UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______ to _______

Commission File No.: 000-51826

MERCER INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

Washington	**47-0956945**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

Suite 1120, 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8
(Address of office)

(604) 684-1099
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.00 per share	MERC	NASDAQ Global Select Market

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the *Securities Exchange Act of 1934* during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	☒	Accelerated Filer	☐
Emerging Growth Company	☐	Smaller Reporting Company	☐
Non-Accelerated Filer	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The Registrant had 65,629,582 shares of common stock outstanding as at July 31, 2019.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

(Unaudited)

MERCER INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands of U.S. dollars, except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Revenues	$ 425,753	$ 346,532	$ 909,703	$ 714,435
Costs and expenses				
Cost of sales, excluding depreciation and amortization	336,433	271,134	679,466	525,419
Cost of sales depreciation and amortization	32,038	22,906	62,174	46,115
Selling, general and administrative expenses	19,472	15,016	36,701	29,377
Operating income	37,810	37,476	131,362	113,524
Other income (expenses)				
Interest expense	(18,369)	(12,128)	(36,920)	(24,243)
Loss on settlement of debt (Note 5(a))	—	—	—	(21,515)
Legal cost award	—	—	—	(6,951)
Other income (expenses)	1,251	(132)	2,290	(369)
Total other expenses, net	(17,118)	(12,260)	(34,630)	(53,078)
Income before provision for income taxes	20,692	25,216	96,732	60,446
Provision for income taxes	(10,433)	(8,461)	(34,857)	(18,042)
Net income	$ 10,259	$ 16,755	$ 61,875	$ 42,404
Net income per common share				
Basic and diluted	$ 0.16	$ 0.26	$ 0.94	$ 0.65
Dividends declared per common share	$ 0.1375	$ 0.1250	$ 0.2625	$ 0.2500

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands of U.S. dollars)

	Three Months Ended June 30		Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Net income	$ 10,259	$ 16,755	$ 61,875	$ 42,404
Other comprehensive income (loss), net of taxes				
Foreign currency translation adjustment	24,088	(55,807)	20,237	(39,522)
Change in unrecognized losses and prior service costs related to defined benefit pension plans, net of tax of $30 and $36, respectively (2018 - $nil)	35	(574)	95	(728)
Change in unrealized gains/losses on marketable securities, net of taxes of $nil in all periods.	37	26	16	27
Other comprehensive income (loss), net of taxes	24,160	(56,355)	20,348	(40,223)
Total comprehensive income (loss)	$ 34,419	$ (39,600)	$ 82,223	$ 2,181

The accompanying notes are an integral part of these interim consolidated financial statements.

MERCER INTERNATIONAL INC.
INTERIM CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands of U.S. dollars, except share and per share data)

	June 30, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 257,322	$ 240,491
Accounts receivable	273,502	252,692
Inventories	286,839	303,813
Prepaid expenses and other	20,229	13,703
Total current assets	837,892	810,699
Property, plant and equipment, net	1,031,696	1,029,257
Investment in joint ventures	57,659	62,574
Intangible assets, net	55,795	53,927
Operating lease right-of-use assets	14,087	—
Other long-term assets	31,183	17,904
Deferred income tax	1,465	1,374
Total assets	$ 2,029,777	$ 1,975,735
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and other	$ 222,272	$ 194,484
Pension and other post-retirement benefit obligations	831	904
Total current liabilities	223,103	195,388
Debt	983,644	1,041,389
Pension and other post-retirement benefit obligations	26,291	25,829
Finance lease liabilities	23,229	24,669
Operating lease liabilities	11,610	—
Other long-term liabilities	14,394	13,924
Deferred income tax	100,981	93,107
Total liabilities	1,383,252	1,394,306
Shareholders' equity		
Common shares $1 par value; 200,000,000 authorized; 65,629,000 issued and outstanding (2018 – 65,202,000)	65,598	65,171
Additional paid-in capital	342,815	342,438
Retained earnings	345,934	301,990
Accumulated other comprehensive loss	(107,822)	(128,170)
Total shareholders' equity	646,525	581,429
Total liabilities and shareholders' equity	$ 2,029,777	$ 1,975,735
Commitments and contingencies (Note 14)		
Subsequent event (Note 8)		

The accompanying notes are an integral part of these interim consolidated financial statements.

MERCER INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands of U.S. dollars)

	Common shares					
	Number (thousands of shares)	Amount, at Par Value	Additional Paid -in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Three Months Ended June 30,						
Balance March 31, 2019	65,651	$ 65,620	$ 341,644	$ 345,400	$ (131,982)	$ 620,682
Shares issued on grants of restricted shares	31	31	(31)	—	—	—
Stock compensation expense	—	—	1,202	—	—	1,202
Net income	—	—	—	10,259	—	10,259
Dividends declared	—	—	—	(9,024)	—	(9,024)
Repurchase of common shares	(53)	(53)	—	(701)	—	(754)
Other comprehensive income	—	—	—	—	24,160	24,160
Balance June 30, 2019	65,629	$ 65,598	$ 342,815	$ 345,934	$ (107,822)	$ 646,525
Balance March 31, 2018	65,171	$ 65,128	$ 338,734	$ 223,501	$ (42,869)	$ 584,494
Shares issued on grants of restricted shares	31	43	(43)	—	—	—
Stock compensation expense	—	—	1,759	—	—	1,759
Net income	—	—	—	16,755	—	16,755
Dividends declared	—	—	—	(8,151)	—	(8,151)
Other comprehensive loss	—	—	—	—	(56,355)	(56,355)
Balance June 30, 2018	65,202	$ 65,171	$ 340,450	$ 232,105	$ (99,224)	$ 538,502
Six Months Ended June 30,						
Balance December 31, 2018	65,202	$ 65,171	$ 342,438	$ 301,990	$ (128,170)	$ 581,429
Shares issued on grants of restricted shares	31	31	(31)	—	—	—
Shares issued on grants of performance share units	449	449	(449)	—	—	—
Stock compensation expense	—	—	857	—	—	857
Net income	—	—	—	61,875	—	61,875
Dividends declared	—	—	—	(17,230)	—	(17,230)
Repurchase of common shares	(53)	(53)	—	(701)	—	(754)
Other comprehensive income	—	—	—	—	20,348	20,348
Balance June 30, 2019	65,629	$ 65,598	$ 342,815	$ 345,934	$ (107,822)	$ 646,525
Balance December 31, 2017	65,017	$ 64,974	$ 338,695	$ 205,998	$ (59,001)	$ 550,666
Shares issued on grants of restricted shares	31	43	(43)	—	—	—
Shares issued on grants of performance share units	154	154	(154)	—	—	—
Stock compensation expense	—	—	1,952	—	—	1,952
Net income	—	—	—	42,404	—	42,404
Dividends declared	—	—	—	(16,297)	—	(16,297)
Other comprehensive loss	—	—	—	—	(40,223)	(40,223)
Balance June 30, 2018	65,202	$ 65,171	$ 340,450	$ 232,105	$ (99,224)	$ 538,502

The accompanying notes are an integral part of these interim consolidated financial statements.

MERCER INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands of U.S. dollars)

	Three Months Ended June 30		Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Cash flows from (used in) operating activities				
Net income	$ 10,259	$ 16,755	$ 61,875	$ 42,404
Adjustments to reconcile net income to cash flows from operating activities				
Depreciation and amortization	32,148	23,014	62,395	46,333
Deferred income tax provision	426	1,204	4,065	6,016
Loss on settlement of debt	—	—	—	21,515
Defined benefit pension plans and other post-retirement benefit plan expense	860	432	1,716	871
Stock compensation expense	1,202	1,759	857	1,952
Foreign exchange transaction losses	9,505	347	9,242	524
Other	7,640	964	8,344	1,607
Defined benefit pension plans and other post-retirement benefit plan contributions	(270)	(60)	(1,428)	(105)
Changes in working capital				
Accounts receivable	32,204	13,475	(24,149)	8,343
Inventories	(7,769)	(12,221)	13,372	(19,043)
Accounts payable and accrued expenses	4,197	36,906	4,024	54,933
Other	(1,681)	3,170	(9,406)	(3,228)
Net cash from (used in) operating activities	88,721	85,745	130,907	162,122
Cash flows from (used in) investing activities				
Purchase of property, plant and equipment	(24,979)	(28,655)	(44,368)	(44,839)
Purchase of intangible assets	(179)	(153)	(495)	(320)
Other	(82)	67	(343)	67
Net cash from (used in) investing activities	(25,240)	(28,741)	(45,206)	(45,092)
Cash flows from (used in) financing activities				
Redemption of senior notes	—	—	—	(317,439)
Proceeds from (repayment of) revolving credit facilities, net	(24,732)	17,665	(58,404)	37,736
Dividend payments	(8,206)	(8,147)	(8,206)	(16,274)
Repurchase of common shares	(754)	—	(754)	—
Payment of debt issuance costs	(248)	—	(757)	(1,390)
Proceeds from government grants	—	—	6,320	—
Other	(6,067)	(771)	(6,929)	(1,619)
Net cash from (used in) financing activities	(40,007)	8,747	(68,730)	(298,986)
Effect of exchange rate changes on cash and cash equivalents	614	(9,835)	(140)	(9,300)
Net increase (decrease) in cash and cash equivalents	24,088	55,916	16,831	(191,256)
Cash and cash equivalents, beginning of period	233,234	213,566	240,491	460,738
Cash and cash equivalents, end of period	$ 257,322	$ 269,482	$ 257,322	$ 269,482
Supplemental cash flow disclosure				
Cash paid for interest	$ 5,902	$ 4,424	$ 22,885	$ 15,696
Cash paid for income taxes	$ 15,124	$ 2,742	$ 38,737	$ 4,220
Supplemental schedule of non-cash investing and financing activities:				
Leased production equipment	$ —	$ 12,126	$ —	$ 12,126

The accompanying notes are an integral part of these interim consolidated financial statements.

Note 1. The Company and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

The Interim Consolidated Financial Statements contained herein include the accounts of Mercer International Inc. ("Mercer Inc.") and all of its subsidiaries (collectively the "Company"). The Company's shares of common stock are quoted and listed for trading on the NASDAQ Global Market.

The Interim Consolidated Financial Statements have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). The year-end Consolidated Balance Sheet data was derived from audited financial statements. The footnote disclosure included herein has been prepared in accordance with accounting principles generally accepted for interim financial statements in the United States ("GAAP"). The unaudited Interim Consolidated Financial Statements should be read together with the audited Consolidated Financial Statements and accompanying notes included in the Company's latest Annual Report on Form 10-K for the fiscal year ended December 31, 2018. In the opinion of the Company, the unaudited Interim Consolidated Financial Statements contained herein contain all adjustments necessary for a fair statement of the results of the interim periods included. The results for the periods included herein may not be indicative of the results for the entire year.

In these Interim Consolidated Financial Statements, unless otherwise indicated, all amounts are expressed in United States dollars ("U.S. dollars" or "$"). The symbol "€" refers to euros and the symbol "C$" refers to Canadian dollars.

Use of Estimates

Preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant management judgment is required in determining the accounting for, among other things, pension and other post-retirement benefit obligations, deferred income taxes (valuation allowance and permanent reinvestment), depreciation and amortization, future cash flows associated with impairment testing for inventory and long-lived assets, the allocation of the purchase price in a business combination to the assets acquired and liabilities assumed, legal liabilities and contingencies. Actual results could differ materially from these estimates, and changes in these estimates are recorded when known.

New Accounting Pronouncements

Accounting Pronouncements Implemented

In February 2016, the Financial Accounting Standards Board ("FASB") established Topic 842, Leases, by issuing Accounting Standards Update ("ASU") 2016-02, Leases, which requires lessees to recognize virtually all leases on the balance sheet, by recording a right-of-use asset and corresponding liability. Additionally, the update also requires additional disclosures in regards to the nature, timing and uncertainty of cash flows arising from leases. Topic 842 was subsequently amended by ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842, Leases; and ASU 2018-11, Leases: Targeted Improvements. These updates were effective for financial statements issued for fiscal years beginning after December 15, 2018. The Company adopted these updates on January 1, 2019 using the modified retrospective method and used the effective date as the date of initial application. Consequently, financial information was not updated before January 1, 2019. The new standard provides a number of optional practical expedients in transition and the Company elected to use all of them on adoption.

