit-Related Fees(2)	$ 46,753	29,412	217,590
Tax Fees(3)	$ 40,516	48,184	
	$ 1,457,734	$ 1,145,605	$ 1,031,705

(1) Represents fees for services rendered for the integrated audit of our annual financial statements and review of our quarterly financial statements.

(2) Represents fees for 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 relating to an internal control study conducted pursuant to the *Sarbanes-Oxley Act of 2002*.

(3) Represents fees for services rendered for tax compliance, tax advice and tax planning.

Consistent with the SEC s requirements regarding auditor independence, our Audit Committee has adopted a policy to pre-approve all audit and permissible non-audit services provided by our independent auditor and the fees for such non-audit services. Under the policy, the Audit Committee must pre-approve services prior to the commencement of the specified service. All services provided by Deloitte & Touche LLP and PricewaterhouseCoopers LLP subsequent to July 14, 2003 have been pre-approved by the Audit Committee.

FUTURE SHAREHOLDER PROPOSALS

Any proposal which a Shareholder wishes to include in the proxy statement and proxy relating to the annual meeting of Shareholders of the Company to be held in 2010 must be received by the Company on or before December 28, 2009. Upon receipt of such a proposal, the Company will determine whether or not to include the proposal in such proxy statement and proxy in accordance with applicable law. A Shareholder that wishes to present a proposal at the annual Shareholders meeting to be held in 2010 must submit such proposal to the Company on or before April 7, 2010 or management will have discretionary authority to vote proxies received for such meeting with respect to any such proposal. Shareholder proposals should be sent to the Secretary, Mercer International Inc., c/o Suite 2840, 650 West Georgia Street, Vancouver, B.C., V6B 4N8, Canada.

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.

Our 2008 Annual Report, will be mailed to Shareholders with this Proxy Statement. Additionally, this Proxy Statement and the 2008 Annual Report are available at www.mercerint.com. Copies of our Form 10-K for the fiscal year ended December 31, 2008, may be obtained from Mercer International Inc. Attention: Shareholder Information, c/o Suite 2840, 650 West Georgia Street, Vancouver, British Columbia, V6B 4N8, Canada (tel: (604) 684-1099). This Proxy Statement and our Form 10-K are also available on the SEC s website at www.sec.gov and on our website at www.mercerint.com.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Jimmy S.H. Lee

Jimmy S.H. Lee
Chairman of the Board

Date: April 16, 2009

PROXY
MERCER INTERNATIONAL INC.
Suite 2840, 650 West George Street
Vancouver, British Columbia
Canada V6B 4N8

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

The undersigned hereby appoints Jimmy S.H. Lee, or failing him David M. Gandossi, as proxy, with the power of substitution, to represent and to vote as designated below all the common shares of Mercer International Inc. held of record by the undersigned on April 14, 2009 at the Annual General Meeting of Shareholders to be held on June 2, 2009, or any adjournment, postponement or rescheduling thereof.

(Continued on reverse side)

	BNY MELLON SHAREOWNER SERVICES
Address Change/Comments	P.O. BOX 3550
(Mark the corresponding box on the reverse side)	SOUTH HACKENSACK, NJ 07606-9250

FOLD AND DETACH HERE

You can now access your* BNY Mellon Shareowner Services *account online.

Access your BNY Mellon Shareowner Services shareholder/stockholder account online via Investor ServiceDirect® (ISD).

The transfer agent for Mercer International Inc. now makes it easy and convenient to get current information on your shareholder account.

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Please mark your votes as indicated in this example x

	FOR the nominees listed below (except as marked to the contrary below)	**WITHHOLD AUTHORITY** to vote for the nominees listed below	***EXCEPTIONS**
on of Directors es:	o	o	o

y S.H. Lee
eth A. Shields
am D. McCartney
W. Adams
Lauritzen
ne A. Witts
ge Malpass

UCTIONS: To withhold authority to vote for any individual nominee, mark the ons box and write that nominee s name in the space provided below.)

ons

	FOR	**AGAINST**	**A**
2. Ratification of the Selection of PricewaterhouseCoopers LLP as Independent Auditors	o	o	

3. In his discretion, the proxyholder is authorized upon such other business as may properly come b meeting.

This proxy when properly signed will be voted in th directed herein by the undersigned shareholde **direction is made, this proxy will be voted FOR the director nominees listed in Proposal 1 a Proposal 2 and such other business as may prope before the meeting.**

Mark Here for Address Change or Comments o
SEE REVERSE

Signature Signature Date

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.

5 **FOLD AND DETACH HERE** 5

WE ENCOURAGE YOU TO TAKE ADVANTAGE OF INTERNET OR TELEPHONE VOTING, BOTH ARE AVAILABLE 24 HOURS A DAY, 7 DAYS A WEEK.

Internet and telephone voting is available through 11:59 PM Eastern Time the day prior to annual meeting day.

Mercer International Inc.

You can view the 2008 Annual Report, including the Annual Report on Form 10-K, and the Proxy Statement at: www.mercerint.com

INTERNET
http://www.proxyvoting.com/merc
Use the Internet to vote your proxy. Have your proxy card in hand when you access the web site.
OR
TELEPHONE
1-866-540-5760
Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.
If you vote your proxy by Internet or by telephone, you do NOT need to mail back your proxy card.
To vote by mail, mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.
Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

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