Adoption of the standard resulted in recognition of right-of-use assets and lease liabilities for operating leases of $14,700 as at January 1, 2019. The standard did not impact the Interim Consolidated Statements of Operations or the Interim Consolidated Statements of Cash Flows. The Company's lease disclosure has been included in the Lease Commitments Note.

(In thousands of U.S. dollars, except share and per share data)

Note 2. Acquisition of Mercer Peace River ("MPR")

On December 10, 2018, the Company acquired all of the issued and outstanding shares of MPR. The purchase price was cash consideration of $344,030, after certain customary working capital adjustments. The acquisition results in 100% ownership of a bleached kraft pulp mill in Peace River, Alberta, a 50% joint venture interest in the Cariboo Pulp and Paper Company ("CPP"), an NBSK pulp mill, in Quesnel, British Columbia, and a 50% interest in a logging and chipping operation for the areas underlying MPR's forest management agreements and timber allocations. The acquisition of MPR expands the Company's presence in Asia and adds northern bleached hardwood kraft to its product mix.

The following summarizes the Company's preliminary allocation of the purchase price to the fair value of the assets acquired and liabilities assumed from MPR at the acquisition date:

		Purchase Price Allocation
Current assets	$	134,748
Property, plant and equipment		214,260
Investment in joint ventures		55,325
Amortizable intangible assets, timber cutting rights (a)		37,634
Other long term-assets		392
Total assets acquired		442,359
Current liabilities		35,578
Pension obligations		9,747
Deferred income tax		49,907
Other long-term liabilities		3,097
Total liabilities assumed		98,329
Net assets acquired	$	344,030

(a) The timber cutting rights are being amortized on a straight line basis over 30 years. The fair value of the timber cutting rights was determined through the market approach utilizing comparable market data. The values were then discounted at a rate of 12% for 30 years to arrive at the fair value.

The purchase price allocation was based on a preliminary valuation and may be revised as a result of additional information obtained regarding the assets acquired and liabilities assumed, and revisions of provisional estimates of fair value, including, but not limited to, the completion of valuations related to property, plant and equipment and the identification of intangible assets. During the three and six month periods ended June 30, 2019 immaterial adjustments were made to the purchase price allocation to reflect the most current valuations of the assets. The purchase price allocation will be finalized during the 12-month measurement period following the acquisition date.

Note 3. Inventories

		June 30, 2019		December 31, 2018
Raw materials	$	81,281	$	103,983
Finished goods		109,874		114,304
Spare parts and other		95,684		85,526
	$	286,839	$	303,813

(In thousands of U.S. dollars, except share and per share data)

Note 4. Accounts Payable and Other

	June 30, 2019	December 31, 2018
Trade payables	$ 38,645	$ 36,333
Accrued expenses	106,377	95,936
Interest payable	29,866	16,861
Income tax payable	24,234	29,818
Legal cost award payable	—	6,951
Dividends payable	9,024	—
Other	14,126	8,585
	$ 222,272	$ 194,484

Note 5. Debt

	June 30, 2019	December 31, 2018
2022 Senior Notes, principal amount $100,000 (a)	$ 99,056	$ 98,918
2024 Senior Notes, principal amount $250,000 (a)	246,533	246,154
2025 Senior Notes, principal amount $350,000 (a)	343,083	342,761
2026 Senior Notes, principal amount $300,000 (a)	294,972	294,588
Credit arrangements		
€200 million joint revolving credit facility (b)	—	58,968
C$60 million revolving credit facility (c)	—	
C$40 million revolving credit facility (d)	—	—
€2.6 million demand loan (e)	—	—
	$ 983,644	$ 1,041,389

As at June 30, 2019, the maturities of the principal portion of debt were as follows:

2019	$ —
2020	—
2021	—
2022	100,000
2023	—
Thereafter	900,000
	$ 1,000,000

Certain of the Company's debt instruments were issued under agreements which, among other things, may limit the ability to make certain payments, including dividends. These limitations are subject to specific exceptions. As at June 30, 2019, the Company was in compliance with the terms of its debt agreements.

(a) In 2018, the Company issued $350,000 in aggregate principal amount of 7.375% senior notes which mature on January 15, 2025 ("2025 Senior Notes"). The 2025 Senior Notes were issued at a price of 100% of their principal amount. The net proceeds of the offerings were $342,682 after deducting the underwriter's discount and offering expenses. The net proceeds, together with cash on hand, were used to finance the acquisition of MPR.

In 2017, the Company issued $300,000 in aggregate principal amount of 5.50% senior notes which mature on January 15, 2026 ("2026 Senior Notes"). The 2026 Senior Notes were issued at a price of 100% of their principal amount. The net proceeds of the offering were $293,795, after deducting the underwriter's discount and offering expenses.

(In thousands of U.S. dollars, except share and per share data)

Note 5. Debt (continued)

In 2018, the Company used the net proceeds of the 2026 Senior Notes, together with cash on hand, to purchase $300,000 in aggregate principal amount of 2022 Senior Notes (herein defined below). In connection with this redemption the Company recorded a loss on settlement of debt of $21,515 in the Interim Consolidated Statement of Operations.

In 2017, the Company issued $250,000 in aggregate principal amount of 6.50% senior notes which mature on February 1, 2024 ("2024 Senior Notes"). The 2024 Senior Notes were issued at a price of 100% of their principal amount. The net proceeds of the offerings were $244,711, after deducting the underwriter's discount and offering expenses. The net proceeds, together with cash on hand, were used to redeem $227,000 of remaining aggregate principal amount of outstanding senior notes due 2019, to finance the acquisition of the Friesau sawmill and for general working capital purposes.

In 2014, the Company issued $400,000 in aggregate principal amount of 7.75% senior notes which mature on December 1, 2022 ("2022 Senior Notes" and collectively with the 2024 Senior Notes, 2025 Senior Notes and 2026 Senior Notes, the "Senior Notes").

The Senior Notes are general unsecured senior obligations of the Company. They rank equal in right of payment with all existing and future unsecured senior indebtedness of the Company and are senior in right of payment to any current or future subordinated indebtedness of the Company. The Senior Notes are effectively junior in right of payment to all existing and future secured indebtedness, to the extent of the assets securing such indebtedness, and all indebtedness and liabilities of the Company's subsidiaries.

The Company may redeem all or a part of the 2025 Senior Notes or 2026 Senior Notes, upon not less than 10 days' or more than 60 days' notice and the Company may redeem all or a part of the 2024 Senior Notes or 2022 Senior Notes, upon not less than 30 days' or more than 60 days' notice at the redemption price plus accrued and unpaid interest to (but not including) the applicable redemption date.

The following table presents the redemption prices (expressed as percentages of principal amount) and the redemption periods:

2022 Senior Notes		2024 Senior Notes		2025 Senior Notes		2026 Senior Notes	
12 Month Period Beginning	Percentage	12 Month Period Beginning	Percentage	12 Month Period Beginning	Percentage	12 Month Period Beginning	Percentage
December 1, 2018	103.875%	February 1, 2020	103.250%	January 15, 2021	103.688%	January 15, 2021	102.750%
December 1, 2019	101.938%	February 1, 2021	101.625%	January 15, 2022	101.844%	January 15, 2022	101.375%
December 1, 2020 and thereafter	100.000%	February 1, 2022 and thereafter	100.000%	January 15, 2023 and thereafter	100.000%	January 15, 2023 and thereafter	100.000%

(b) A €200.0 million joint revolving credit facility with all of the Company's German mills that matures in December 2023. Borrowings under the facility are unsecured and bear interest at Euribor plus a variable margin ranging from 1.05% to 2.00% dependent on conditions including but not limited to a prescribed leverage ratio. As at June 30, 2019, approximately €11.1 million ($12,628) of this facility was supporting bank guarantees leaving approximately €188.9 million ($214,972) available.

(c) In 2019, MPR entered into a C$60.0 million revolving credit facility that matures in February 2024. The facility is available by way of: (i) Canadian denominated advances, which bear interest at a designated prime rate per annum; (ii) banker's acceptance equivalent loans, which bear interest at the applicable Canadian dollar banker's acceptance plus 1.25% to 1.50% per annum; (iii) dollar denominated base rate advances at the greater of the federal funds rate plus 0.50%, a designated LIBOR rate plus 1.00% and the bank's applicable reference rate for U.S. dollar loans; and (iv) dollar LIBOR advances, which bear interest at LIBOR plus 1.25% to 1.50% per annum. The facility is secured by, among other things, the mill's inventories and receivables. As at June 30, 2019, approximately C$0.8 million ($631) was supporting letters of credit leaving approximately C$59.2 million ($45,215) available.

(In thousands of U.S. dollars, except share and per share data)

Note 5. Debt (continued)

(d) A C$40.0 million revolving credit facility at the Celgar mill that matures in July 2023. Borrowings under the facility are collateralized by the mill's inventory, accounts receivable, general intangibles and capital assets and are restricted by a borrowing base calculated on the mill's inventory and accounts receivable. When the borrowing capacity is less than 25% of the total facility the Canadian dollar denominated amounts bear interest at bankers acceptance plus 1.50% or Canadian prime and the U.S. dollar denominated amounts bear interest at LIBOR plus 1.50% or U.S. base. When the borrowing capacity is greater than or equal to 25% of the total facility, the respective bankers acceptance or LIBOR margins are reduced by 0.25% and the Canadian Prime or U.S. base margins are reduced by 0.125%. As at June 30, 2019, approximately C$1.7 million ($1,298) was supporting letters of credit leaving approximately C$38.3 million ($29,266) available.

(e) A €2.6 million demand loan at the Rosenthal mill that does not have a maturity date. Borrowings under this facility are unsecured and bear interest at the rate of the three-month Euribor plus 2.50%. As at June 30, 2019, approximately €2.6 million ($2,904) of this facility was supporting bank guarantees leaving approximately $nil available.

Note 6. Pension and Other Post-Retirement Benefit Obligations

Defined Benefit Plans

Included in pension and other post-retirement benefit obligations are amounts related to Celgar and from the date of acquisition MPR.

Pension benefits are based on employees' earnings and years of service. The defined benefit plans are funded by contributions from the Company based on actuarial estimates and statutory requirements. The components of the net benefit costs for the three and six month periods ended June 30, 2019 and 2018 were as follows:

	Three Months Ended June 30,			
	2019		2018	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Service cost	$ 711	$ 67	$ 26	$ 117
Interest cost	872	136	317	178
Expected return on plan assets	(997)	—	(384)	—
Amortization of unrecognized items	253	(182)	230	(52)
Net benefit costs	$ 839	$ 21	$ 189	$ 243

	Six Months Ended June 30,			
	2019		2018	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Service cost	$ 1,427	$ 135	$ 52	$ 237
Interest cost	1,749	273	640	360
Expected return on plan assets	(1,999)	—	(777)	—
Amortization of unrecognized items	468	(337)	464	(105)
Net benefit costs	$ 1,645	$ 71	$ 379	$ 492

(In thousands of U.S. dollars, except share and per share data)

Note 6. Pension and Other Post-Retirement Benefit Obligations (continued)

The components of the net benefit costs other than service cost are recorded in other income (expenses) in the Interim Consolidated Statement of Operations.

Defined Contribution Plan

Effective December 31, 2008, the defined benefit plans at the Celgar mill were closed to new members. In addition, the related defined benefit service accrual ceased on December 31, 2008, and members began to receive pension benefits, at a fixed contractual rate, under a new defined contribution plan effective January 1, 2009. During the three and six month periods ended June 30, 2019, the Company made contributions of $298 and $746, respectively (2018 – $217 and $435).

Multiemployer Plan

The Company participates in a multiemployer plan for the hourly-paid employees at the Celgar mill. The contributions to the plan are determined based on a percentage of pensionable earnings pursuant to a collective bargaining agreement. The Company has no current or future contribution obligations in excess of the contractual contributions. Contributions during the three and six month periods ended June 30, 2019 totaled $648 and $971, respectively (2018 – $658 and $1,145).

Note 7. Income Taxes

Differences between the U.S. Federal statutory and the Company's effective rates for the three and six month periods ended June 30, 2019 and 2018, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
U.S. Federal statutory rate	**21%**	**21%**	**21%**	**21%**
U.S. Federal statutory rate on income before provision for income taxes	$ (4,346)	$ (5,296)	$ (20,314)	$ (12,694)
Tax differential on foreign income	(2,446)	(2,639)	(8,362)	(7,228)
Effect of foreign earnings (a)	(153)	(5,740)	(12,040)	(8,457)
Valuation allowance	(4,580)	3,773	3,761	22,018
Tax benefit of partnership structure	963	1,380	1,921	2,277
Non-taxable foreign subsidies	1,026	732	1,394	1,488
True-up of prior year taxes	(2,396)	(426)	(1,121)	(14,493)
Other	1,499	(245)	(96)	(953)
	$ (10,433)	$ (8,461)	$ (34,857)	$ (18,042)
Comprised of:				
Current income tax provision	$ (10,007)	$ (7,257)	$ (30,792)	$ (12,026)
Deferred income tax provision	(426)	(1,204)	(4,065)	(6,016)
	$ (10,433)	$ (8,461)	$ (34,857)	$ (18,042)

(a) Includes the impact of the global intangible low-taxed income provision in the Tax Cuts and Jobs Act of 2017.

(In thousands of U.S. dollars, except share and per share data)

Note 8. Shareholders' Equity

Dividends

During the six month period ended June 30, 2019, the Company's Board of Directors declared the following quarterly dividends:

Date Declared	Dividend Per Common Share	Amount
February 14, 2019	$ 0.1250	$ 8,206
May 2, 2019	0.1375	9,024
	$ 0.2625	$ 17,230

In August 2019, the Company's Board of Directors declared a quarterly dividend of $0.1375 per common share. Payment of the dividend will be made on October 2, 2019 to all shareholders of record on September 25, 2019. Future dividends are subject to approval by the Board of Directors and may be adjusted as business and industry conditions warrant.

Share Repurchase Program

In May 2019, the Company's board of directors authorized a common stock repurchase program under which the Company may repurchase up to $50,000 of its shares until May 2020. Repurchases may be made from time to time under the program through open market or in privately negotiated transactions, through block trades or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. The repurchase program is subject to market conditions, applicable legal requirements and other factors and will comply with Rule 10b-18 of the Securities and Exchange Commission.

During the three and six month periods ended June 30, 2019, the Company paid $754 to acquire 52,879 common shares at an average repurchase price of $14.25. The shares were retired upon repurchase.

Stock Based Compensation

The Company has a stock incentive plan which provides for options, restricted stock rights, restricted shares, performance shares, performance share units ("PSUs") and stock appreciation rights to be awarded to employees, consultants and non-employee directors. During the three and six month periods ended June 30, 2019, there were no issued and outstanding options, restricted stock rights, performance shares or stock appreciation rights. As at June 30, 2019, after factoring in all allocated shares, there remain approximately 2.6 million common shares available for grant.

PSUs

PSUs comprise rights to receive common shares at a future date that are contingent on the Company and the grantee achieving certain performance objectives. The performance objective period is generally three years. For the three and six month periods ended June 30, 2019, the Company recognized an expense of $1,078 and $603, respectively related to PSUs (2018 – $1,630 and $1,694).

(In thousands of U.S. dollars, except share and per share data)

Note 8. Shareholders' Equity (continued)

The following table summarizes PSU activity during the period:

	Number of PSUs
Outstanding as at January 1, 2019	2,036,008
Granted	641,206
Vested and issued	(449,395)
Forfeited	(462,843)
Outstanding as at June 30, 2019	1,764,976

Restricted Shares

Restricted shares generally vest at the end of one year. For the three and six month periods June 30, 2019, the Company recognized an expense of $124 and $254, respectively related to restricted shares (2018 - $129 and $258). As at June 30, 2019, the total remaining unrecognized compensation cost related to restricted shares amounted to approximately $413 which will be amortized over the remaining vesting periods.

The following table summarizes restricted share activity during the period:

	Number of Restricted Shares
Outstanding as at January 1, 2019	31,130
Granted	31,405
Vested	(31,130)
Outstanding as at June 30, 2019	31,405

Note 9. Net Income Per Common Share

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income				
Basic and diluted	$ 10,259	$ 16,755	$ 61,875	$ 42,404
Net income per common share				
Basic and diluted	$ 0.16	$ 0.26	$ 0.94	$ 0.65
Weighted average number of common shares outstanding:				
Basic (a)	65,611,484	65,140,802	65,507,469	65,095,788
Effect of dilutive instruments:				
PSUs	213,243	520,920	352,029	506,475
Restricted shares	17,012	20,959	18,557	26,737
Diluted	65,841,739	65,682,681	65,878,055	65,629,000

(a) For the three and six month periods ended June 30, 2019, the basic weighted average number of common shares outstanding excludes 31,405 restricted shares which have been issued, but have not vested as at June 30, 2019 (2018 – 31,130 restricted shares).

The calculation of diluted net income per common share does not assume the exercise of any instruments that would have an anti-dilutive effect on net income per common share. There were no anti-dilutive instruments for the three and six month periods ended June 30, 2019 and 2018.

(In thousands of U.S. dollars, except share and per share data)

Note 10. Accumulated Other Comprehensive Loss

The change in the accumulated other comprehensive loss by component (net of tax) was as follows:

	Foreign Currency Translation Adjustment	Defined Benefit Pension and Other Post-Retirement Benefit Items	Unrealized Gains / Losses on Marketable Securities	Total
Balance as at January 1, 2019	$ (127,003)	$ (1,170)	$ 3	$ (128,170)
Other comprehensive income before reclassifications	20,237	—	16	20,253
Amounts reclassified from accumulated other comprehensive loss	—	95	—	95
Other comprehensive income, net of taxes	20,237	95	16	20,348
Balance as at June 30, 2019	$ (106,766)	$ (1,075)	$ 19	$ (107,822)

Note 11. Business Segment Information

The Company is managed based on the primary products it manufactures: pulp and wood products. Accordingly, the Company's four pulp mills and its 50% interest in the CPP mill are aggregated into the pulp business segment, and the Friesau sawmill is a separate reportable business segment, wood products. The Company's sandalwood business is included in Corporate and Other as it does not meet the criteria to be reported as a separate segment.

None of the income or loss items following operating income in the Company's Interim Consolidated Statement of Operations are allocated to the segments, as those items are reviewed separately by management.

Information about certain segment data for the three and six month periods ended June 30, 2019 and 2018, was as follows:

Three Months Ended June 30, 2019	Pulp	Wood Products	Corporate and Other	Consolidated
Revenues from external customers	$ 384,799	$ 39,452	$ 1,502	$ 425,753
Operating income (loss)	$ 42,251	$ (89)	$ (4,352)	$ 37,810
Depreciation and amortization	$ 29,849	$ 2,010	$ 289	$ 32,148
Revenues by major products				
Pulp	$ 359,205	$ —	$ —	$ 359,205
Lumber	—	35,322	—	35,322
Energy and chemicals	25,594	2,788	1,502	29,884
Wood residuals	—	1,342	—	1,342
Total revenues	$ 384,799	$ 39,452	$ 1,502	$ 425,753
Revenues by geographical markets				
U.S.	$ 38,778	$ 12,678	$ —	$ 51,456
Germany	109,150	14,029	—	123,179
China	118,335	—	—	118,335
Other countries	118,536	12,745	1,502	132,783
Total revenues	$ 384,799	$ 39,452	$ 1,502	$ 425,753

(In thousands of U.S. dollars, except share and per share data)

Note 11. Business Segment Information (continued)

Three Months Ended June 30, 2018	Pulp	Wood Products	Corporate and Other	Consolidated
Revenues from external customers	$ 291,632	$ 54,900	$ —	$ 346,532
Operating income (loss)	$ 36,976	$ 4,322	$ (3,822)	$ 37,476
Depreciation and amortization	$ 21,127	$ 1,779	$ 108	$ 23,014
Revenues by major products				
Pulp	$ 279,939	$ —	$ —	$ 279,939
Lumber	—	48,991	—	48,991
Energy and chemicals	11,693	3,255	—	14,948
Wood residuals	—	2,654	—	2,654
Total revenues	$ 291,632	$ 54,900	$ —	$ 346,532
Revenues by geographical markets				
U.S.	$ 5,653	$ 15,249	$ —	$ 20,902
Germany	116,205	22,094	—	138,299
China	75,356	—	—	75,356
Other countries	94,418	17,557	—	111,975
Total revenues	$ 291,632	$ 54,900	$ —	$ 346,532

Six Months Ended June 30, 2019	Pulp	Wood Products	Corporate and Other	Consolidated
Revenues from external customers	$ 821,273	$ 83,891	$ 4,539	$ 909,703
Operating income (loss)	$ 135,771	$ 1,531	$ (5,940)	$ 131,362
Depreciation and amortization	$ 57,872	$ 3,921	$ 602	$ 62,395
Total assets (a)	$1,804,629	$ 83,751	$ 141,397	$ 2,029,777
Revenues by major products				
Pulp	$ 772,518	$ —	$ —	$ 772,518
Lumber	—	74,485	—	74,485
Energy and chemicals	48,755	5,454	4,539	58,748
Wood residuals	—	3,952	—	3,952
Total revenues	$ 821,273	$ 83,891	$ 4,539	$ 909,703
Revenues by geographical markets				
U.S.	$ 93,346	$ 25,970	$ —	$ 119,316
Germany	241,339	28,945	—	270,284
China	233,654	—	—	233,654
Other countries	252,934	28,976	4,539	286,449
Total revenues	$ 821,273	$ 83,891	$ 4,539	$ 909,703

(a) Total assets for the pulp segment includes the Company's $57,659 investment in joint ventures, primarily for the CPP mill.

(In thousands of U.S. dollars, except share and per share data)

Note 11. Business Segment Information (continued)

Six Months Ended June 30, 2018	Pulp	Wood Products	Corporate and Other	Consolidated
Revenues from external customers	$ 605,867	$ 108,568	$ —	$ 714,435
Operating income (loss)	$ 111,030	$ 7,304	$ (4,810)	$ 113,524
Depreciation and amortization	$ 42,650	$ 3,465	$ 218	$ 46,333
Revenues by major products				
Pulp	$ 570,490	$ —	$ —	$ 570,490
Lumber	—	97,159	—	97,159
Energy and chemicals	35,377	6,036	—	41,413
Wood residuals	—	5,373	—	5,373
Total revenues	$ 605,867	$ 108,568	$ —	$ 714,435
Revenues by geographical markets				
U.S.	$ 11,303	$ 31,654	$ —	$ 42,957
Germany	240,943	43,860	—	284,803
China	159,837	—	—	159,837
Other countries	193,784	33,054	—	226,838
Total revenues	$ 605,867	$ 108,568	$ —	$ 714,435

As at December 31, 2018, the Company had total assets of $1,698,071 in the pulp segment, $131,754 in the wood products segment and $145,910 in corporate and other.

Revenues between segments are accounted for at prices that approximate fair value. These include revenues from the sale of residual fiber from the wood products segment to the pulp segment for use in the pulp production process and from the sale of residual fuel from the pulp segment to the wood products segment for use in energy production. For the three and six month periods ended June 30, 2019, the pulp segment sold $108 and $364, respectively of residual fuel to the wood products segment (2018 – $556 and $910) and the wood products segment sold $3,946 and $9,353, respectively of residual fiber to the pulp segment (2018 – $5,096 and $10,045).

The Company purchases and sells pulp produced by the 50% owned CPP mill. The pulp purchases are transacted at the CPP mill's cost. For the three and six month periods ended June 30, 2019, the Company purchased $30,523 and $55,156, respectively of pulp (2018 - $nil) and as at June 30, 2019 had a balance owing to the CPP mill of $788 (December 31, 2018 - $1,347). The Company also purchases fiber from its 50% owned logging operation. For the three and six month periods ended June 30, 2019, the Company purchased $3,055 and $8,849, respectively of fiber (2018 - $nil) and as at June 30, 2019 had a balance owing to the logging operation of $1,565 (December 31, 2018 - $2,343).

Note 12. Financial Instruments and Fair Value Measurement

Due to their short-term maturity, the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and other approximates their fair value.

The carrying value of the revolving credit facilities classified as Level 2 approximates their fair value as the variable interest rates reflect current interest rates for financial instruments with similar characteristics and maturities. The fair value of the Senior Notes classified as Level 2 was determined using quoted prices in a dealer market, or using recent market transactions.

(In thousands of U.S. dollars, except share and per share data)

Note 12. Financial Instruments and Fair Value Measurement (continued)

The following tables present a summary of the Company's outstanding financial instruments and their estimated fair values under the fair value hierarchy:

	Fair value measurements at June 30, 2019 using:			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Senior notes	$ —	$ 1,032,875	$ —	$ 1,032,875

	Fair value measurements at December 31, 2018 using:			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Revolving credit facility	$ —	$ 58,968	$ —	$ 58,968
Senior notes	—	965,000	—	965,000
	$ —	$ 1,023,968	$ —	$ 1,023,968

Credit Risk

The Company's credit risk is primarily attributable to cash held in bank accounts and accounts receivable. The Company maintains cash balances in foreign financial institutions in excess of insured limits. The Company limits its credit exposure on cash held in bank accounts by periodically investing cash in excess of short-term operating requirements and debt obligations in low risk government bonds, or similar debt instruments. The Company's credit risk associated with the sale of pulp, lumber and other wood residuals is managed through setting credit limits, the purchase of credit insurance and for certain customers a letter of credit is received prior to shipping the product. Concentrations of credit risk on the sale of pulp, lumber and other wood residuals are with customers and agents based primarily in Germany, China, the U.S. and Italy.

The carrying amount of cash and cash equivalents of $257,322 and accounts receivable of $273,502 recorded in the Interim Consolidated Balance Sheet, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

Note 13. Lease Commitments

The Company has finance leases primarily for rail cars and production equipment. The rail cars primarily have a remaining lease term of nine years with annual renewal options thereafter. The production equipment has a remaining lease term of eight years. The Company has operating leases primarily for land to support the sandalwood tree plantations and for offices. The land leases have remaining terms of six to 13 years with options to renew for up to six years. The office leases have remaining terms of four to eight years with options to renew primarily for an additional five years. A majority of the operating leases are subject to annual changes to the Consumer Price Index ("CPI"). Changes to the CPI are treated as variable lease payments and recognized in the period in which the obligation for those payments was incurred. A 100-basis-point increase in CPI would not have a material impact on lease costs.

(In thousands of U.S. dollars, except share and per share data)

Note 13. Lease Commitments (continued)

The components of lease expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Lease cost:				
Operating lease cost	$ 891	$ 598	$ 1,823	$ 1,448
Finance lease cost:				
Amortization of right-of-use assets	856	887	1,737	1,740
Interest on lease liabilities	352	272	718	506
Total lease cost	$ 2,099	$ 1,757	$ 4,278	$ 3,694

Supplemental cash flow information related to leases were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 891	$ 598	$ 1,823	$ 1,448
Operating cash flows from finance leases	$ 352	$ 272	$ 718	$ 506
Financing cash flows from finance leases	$ 831	$ 784	$ 1,693	$ 1,632

Other information related to leases is as follows:

	Six Months Ended June 30,	
	2019	2018
Weighted average remaining lease term:		
Operating leases	7 years	6 years
Finance leases	9 years	10 years
Weighted average discount rate:		
Operating leases	6%	
Finance leases	5%	5%

The discount rates used to calculate the present value of the minimum lease payments is the incremental borrowing rate that the subsidiary entering into the lease would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

(In thousands of U.S. dollars, except share and per share data)

Note 13. Lease Commitments (continued)

Supplemental balance sheet information related to leases were as follows:

	June 30, 2019	December 31, 2018
Operating Leases		
Operating lease right-of-use assets	$ 14,087	
Other current liabilities	$ 2,477	
Operating lease liabilities	11,610	
Total operating lease liabilities	$ 14,087	
Finance Leases		
Property and equipment, gross	$ 44,089	$ 44,756
Accumulated depreciation	(17,330)	(15,963)
Property and equipment, net	$ 26,759	$ 28,793
Other current liabilities	$ 4,408	$ 4,911
Finance lease liabilities	23,229	24,669
Total finance lease liabilities	$ 27,637	$ 29,580

As at June 30, 2019, maturities of lease liabilities were as follows:

	Finance Leases	Operating Leases
2019	$ 3,818	$ 1,788
2020	3,560	3,197
2021	3,429	2,914
2022	3,258	2,726
2023	3,389	2,044
Thereafter	16,923	4,749
Total lease payments	34,377	17,418
Less: imputed interest	(6,740)	(3,331)
Total lease liability	$ 27,637	$ 14,087

As at December 31, 2018, minimum lease payments under non-cancellable finance and operating leases were as follows:

	Finance Leases	Operating Leases
2019	$ 6,302	$ 3,309
2020	3,601	2,963
2021	3,441	2,717
2022	3,278	2,557
2023	3,410	2,057
Thereafter	17,025	5,360
Total lease payments	37,057	$ 18,963
Less: imputed interest	(7,477)	
Total lease liability	$ 29,580	

Note 13. Lease Commitments (continued)

As at June 30, 2019, the Company has additional finance leases for rail cars that have not yet commenced. The leases have a term of 12 years with annual renewal options thereafter. The total payments over the term of the leases will be approximately $19,600. The leases will commence in 2019.

Note 14. Commitments and Contingencies

(a) The Company is involved in legal actions and claims arising in the ordinary course of business. While the outcome of any legal actions and claims cannot be predicted with certainty, it is the opinion of management that the outcome of any such claims which are pending or threatened, either individually or on a combined basis, will not have a material adverse effect on the consolidated financial condition, results of operations or liquidity of the Company.

(b) The Company is subject to regulations that require the handling and disposal of asbestos in a prescribed manner if a property undergoes a major renovation or demolition. Otherwise, the Company is not required to remove asbestos from its facilities. Generally asbestos is found on steam and condensate piping systems as well as certain cladding on buildings and in building insulation throughout older facilities. The Company's obligation for the proper removal and disposal of asbestos products from the Company's mills is a conditional asset retirement obligation. As a result of the longevity of the Company's mills, due in part to the maintenance procedures and the fact that the Company does not have plans for major changes that require the removal of asbestos, the timing of the asbestos removal is indeterminate. As a result, the Company is currently unable to reasonably estimate the fair value of its asbestos removal and disposal obligation. The Company will recognize a liability in the period in which sufficient information is available to reasonably estimate its fair value.

NON-GAAP FINANCIAL MEASURES

This quarterly report on Form 10-Q contains "non-GAAP financial measures", that is, financial measures that either exclude or include amounts that are not excluded or included in the most directly comparable measure calculated and presented in accordance with the generally accepted accounting principles in the United States, referred to as "GAAP". Specifically, we make use of the non-GAAP measure "Operating EBITDA".

Operating EBITDA is defined as operating income (loss) plus depreciation and amortization and non-recurring capital asset impairment charges. We use Operating EBITDA as a benchmark measurement of our own operating results and as a benchmark relative to our competitors. We consider it to be a meaningful supplement to operating income as a performance measure primarily because depreciation expense and non-recurring capital asset impairment charges are not actual cash costs, and depreciation expense varies widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of our operating facilities. In addition, we believe Operating EBITDA is commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

Operating EBITDA does not reflect the impact of a number of items that affect our net income (loss), including financing costs and the effect of derivative instruments. Operating EBITDA is not a measure of financial performance under GAAP, and should not be considered as an alternative to net income (loss) or income (loss) from operations as a measure of performance, or as an alternative to net cash from operating activities as a measure of liquidity. Operating EBITDA is an internal measure and therefore may not be comparable to other companies.

Operating EBITDA has significant limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are that Operating EBITDA does not reflect: (i) our cash expenditures, or future requirements, for capital expenditures or contractual commitments; (ii) changes in, or cash requirements for, working capital needs; (iii) the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our outstanding debt; (iv) the impact of realized or marked to market changes in our derivative positions, which can be substantial; and (v) the impact of non-recurring impairment charges against our investments or assets. Because of these limitations, Operating EBITDA should only be considered as a supplemental performance measure and should not be considered as a measure of liquidity or cash available to us to invest in the growth of our business. Because all companies do not calculate Operating EBITDA in the same manner, Operating EBITDA as calculated by us may differ from Operating EBITDA or EBITDA as calculated by other companies. We compensate for these limitations by using Operating EBITDA as a supplemental measure of our performance and by relying primarily on our GAAP financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this document: (i) unless the context otherwise requires, references to "we", "our", "us", the "Company" or "Mercer" mean Mercer International Inc. and its subsidiaries; (ii) references to "Mercer Inc." mean the Company excluding its subsidiaries; (iii) information is provided as of June 30, 2019, unless otherwise stated; (iv) our reporting currency is dollars and references to "€" mean euros and "C$" mean Canadian dollars; (v) "ADMTs" refers to air-dried metric tonnes; (vi) "NBSK" refers to northern bleached softwood kraft; (vii) "NBHK" refers to northern bleached hardwood kraft; (viii) "MW" refers to megawatts and "MWh" refers to megawatt hours; (ix) "Mfbm" refers to thousand board feet of lumber and "MMfbm" mean million board feet of lumber; and (x) our lumber metrics are converted from cubic meters to Mfbm using a conversion ratio of 1.6 cubic meters to one Mfbm, which is the ratio commonly used in the industry.

Due to rounding, numbers presented throughout this report may not add up precisely to totals we provide and percentages may not precisely reflect the absolute figure.

The following discussion and analysis of our results of operations and financial condition for the three and six months ended June 30, 2019 should be read in conjunction with our interim consolidated financial statements and related notes included in this quarterly report, as well as our most recent annual report on Form 10-K for the fiscal year ended December 31, 2018 filed with the Securities and Exchange Commission, referred to as the "SEC".

Results of Operations

General

We have two reportable operating segments:

- **Pulp** – consists of the manufacture, sale and distribution of pulp, electricity and other by-products at our pulp mills.
- **Wood Products** – consists of the manufacture, sale and distribution of lumber, electricity and other wood residuals at the Friesau sawmill.

Each segment offers primarily different products and requires different manufacturing processes, technology and sales and marketing.

On December 10, 2018 we acquired Mercer Peace River Pulp Ltd. ("MPR") which operates the Peace River mill in Alberta and has a 50% joint venture interest in the Cariboo mill in British Columbia. The Peace River mill is a swing mill that produces both NBSK and NBHK.

Current Market Environment

In the second quarter of 2019, list pulp prices declined from the first quarter of 2019 due to weak demand for certain paper grades in China and high producer inventories.

Overall, our average NBSK pulp sales realizations were approximately 8% lower in the second quarter of 2019 compared to the first quarter of 2019.

At the end of the current quarter, NBSK list prices in Europe, China and North America were approximately $950, $600 and $1,250 per ADMT, respectively and NBHK list prices in China and North America were approximately $560 and $1,060 per ADMT, respectively.

In the third quarter of 2019, our pulp mills have 10 days of scheduled maintenance downtime, or approximately 12,300 ADMTs. The Peace River mill had previously been scheduled for 58 days of maintenance downtime commencing in the third quarter of 2019. Such work has now been rescheduled to 2020 primarily due to a delay in the delivery of parts.

We currently expect pulp markets to moderately strengthen with improved pricing in the later part of the year. We currently believe that pulp producer inventories will decline in the third quarter of 2019 as a result of customary summer producer downtime along with steady demand in Europe and North America and moderately higher demand from paper producers in China.

In the second quarter of 2019, U.S. lumber markets modestly declined due to high customer inventory levels. In the second half of 2019 we are expecting modestly increased demand and prices. In the second quarter of 2019, European lumber pricing declined due to the supply of lumber processed from beetle and storm damaged wood in the market which generally obtains lower prices.

Summary Financial Highlights

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands, other than per share amounts)			
Statement of Operations Data				
Pulp segment revenues	$ 384,799	$ 291,632	$ 821,273	$ 605,867
Wood products segment revenues	39,452	54,900	83,891	108,568
Corporate and other revenues	1,502	—	4,539	—
Total revenues	$ 425,753	$ 346,532	$ 909,703	$ 714,435
Pulp segment operating income	$ 42,251	$ 36,976	$ 135,771	$ 111,030
Wood products segment operating income (loss)	(89)	4,322	1,531	7,304
Corporate and other operating loss	(4,352)	(3,822)	(5,940)	(4,810)
Total operating income	$ 37,810	$ 37,476	$ 131,362	$ 113,524
Pulp segment depreciation and amortization	$ 29,849	$ 21,127	$ 57,872	$ 42,650
Wood products segment depreciation and amortization	2,010	1,779	3,921	3,465
Corporate and other depreciation and amortization	289	108	602	218
Total depreciation and amortization	$ 32,148	$ 23,014	$ 62,395	$ 46,333
Operating EBITDA (1)	$ 69,958	$ 60,490	$ 193,757	$ 159,857
Loss on settlement of debt	$ —	$ —	$ —	$ (21,515) (2)
Legal cost award	$ —	$ —	$ —	$ (6,951)
Provision for income taxes	$ (10,433)	$ (8,461)	$ (34,857)	$ (18,042)
Net income	$ 10,259	$ 16,755	$ 61,875	$ 42,404
Net income per common share				
Basic and diluted	$ 0.16	$ 0.26	$ 0.94	$ 0.65
Common shares outstanding at period end	65,629	65,202	65,629	65,202

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
Net income	$ 10,259	$ 16,755	$ 61,875	$ 42,404
Provision for income taxes	10,433	8,461	34,857	18,042
Interest expense	18,369	12,128	36,920	24,243
Loss on settlement of debt	—	—	—	21,515
Legal cost award	—	—	—	6,951
Other (income) expenses	(1,251)	132	(2,290)	369
Operating income	37,810	37,476	131,362	113,524
Add: Depreciation and amortization	32,148	23,014	62,395	46,333
Operating EBITDA	$ 69,958	$ 60,490	$ 193,757	$ 159,857

(2) Redemption of 7.75% senior notes due 2022, referred to as the "2022 Senior Notes".

Selected Production, Sales and Other Data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Pulp Segment				
Pulp production ('000 ADMTs)				
NBSK	452.8	309.7	913.4	674.2
NBHK	89.4		168.0	
Annual maintenance downtime ('000 ADMTs)	7.5	55.4	7.5	55.4
Annual maintenance downtime (days)	15	37	15	37
Pulp sales ('000 ADMTs)				
NBSK	438.5	338.3	905.4	705.4
NBHK	81.5		169.4	
Average NBSK pulp list prices ($/ADMT)(1)				
Europe	997	1,200	1,051	1,148
China	653	910	682	910
North America	1,292	1,310	1,336	1,272
Average NBHK pulp list prices ($/ADMT)(1)				
China	635	800	661	799
North America	1,100	1,125	1,140	1,101
Average pulp sales realizations ($/ADMT)(2)				
NBSK	699	821	729	801
NBHK	618		638	
Energy production ('000 MWh)	575.4(3)	294.7	1,135.8(3)	732.7
Energy sales ('000 MWh)	231.9(3)	84.6	443.7(3)	260.3
Average energy sales realizations ($/MWh)	93	99	94	104
Wood Products Segment				
Lumber production (MMfbm)	100.8	111.9	211.5	214.6
Lumber sales (MMfbm)	101.5	113.1	210.7	228.2
Average lumber sales realizations ($/Mfbm)	348	433	354	426
Energy production and sales ('000 MWh)	24.1	25.6	46.4	46.2
Average energy sales realizations ($/MWh)	116	127	118	131
Average Spot Currency Exchange Rates				
$ / €(4)	1.1237	1.1922	1.1293	1.2103
$ / C$(4)	0.7475	0.7750	0.7497	0.7826

(1) Source: RISI pricing report.
(2) Sales realizations after customer discounts, rebates and other selling concessions. Incorporates the effect of pulp price variations occurring between the order and shipment dates.
(3) Excludes energy production and sales relating to our 50% joint venture interest in the Cariboo mill, which is accounted for as an equity investment.
(4) Average Federal Reserve Bank of New York Noon Buying Rates over the reporting period.

Consolidated - Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

Total revenues for the three months ended June 30, 2019 increased by approximately 23% to $425.8 million from $346.5 million in the same quarter of 2018 primarily due to the inclusion of MPR and higher pulp and energy sales volumes partially offset by lower product sales realizations.

Costs and expenses in the current quarter increased by approximately 25% to $387.9 million from $309.1 million in the second quarter of 2018 primarily due to the inclusion of MPR costs and higher pulp sales volumes partially offset by lower maintenance and per unit fiber costs.

In the second quarter of 2019, cost of sales depreciation and amortization increased to $32.0 million from $22.9 million in the same quarter of 2018 primarily due to inclusion of MPR.

Selling, general and administrative expenses increased to $19.5 million in the second quarter of 2019 from $15.0 million in the same quarter of 2018 primarily due to the inclusion of MPR.

In the second quarter of 2019, our operating income was generally flat at $37.8 million compared to $37.5 million in the same quarter of 2018 as lower maintenance costs, higher energy and pulp sales volumes and lower per unit fiber costs were mostly offset by lower pulp and lumber sales realizations.

Interest expense in the current quarter increased to $18.4 million from $12.1 million in the same quarter of 2018 primarily as a result of the issuance in December 2018 of $350.0 million of our 7.375% senior notes due 2025 ("2025 Senior Notes") to finance the acquisition of MPR.

During the second quarter of 2019, income tax expense increased to $10.4 million from $8.5 million in the same quarter of 2018.

For the second quarter of 2019, our net income decreased to $10.3 million, or $0.16 per share, from $16.8 million, or $0.26 per share, in the same quarter of 2018.

In the second quarter of 2019, Operating EBITDA increased by approximately 16% to $70.0 million from $60.5 million in the same quarter of 2018 primarily due to lower maintenance costs, higher energy and pulp sales volumes, lower per unit fiber costs and the inclusion of MPR partially offset by lower pulp and lumber sales realizations.

Operating Results by Business Segment

None of the income or loss items following operating income in our Interim Consolidated Statement of Operations are allocated to our segments, since those items are reviewed separately by management.

Pulp Segment - Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

Selected Financial Information

	Three Months Ended June 30,	
	2019	2018
	(in thousands)	
Pulp revenues	$ 359,205	$ 279,939
Energy and chemical revenues	$ 25,594	$ 11,693
Depreciation and amortization	$ 29,849	$ 21,127
Operating income	$ 42,251	$ 36,976

Pulp revenues in the second quarter of 2019 increased by approximately 28% to $359.2 million from $279.9 million in the same quarter of 2018 due to the inclusion of MPR and higher sales volumes partially offset by lower sales realizations.

Energy and chemical revenues increased by approximately 119% to $25.6 million in the second quarter of 2019 from $11.7 million in the same quarter of 2018 when one turbine at each of our Stendal and Celgar mills was taken offline for scheduled maintenance.

NBSK pulp production increased by approximately 46% to 452,835 ADMTs in the current quarter from 309,668 ADMTs in the same quarter of 2018, primarily due to strong overall operating performance and the inclusion of MPR. In the current quarter of 2019, our 50% joint venture Cariboo mill had 15 days of scheduled maintenance downtime (approximately 7,500 ADMTs). In the second quarter of 2018, we had an aggregate of 37 days (approximately 55,400 ADMTs) of annual maintenance downtime.

We estimate that annual maintenance downtime in the current quarter adversely impacted our operating income by approximately $10.7 million, comprised primarily of direct out-of-pocket expenses.

NBSK pulp sales volumes increased by approximately 30% to 438,520 ADMTs in the current quarter from 338,308 ADMTs in the same quarter of 2018 primarily due to the inclusion of MPR and strong production.

In the current quarter of 2019, list prices for NBSK pulp decreased from the same quarter of 2018, largely as a result of weak demand for certain paper grades in China and high producer inventory levels. Average list prices for NBSK pulp in Europe were approximately $997 per ADMT in the second quarter of 2019 compared to approximately $1,200 per ADMT in the same quarter of 2018. Average list prices for NBSK pulp in China and North America were approximately $653 per ADMT and $1,292 per ADMT, respectively, in the current quarter compared to approximately $910 per ADMT and $1,310 per ADMT, respectively, in the same quarter of 2018.

Average NBSK pulp sales realizations decreased by approximately 15% to $699 per ADMT in the second quarter of 2019 from approximately $821 per ADMT in the same quarter of 2018 primarily due to lower list prices.

As a result of the decline in pulp prices in China, during the current quarter of 2019, we recorded a write down of our inventory carrying values at our Canadian mills of $6.9 million.

As a result of the effect of the dollar weakening at the end of the current quarter against the euro and Canadian dollar on our dollar denominated cash and receivables held at our operations, we recorded a net overall negative impact of approximately $3.9 million due to foreign exchange.

Costs and expenses for our pulp segment in the current quarter increased by approximately 34% to $342.7 million from $255.2 million in the second quarter of 2018 primarily due to the inclusion of MPR and higher pulp sales volumes partially offset by the positive impact of lower maintenance and per unit fiber costs.

In the second quarter of 2019, pulp segment depreciation and amortization increased to $29.8 million from $21.1 million in the same quarter of 2018 primarily due the inclusion of MPR.

On average, in the current quarter overall per unit fiber costs decreased by approximately 10% from the same quarter of 2018 primarily due to the positive impact of a stronger dollar on our euro and Canadian dollar denominated fiber costs and lower per unit fiber costs for our German mills. In the current quarter, the fiber costs for our German mills declined due to the continued availability of storm and beetle damaged wood. For our Canadian mills, per unit fiber costs remained high due to continued strong demand for fiber in Celgar's fiber procurement area. We currently expect generally lower per unit fiber costs in the third quarter of 2019.

Transportation costs for our pulp segment increased to $36.3 million in the current quarter from $17.6 million in the same quarter of 2018 primarily as a result of the inclusion of MPR.

In the second quarter of 2019, pulp segment operating income increased by approximately 14% to $42.3 million from $37.0 million in the same quarter of 2018 as lower maintenance costs, higher sales volumes and lower per unit fiber costs were partially offset by lower pulp sales realizations.

Wood Products Segment - Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

Selected Financial Information

	Three Months Ended June 30,	
	2019	2018
	(in thousands)	
Lumber revenues	$ 35,322	$ 48,991
Energy revenues	$ 2,788	$ 3,255
Wood residual revenues	$ 1,342	$ 2,654
Depreciation and amortization	$ 2,010	$ 1,779
Operating income (loss)	$ (89)	$ 4,322

In the second quarter of 2019, lumber revenues decreased to $35.3 million from $49.0 million, due to lower sales realizations and volumes. In the current quarter approximately 29% of sales volumes were in the U.S. market and the majority of remaining sales were to Europe.

Energy and wood residual revenues decreased to $4.1 million in the second quarter of 2019 from $5.9 million in the same quarter of 2018 primarily due to lower sales realizations for wood residuals as the availability of lower cost beetle and storm damaged wood resulted in lower per unit selling prices.

Production decreased to 100.8 MMfbm of lumber in the current quarter from 111.9 MMfbm in the same quarter of 2018 primarily due to the processing of beetle and storm damaged wood.

Average lumber sales realizations decreased by approximately 20% to $348 per Mfbm in the second quarter of 2019 from approximately $433 per Mfbm in the same quarter of 2018 primarily due to a weaker U.S. lumber market. U.S. lumber pricing declined as record pricing in 2018 resulted in increased supply and high customer inventory levels. European lumber pricing also declined due to an increase in the supply of lumber processed from beetle and storm damaged wood which generally obtains lower prices.

Fiber costs were approximately 75% of our cash production costs in the current quarter. In the current quarter per unit fiber costs decreased by approximately 24% from the same quarter of 2018 primarily due to the availability of lower cost storm and beetle damaged wood. We currently expect modestly lower per unit fiber costs in the third quarter of 2019 as a result of the continuing availability of beetle and storm damaged wood.

In the second quarter of 2019, lumber segment depreciation and amortization increased to $2.0 million from $1.8 million in the same quarter of 2018 primarily due to capital improvements at the mill.

Transportation costs for our wood products segment in the second quarter of 2019 were $5.9 million, or flat when compared to the same quarter of 2018 as lower sales volume was offset by an increase in the proportion of sales to the U.S. which have higher transportation costs.

In the second quarter of 2019, our wood products segment had an operating loss of $0.1 million compared to operating income of $4.3 million in the same quarter of 2018 primarily due to lower sales realizations.

Consolidated - Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Total revenues for the first half of 2019 increased by approximately 27% to $909.7 million from $714.4 million in the first half of 2018 primarily due to the inclusion of the results of MPR and higher pulp and energy sales volumes partially offset by lower product sales realizations.

Costs and expenses in the first half of 2019 increased by approximately 30% to $778.3 million from $600.9 million in the first half of 2018 primarily due to the inclusion of MPR costs and higher pulp sales volumes partially offset by lower maintenance costs, the positive impact of a stronger dollar on our euro denominated costs and expenses and lower per unit fiber costs.

In the first half of 2019, cost of sales depreciation and amortization increased to $62.2 million from $46.1 million in the same period of 2018 primarily due to the inclusion of MPR.

Selling, general and administrative expenses increased to $36.7 million in the first half of 2019 from $29.4 million in the same period of 2018 primarily due to the inclusion of MPR.

In the first half of 2019, operating income increased by approximately 16% to $131.4 million from $113.5 million in the same period of 2018 primarily due to lower maintenance costs, higher energy and pulp sales volumes, lower per unit fiber costs and the inclusion of MPR partially offset by lower pulp and lumber sales realizations.

In January 2018, we redeemed $300.0 million of our 2022 Senior Notes at a cost, including premium, of $317.4 million and recorded a loss on such redemption of $21.5 million (being $0.33 per share).

Interest expense in the first half of 2019 increased to $36.9 million from $24.2 million in the same period of 2018 primarily as a result of the issuance in December 2018 of $350.0 million of our 2025 Senior Notes to finance the acquisition of MPR.

In the first half of 2018, we recognized an expense of $7.0 million, or $0.11 per share, in connection with the legal cost award against us in our prior claim under the North American Free Trade Agreement.

During the first half of 2019, income tax expense increased to $34.9 million from $18.0 million in the same period of 2018 due to higher income.

For the first half of 2019, our net income increased to $61.9 million, or $0.94 per share, after giving effect to costs of $28.5 million, or $0.44 per basic and $0.43 per diluted share, for the redemption of senior notes and the NAFTA legal cost award from $42.4 million in the same period of 2018.

In the first half of 2019, Operating EBITDA increased by approximately 21% to $193.8 million from $159.9 million in the same period of 2018 primarily due to lower maintenance costs, higher energy and pulp sales volumes, lower per unit fiber costs and the inclusion of MPR partially offset by lower pulp and lumber sales realizations.

Pulp Segment – Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Selected Financial Information

	Six Months Ended June 30,	
	2019	**2018**
	(in thousands)	
Pulp revenues	$ 772,518	$ 570,490
Energy and chemical revenues	$ 48,755	$ 35,377
Depreciation and amortization	$ 57,872	$ 42,650
Operating income	$ 135,771	$ 111,030

Pulp revenues in the first half of 2019 increased by approximately 35% to $772.5 million from $570.5 million in the same period of 2018 due to the inclusion of MPR and higher sales volumes partially offset by lower sales realizations.

Energy and chemical revenues increased by approximately 38% to $48.8 million in the first half of 2019 from $35.4 million in the same period of 2018 when one turbine at each of our Stendal and Celgar mills was taken offline for scheduled maintenance.

NBSK pulp production increased by approximately 35% to 913,448 ADMTs in the first half of 2019 from 674,154 ADMTs in the same period of 2018. We had annual maintenance downtime at our 50% joint venture Cariboo mill of 15 days (approximately 7,500 ADMTs) in the first half of 2019, compared to 37 days (approximately 55,400 ADMTs) in the first half of 2018.

We estimate that annual maintenance downtime in the first half of 2019 adversely impacted our operating income by approximately $10.7 million, comprised primarily of direct out-of-pocket expenses.

NBSK pulp sales volumes increased by approximately 28% to 905,413 ADMTs in the first half of 2019 compared to 705,382 ADMTs in the same period of 2018 primarily due to the inclusion of MPR and strong production.

In the first half of 2019, overall pulp pricing was generally weaker than the same period of 2018. In the current period of 2019, list prices for NBSK pulp in North America increased moderately from the same period in 2018 due to overall steady demand. In China and Europe, NBSK pulp prices decreased from the same period in 2018. Average list prices for NBSK pulp in Europe were approximately $1,051 per ADMT in the first half of 2019, compared to approximately $1,148 per ADMT in the same period of 2018. Average list prices for NBSK pulp in China and North America were approximately $682 per ADMT and $1,336 per ADMT, respectively, in the first half of 2019, compared to approximately $910 per ADMT and $1,272 per ADMT, respectively, in the first half of 2018.

Average NBSK pulp sales realizations decreased by approximately 9% to $729 per ADMT in the first half of 2019 from approximately $801 per ADMT in the same period of 2018 primarily due to list prices in China.

As a result of the decline in pulp prices in China, during the first half of 2019, we recorded a write down of our inventory carrying values at our Canadian mills of $6.9 million.

In the first half of 2019, foreign exchange had a net positive impact of $11.2 million on operating income as the dollar was stronger against the euro and Canadian dollar which decreased the dollar cost of our euro and Canadian dollar denominated costs and expenses. This positive impact was partially offset by the effect of the dollar weakening at the end of the current period against the euro and Canadian dollar on our dollar denominated cash and receivables held at our operations.

Costs and expenses in the first half of 2019 increased by approximately 38% to $685.9 million from $495.7 million in the first half of 2018 primarily due to the inclusion of MPR and higher pulp sales volumes partially offset by the positive impact of lower maintenance costs, the positive impact of a stronger dollar on our euro and Canadian dollar denominated costs and expenses and lower per unit fiber costs.

In the first half of 2019, depreciation and amortization increased to $57.9 million from $42.7 million in the same period of 2018 primarily due the inclusion of MPR.

On average, in the first half of 2019 overall per unit fiber costs decreased by approximately 8% from the same period of 2018 primarily due to the positive impact of a stronger dollar on our euro and Canadian dollar denominated fiber costs and lower per unit fiber costs for our German mills. In the first half of 2019, the per unit fiber costs for our German mills declined due to the continued availability of storm and beetle damaged wood. For our Canadian mills, per unit fiber costs remained high due to continued strong demand for fiber in Celgar's fiber procurement area. We currently expect generally lower per unit fiber costs in the third quarter of 2019.

Transportation costs for our pulp segment were $74.2 million in the first half of 2019 compared to $37.4 million in the same period of 2018 primarily as a result of the inclusion of MPR.

In the first half of 2019, pulp segment operating income increased by approximately 22% to $135.8 million from $111.0 million in the same period of 2018 primarily due lower maintenance costs, higher energy and pulp sales volumes, the positive impact of a stronger dollar and the inclusion of MPR partially offset by lower pulp sales realizations.

Wood Products Segment - Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Selected Financial Information

	Six Months Ended June 30,	
	2019	2018
	(in thousands)	
Lumber revenues	$ 74,485	$ 97,159
Energy revenues	$ 5,454	$ 6,036
Wood residual revenues	$ 3,952	$ 5,373
Depreciation and amortization	$ 3,921	$ 3,465
Operating income	$ 1,531	$ 7,304

In the first half of 2019, lumber revenues decreased to $74.5 million from $97.2 million, due to lower sales realizations and volumes. In the first half of 2019 approximately 29% of sales volumes were in the U.S. market and the majority of remaining sales were to Europe.

Energy and wood residual revenues decreased to $9.4 million in the first half of 2019 from $11.4 million in the same period of 2018 primarily due to lower sales realizations for wood residuals as the availability of lower cost beetle and storm damaged wood resulted in lower per unit selling prices.

Production decreased to 211.5 MMfbm of lumber in the first half of 2019 from 214.6 MMfbm in the same period of 2018 primarily due to the processing of beetle and storm damaged wood.

Average lumber sales realizations decreased by approximately 17% to $354 per Mfbm in the first half of 2019 from approximately $426 per Mfbm in the same period of 2018 primarily due to a weaker U.S. lumber market. U.S. lumber pricing declined as record pricing in 2018 resulted in increased supply and high customer inventory levels. European lumber pricing also declined due to an increase in the supply of lumber processed from beetle and storm damaged wood which generally obtains lower prices.

Fiber costs were approximately 75% of our cash production costs in the first half of 2019. In the first half of 2019 per unit fiber costs decreased by approximately 22% from the same period of 2018 primarily due to the availability of lower cost storm and beetle damaged wood.

In the first half of 2019, lumber segment depreciation and amortization increased to $3.9 million from $3.5 million in the same period of 2018 primarily due to capital improvements at the mill.

Transportation costs increased to $12.1 million in the first half of 2019 from $11.8 million in the same period of 2018 due to a higher proportion of sales to the U.S. which have higher transportation costs.

In the first half of 2019, our wood products segment operating income decreased to $1.5 million from $7.3 million in the same period of 2018 primarily due to lower sales realizations.

Liquidity and Capital Resources

Summary of Cash Flows

	Six Months Ended June 30,	
	2019	2018
	(in thousands)	
Net cash from operating activities	$ 130,907	$ 162,122
Net cash used in investing activities	(45,206)	(45,092)
Net cash used in financing activities	(68,730)	(298,986) [1]
Effect of exchange rate changes on cash and cash equivalents	(140)	(9,300)
Net increase (decrease) in cash and cash equivalents	$ 16,831	$ (191,256)

(1) Includes cash of $317.4 million used to redeem $300.0 million of 2022 Senior Notes.

We operate in a cyclical industry and our operating cash flows vary accordingly. Our principal operating cash expenditures are for labor, fiber, chemicals and debt service. Working capital levels fluctuate throughout the year and are affected by maintenance downtime, changing sales patterns, seasonality and the timing of receivables and sales and the payment of payables and expenses.

Cash Flows from Operating Activities. Cash provided by operating activities declined to $130.9 million in the six months ended June 30, 2019 from $162.1 million in the comparative period of 2018. An increase in accounts receivable used cash of $24.1 million in the six months ended June 30, 2019 compared to a decrease in accounts receivable providing cash of $8.3 million in the same period of 2018. A decrease in inventories provided cash of $13.4 million in the six months ended June 30, 2019 compared to an increase in inventories using cash of $19.0 million in the same period of 2018. An increase in accounts payable and accrued expenses provided cash of $4.0 million in the six months ended June 30, 2019 compared to $54.9 million in the same period of 2018.

Cash Flows from Investing Activities. Investing activities in the six months ended June 30, 2019 used cash of $45.2 million primarily related to capital expenditures of $44.4 million. In the first half of 2019, capital expenditures included the planer line replacement project at our Friesau sawmill, wastewater improvement projects at our German pulp mills and large maintenance projects at our Celgar mill. In the six months ended June 30, 2018, investing activities used cash of $45.1 million primarily related to capital expenditures of $44.8 million. In the first half of 2018, capital expenditures included spending on large maintenance projects, improvements to the digester performance at our Celgar mill, a project to reduce nitrogen in wastewater at our Stendal mill and the replacement of mobile equipment, planer mill upgrades and saw line optimization at our Friesau sawmill.

Cash Flows from Financing Activities. In the first half of 2019, financing activities used cash of $68.7 million primarily to repay $58.4 million of revolving credit facilities. In the six months ended June 30, 2019 we received $6.3 million of government grants to finance greenhouse gas reduction capital projects at the Peace River mill, we paid dividends of $8.2 million and used $0.8 million to repurchase common shares. In the first half of 2018, financing activities used cash of $299.0 million primarily in connection with the redemption of $300.0 million of 2022 Senior Notes, which used cash of $317.4 million. In the first half of 2018, advances of $37.7 million on our revolving credit facilities were used primarily to finance wood procurement activities. In the first half of 2018, we paid dividends of $16.3 million and $1.4 million of debt issuance costs related to our 5.5% senior notes due 2026 ("2026 Senior Notes").

Balance Sheet Data

The following table is a summary of selected financial information as at the dates indicated:

Financial Position	June 30, 2019	December 31, 2018
	(in thousands)	
Cash and cash equivalents	$ 257,322	$ 240,491
Working capital	$ 614,789	$ 615,311
Total assets	$ 2,029,777	$ 1,975,735
Long-term liabilities	$ 1,160,149	$ 1,198,918
Total equity	$ 646,525	$ 581,429

Primarily as a result of the weakening of the dollar versus the Canadian dollar as at June 30, 2019, we recorded a net non-cash increase in the carrying value of our net assets, consisting primarily of our fixed assets denominated in Canadian dollars. This net non-cash increase of approximately $20.2 million does not affect our net income, Operating EBITDA or cash flows but is reflected in our other comprehensive income and as an increase to our total equity.

Sources and Uses of Funds

Our principal sources of funds are cash flows from operations and cash and cash equivalents on hand. Our principal operating uses of funds consist of operating expenses, capital expenditures and semi-annual interest payments on our outstanding senior notes.

The following table sets out our total capital expenditures and interest expense for the periods indicated:

	Six Months Ended June 30,	
	2019	2018
	(in thousands)	
Capital expenditures	$ 44,368	$ 44,839
Cash paid for interest expense(1)	$ 22,885	$ 15,696
Interest expense(2)	$ 36,920	$ 24,243

(1) Amounts differ from interest expense which includes non-cash items. See supplemental disclosure of cash flow information from our Interim Consolidated Statement of Cash Flows included in this report.
(2) Interest on our 2022 Senior Notes is paid semi-annually in June and December of each year and interest on our senior notes due in 2024 is paid semi-annually in February and August of each year. Interest on our 2025 Senior Notes and 2026 Senior Notes is paid semi-annually in January and July of each year, commencing in July 2019 and July 2018, respectively.

As at June 30, 2019 our cash and cash equivalents increased to $257.3 million from $240.5 million at the end of 2018. As at June 30, 2019, we had approximately $289.5 million available under our revolving credit facilities.

Based upon the current level of operations and our current expectations for future periods in light of the current economic environment, and in particular, current and expected pulp and lumber pricing and foreign exchange rates, we believe that cash flow from operations and available cash, together with available borrowings under our revolving credit facilities, will be adequate to finance the capital requirements for our business including the payment of our quarterly dividend during the next 12 months.

In the future we may make acquisitions of businesses or assets or commitments to additional capital projects. To achieve the long-term goals of expanding our assets and earnings, including through acquisitions, capital resources will be required. Depending on the size of a transaction, the capital resources that will be required can be substantial. The necessary resources will be generated from cash flow from operations, cash on hand, borrowing against our assets or the issuance of securities.

Debt Covenants

Certain of our long-term obligations contain various financial tests and covenants customary to these types of arrangements. See our annual report on Form 10-K for the fiscal year ended December 31, 2018.

As at June 30, 2019, we were in full compliance with all of the covenants of our indebtedness.

Off-Balance Sheet Arrangements

At June 30, 2019, we did not have any off-balance sheet arrangements (as defined in Item 303(a)(4)(ii) of Regulation S-K).

Contractual Obligations and Commitments

There were no material changes outside the ordinary course to any of our material contractual obligations during the six months ended June 30, 2019.

Foreign Currency

As a majority of our assets, liabilities and expenditures are held or denominated in euros or Canadian dollars, our consolidated financial results are subject to foreign currency exchange rate fluctuations.

We translate foreign denominated assets and liabilities into dollars at the rate of exchange on the balance sheet date. Equity accounts are translated using historical exchange rates. Unrealized gains or losses from these translations are recorded in other comprehensive income (loss) and do not affect our net earnings.

As a result of the weakening of the dollar versus the Canadian dollar as at June 30, 2019, we recorded a net non-cash increase of $20.2 million in the carrying value of our net assets, consisting primarily of our fixed assets denominated in Canadian dollars. As a result, our accumulated other comprehensive loss decreased to $107.8 million.

Based upon the exchange rate as at June 30, 2019, the dollar has strengthened by approximately 1% against the euro and weakened by approximately 4% against the Canadian dollar since December 31, 2018. See "Quantitative and Qualitative Disclosures about Market Risk".

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect both the amount and the timing of the recording of assets, liabilities, revenues, and expenses in the consolidated financial statements and accompanying note disclosures. Our management routinely makes judgments and estimates about the effects of matters that are inherently uncertain. As the number of variables and assumptions affecting the probable future resolution of the uncertainties increases, these judgments become even more subjective and complex.

Our significant accounting policies are disclosed in Note 1 to our audited annual financial statements included in our annual report on Form 10-K for the fiscal year ended December 31, 2018. While all of the significant accounting policies are important to the consolidated financial statements, some of these policies may be viewed as having a high degree of judgment. On an ongoing basis using currently available information, management reviews its estimates, including those related to accounting for, among other things, pension and other post-retirement benefit obligations, deferred income taxes (valuation allowance and permanent reinvestment), depreciation and amortization, future cash flows associated with impairment testing for inventory and long-lived assets, the allocation of the purchase price in a business combination to the assets acquired and liabilities assumed, legal liabilities and contingencies. Actual results could differ materially from these estimates, and changes in these estimates are recorded when known.

We have identified certain accounting policies that are the most important to the portrayal of our current financial condition and results of operations.

For information about both our significant and critical accounting policies, see our annual report on Form 10-K for the fiscal year ended December 31, 2018.

Cautionary Statement Regarding Forward-Looking Information

The statements in this report that are not reported financial results or other historical information are "forward-looking statements" within the meaning of the *Private Securities Litigation Reform Act of 1995*, as amended.

Generally, forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", or words of similar meaning, or future or conditional verbs, such as "will", "should", "could", or "may", although not all forward-looking statements contain these identifying words. Forward-looking statements are based on expectations, forecasts and assumptions by our management and involve a number of risks, uncertainties and other factors, many of which are beyond our control, that could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements. These factors include, but are not limited to, the following:

- our business is highly cyclical in nature;
- a weakening of the global economy, including capital and credit markets, could adversely affect our business and financial results and have a material adverse effect on our liquidity and capital resources;
- our level of indebtedness could negatively impact our financial condition, results of operations and liquidity;
- cyclical fluctuations in the price and supply of our raw materials, particularly fiber, could adversely affect our business;
- we face intense competition in our markets;
- we are exposed to currency exchange rate fluctuations;
- political uncertainty, the rise of populist political parties and an increase in trade protectionism could have a material adverse effect on global macro-economic activities and trade and adversely affect our business, results of operations and financial condition;
- we are subject to extensive environmental regulation and we could incur substantial costs as a result of compliance with, violations of or liabilities under applicable environmental laws and regulations;
- our business is subject to risks associated with climate change and social and government responses thereto;
- our operations require substantial capital and we may be unable to maintain adequate capital resources to provide for such capital requirements;
- our acquisition of MPR and other future acquisitions may result in additional risks and uncertainties in our business;
- the operations of MPR are subject to their own risks, which we may not be able to manage successfully;
- we may not be able to enhance the operating performance and financial results or lower the costs of MPR's operations as planned;
- fluctuations in prices and demand for lumber could adversely affect our business;
- adverse housing market conditions may increase the credit risk from customers of our wood products segment;

- our wood products segment lumber products are vulnerable to declines in demand due to competing technologies or materials;
- changes in credit ratings issued by nationally recognized statistical rating organizations could adversely affect our cost of financing and have an adverse effect on the market price of our securities;
- we participate in German statutory energy programs;
- we are subject to risks related to our employees;
- we are dependent on key personnel;
- we may experience material disruptions to our production;
- if our long-lived assets become impaired, we may be required to record non-cash impairment charges that could have a material impact on our results of operations;
- we may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks or natural disasters;
- our insurance coverage may not be adequate;
- we rely on third parties for transportation services;
- we periodically use derivatives to manage certain risks which could cause significant fluctuations in our operating results;
- failures or security breaches of our information technology systems could disrupt our operations and negatively impact our business;
- the price of our common stock may be volatile;
- a small number of our shareholders could significantly influence our business;
- our international sales and operations are subject to applicable laws relating to trade, export controls and foreign corrupt practices, the violation of which could adversely affect our operations; and
- we are exposed to interest rate fluctuations.

Given these uncertainties, you should not place undue reliance on our forward-looking statements. The forgoing review of important factors is not exhaustive or necessarily in order of importance and should be read in conjunction with the risks and assumptions including those set forth in reports and other documents we have filed with or furnished to the SEC, including in our annual report on Form 10-K for the fiscal year ended December 31, 2018. We advise you that these cautionary remarks expressly qualify in their entirety all forward-looking statements attributable to us or persons acting on our behalf. Unless required by law, we do not assume any obligation to update forward-looking statements based on unanticipated events or changed expectations. However, you should carefully review the reports and other documents we file from time to time with the SEC.

Cyclical Nature of Business

Revenues

The pulp and lumber businesses are highly cyclical in nature and markets are characterized by periods of supply and demand imbalance, which in turn can materially affect prices. Pulp and lumber markets are sensitive to cyclical changes in the global economy, industry capacity and foreign exchange rates, all of which can have a significant influence on selling prices and our operating results. The length and magnitude of industry cycles have varied over time but generally reflect changes in macro-economic conditions and levels of industry capacity. Pulp and lumber are commodities that are generally available from other producers. Because commodity products have few distinguishing qualities from producer to producer, competition is generally based upon price, which is generally determined by supply relative to demand.

Industry capacity can fluctuate as changing industry conditions can influence producers to idle production capacity or permanently close mills. In addition, to avoid substantial cash costs in idling or closing a mill, some producers will choose to operate at a loss, sometimes even a cash loss, which can prolong weak pricing environments due to oversupply. Oversupply of our products can also result from producers introducing new capacity in response to favorable pricing trends. Certain integrated pulp and paper producers have the ability to discontinue paper production by idling their paper machines and selling their NBSK pulp production on the market, if market conditions, prices and trends warrant such actions.

Demand for each of pulp and lumber has historically been determined primarily by general global macro-economic conditions and has been closely tied to overall business activity. Pulp prices have been and are likely to continue to be volatile and can fluctuate widely over time. Between 2009 and 2019, European list prices for NBSK pulp have fluctuated between a low of approximately $575 per ADMT in 2009 to a high of $1,230 per ADMT in 2018. In the same period, the average North American NBHK price has fluctuated between a low of $520 per ADMT in 2009 to a high of $1,215 per ADMT in 2018.

Our mills and operations voluntarily subject themselves to third-party certification as to compliance with internationally recognized, sustainable management standards because end use paper and lumber customers have shown an increased interest in understanding the origin of products they purchase. Demand for our products could be adversely affected if we, or our suppliers, are unable to achieve compliance, or are perceived by the public as failing to comply, with these standards or if our customers require compliance with alternate standards for which our operations are not certified.

A producer's actual sales price realizations are list prices net of customer discounts, rebates and other selling concessions. Over the last three years, these types of selling concessions have increased as producers compete for customers and sales.

Accordingly, prices for pulp and lumber are driven by many factors outside our control, and we have little influence over the timing and extent of price changes, which are often volatile. Because market conditions beyond our control determine the prices for pulp and lumber, prices may fall below our cash production costs, requiring us to either incur short-term losses on product sales or cease production at one or more of our mills. Therefore, our profitability depends on managing our cost structure, particularly raw materials which represent a significant component of our operating costs and can fluctuate based upon factors beyond our control. If the prices of our products decline, or if prices for our raw materials increase, or both, our results of operations and cash flows could be materially adversely affected.

Costs

Our production costs are influenced by the availability and cost of raw materials, energy and labor, and our plant efficiencies and productivity. Our main raw material is fiber in the form of wood chips, pulp logs and sawlogs. Wood chip, pulp log and sawlog costs are primarily affected by the supply of, and demand for, lumber and pulp, which are both highly cyclical. Higher fiber prices could affect producer profit margins if they are unable to pass along price increases to pulp and lumber customers or purchasers of surplus energy.

Currency

We have manufacturing operations in Germany and Canada. Most of the operating costs and expenses of our German mills are incurred in euros and those of our Canadian mills in Canadian dollars. However, the majority of our sales are in products quoted in dollars. Our results of operations and financial condition are reported in dollars. As a result, our costs generally benefit from a strengthening dollar but are adversely affected by a decrease in the value of the dollar relative to the euro and to the Canadian dollar. Such declines in the dollar relative to the euro and the Canadian dollar reduce our operating margins and the cash flow available to fund our operations and to service our debt. This could have a material adverse effect on our business, financial condition, results of operations and cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks from changes in interest rates and foreign currency exchange rates, particularly the exchange rates between the dollar and the euro and Canadian dollar. Changes in these rates may affect our results of operations and financial condition and, consequently, our fair value. We seek to manage these risks through internal risk management policies as well as the periodic use of derivatives.

For additional information, please refer to Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk included in our annual report on Form 10-K for the fiscal year ended December 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, referred to as the "Exchange Act"), as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

It should be noted that any system of controls is based in part upon certain assumptions designed to obtain reasonable (and not absolute) assurance as to its effectiveness and there can be no assurance that any design will succeed in achieving its stated goals.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to routine litigation incidental to our business, including that which is described in our latest annual report on Form 10-K for the fiscal year ended December 31, 2018. We do not believe that the outcome of such litigation will have a material adverse effect on our business or financial condition.

ITEM 1A. RISK FACTORS

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in our annual report on Form 10-K for the fiscal year ended December 31, 2018.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In May 2019, our board of directors authorized a common stock repurchase program under which we may purchase up to $50 million of our shares until May 2020. Repurchases may be made from time to time under the program through open market or in privately negotiated transactions, through block trades or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 under the Exchange Act. The repurchase program is subject to market conditions, applicable legal requirements and other factors. The repurchase program does not obligate us to acquire any specific number of shares and may be suspended or terminated at any time.

Share repurchase activity during the quarter ended June 30, 2019 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program
May 1 - May 31, 2019	23,630	$ 14.30	23,630	
June 1 - June 30, 2019	29,249	$ 14.21	29,249	
	52,879			$ 49,246,566

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Bylaws of Mercer International Inc.
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer
32.1*	Section 906 Certification of Chief Executive Officer
32.2*	Section 906 Certification of Chief Financial Officer
101	The following financial information from the Quarterly Report on Form 10-Q for the fiscal period ended June 30, 2019 of Mercer International Inc., formatted in inline Extensible Business Reporting Language (iXBRL): (i) Interim Consolidated Statements of Operations; (ii) Interim Consolidated Statements of Comprehensive Income (Loss); (iii) Interim Consolidated Balance Sheets; (iv) Interim Consolidated Statements of Changes in Shareholders' Equity; (v) Interim Consolidated Statements of Cash Flows; and (vi) Notes to the Interim Consolidated Financial Statements.

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* In accordance with Release No. 33-8212 of the SEC, these Certifications: (i) are "furnished" to the SEC and are not "filed" for the purposes of liability under the Securities Exchange Act of 1934, as amended; and (ii) are not to be subject to automatic incorporation by reference into any of the Company's registration statements filed under the Securities Act of 1933, as amended, for the purposes of liability thereunder or any offering memorandum, unless the Company specifically incorporates them by reference therein.

SIGNATURES

Pursuant to the requirements of the *Securities Exchange Act of 1934*, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERCER INTERNATIONAL INC.

By: /s/ David M. Gandossi
David M. Gandossi
Chief Executive Officer and President

Date: August 1, 2019

EXHIBIT 3.1

BYLAWS OF

MERCER INTERNATIONAL INC.

(as amended thru April 16, 2019)

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BYLAWS OF
MERCER INTERNATIONAL INC.

These Bylaws (the "Bylaws") are promulgated pursuant to the Washington Business Corporation Act, as set forth in Title 23B of the Revised Code of Washington.

ARTICLE 1.
OFFICES

1.1 Principal Office. The principal office of the Corporation shall be located at the principal place of business or such other place as the Board of Directors may designate.

1.2 Registered Office and Registered Agent. The registered office of the Corporation shall be located in the State of Washington at such place as may be fixed from time to time by the Board of Directors upon filing of such notices as may be required by law, and the registered agent shall have a business office identical with such registered office. Any change in the registered agent or registered office shall be effective upon filing such change with the office of the Secretary of State of the State of Washington.

1.3 Other Offices. The Corporation shall also have and maintain an office or principal place of business at such place as may be fixed by the Board of Directors, and may also have offices at such other places, both within and without the State of Washington, as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE 2.
SHAREHOLDERS

2.1 Annual Meeting

(a) The annual meeting of the shareholders of the Corporation for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held each year on a date and at a time and place to be set by the Board of Directors.

(b) Only persons who are nominated in accordance with the procedures set forth in this Section 2.1(b) shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders by or at the direction of the Board of Directors or by any stockholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 2.1(b). Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the secretary of the Corporation. Stockholders may bring other business before the annual meeting, provided that timely notice is provided to the secretary of the Corporation in accordance with this section, and provided further that such business is a proper matter for stockholder action under the Washington Business Corporation Act. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the anniversary date of the prior year's meeting; provided, however, that in the event that (i) the date of the annual meeting is more than thirty (30) days prior to or more than sixty (60) days after such anniversary date, and (ii) less than sixty (60) days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth (10^{th}) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a directors, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of the

Corporation which are beneficially owned by such person and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including, without limitation, such person's written consent to being name in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of such business, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made (i) the name and address of the stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned of record by such stockholder and beneficially by such beneficial owner. At the request of the Board of Directors any person nominated by the Board of Directors for election as a director shall furnish to the secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.1(b). The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by the Bylaws, and if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

Notwithstanding the foregoing provisions of this Section 2.1(b), a stockholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to matters set forth in this Section 2.1(b).

2.2 Special Meetings. Special meetings of the shareholders for any purpose or purposes may be called at any time by a majority of the Board of Directors or by the Chairperson of the Board (if one be elected) or by the Chief Executive Officer or by one or more shareholders holding shares in the aggregate entitled to cast not less than 20% of the votes at that meeting. The Board of Directors may designate any place as the place of any special meeting called by the Chairperson, the Chief Executive Officer, the Board or by shareholders as provided in this Section 2.2.

If a special meeting is called by any shareholder or group of shareholders, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or delivered by first-class mail to the Secretary of the Corporation. No business shall be transacted at such special meeting other than as specified in such notice. Upon receiving such notice, the Secretary shall cause notice to be given to the shareholders, in accordance with Section 2.3, that a meeting will be held at the time requested by the shareholder or shareholders calling the special meeting. Such notice shall be sent not less than 35 nor more than 60 days after the receipt of the request. Nothing contained in this paragraph of this Section 2.2 shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the Board of Directors, Chairperson of the Board or by the Chief Executive Officer may be held.

2.3 Notice of Meetings. Except as otherwise provided in Subsections 2.3(b) and 2.3(c) below, the Secretary, Assistant Secretary, or any transfer agent of the Corporation shall deliver, either personally or by mail, private carrier, telegraph or teletype, or telephone, wire or wireless equipment which transmits a facsimile of the notice, not less than ten (10) nor more than sixty (60) days before the date of any meeting of shareholders, written notice stating the place, day, and time of the meeting to each shareholder of record entitled to vote at such meeting. If mailed in the United States, such notice shall be deemed to be delivered when deposited in the United States mail, with first-class postage thereon prepaid, addressed to the shareholder at his address as it appears on the Corporation's record of shareholders. If mailed outside the United States, such notice shall be deemed to be delivered five (5) days after being deposited in the mail, with first-class airmail postage thereon, return receipt requested, addressed to the shareholder at the shareholder's address as it appears on the Corporation's record of shareholders.

(a) **Notice of Special Meeting.** In the case of a special meeting, the written notice shall also state with reasonable clarity the purpose or purposes for which the meeting is called and the actions sought to be approved at the meeting. No business other than that specified in the notice may be transacted at a special meeting.

(b) **Proposed Articles of Amendment or Dissolution.** If the business to be conducted at any meeting includes any proposed amendment to the Articles of Incorporation or the proposed voluntary dissolution of the Corporation, then the written notice shall be given not less than twenty (20) nor more than sixty (60) days before the meeting date and shall state that the purpose or one of the purposes is to consider the advisability thereof, and, in the case of a proposed amendment, shall be accompanied by a copy of the amendment.

(c) **Proposed Merger, Consolidation, Exchange, Sale, Lease or Disposition.** If the business to be conducted at any meeting includes any proposed plan of merger or share exchange, or any sale, lease, exchange, or other disposition of all or substantially all of the Corporation's property otherwise than in the usual or regular course of its business, then the written notice shall state that the purpose or one of the purposes is to consider the proposed plan of merger or share exchange, sale, lease, or disposition, as the case may be, shall describe the proposed action with reasonable clarity, and, if required by law, shall be accompanied by a copy or a detailed summary thereof; and written notice shall be given to each shareholder of record, whether or not entitled to vote at such meeting, not less than twenty (20) nor more than sixty (60) days before such meeting, in the manner provided in Section 2.3 above.

(d) **Declaration of Mailing.** A declaration of the mailing or other means of giving any notice of any shareholders' meeting, executed by the Secretary, Assistant Secretary, or any transfer agent of the Corporation giving the notice, shall be prima facie evidence of the giving of such notice.

(e) **Waiver of Notice.** Notice of any shareholders' meeting may be waived in writing by any shareholder at any time, either before or after the meeting. Except as provided below, the waiver must be signed by the shareholder entitled to the notice, and be delivered to the Corporation for inclusion in the minutes or filing with the corporate records. A shareholder's attendance at a meeting waives objection to lack of notice, or defective notice, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting.

2.4 Quorum. A quorum shall exist at any meeting of shareholders if one-third of the shares entitled to vote is represented in person or by proxy. Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. The shareholders present at a duly organized meeting may continue to transact business at such meeting and at any adjournment of such meeting (unless a new record date is or must be set for the adjourned meeting), notwithstanding the withdrawal of enough shareholders from either meeting to leave less than a quorum. Once a share is represented for any purpose at a meeting other than solely to object to holding the meeting or transacting business at the meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for the adjourned meeting.

2.5 Voting of Shares. Except as otherwise provided in the Articles of Incorporation or these Bylaws, every shareholder of record shall have the right at every shareholders' meeting to one vote for every share standing in his name on the books of the Corporation. If a quorum exists, action on a matter, other than the election of directors, is approved by a voting group if the votes cast within the voting group favoring the action exceed the votes cast within the voting group opposing the action, unless a greater number is required by the Articles of Incorporation or the Washington Business Corporation Act.

2.6 Adjourned Meetings. One-half of the shares represented at a meeting, even if less than a quorum, may adjourn the meeting from time to time without further notice. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. However, if a new record date for the adjourned meeting is or must be fixed in accordance with the Washington Business Corporation Act, notice of the adjourned meeting must be given to persons who are shareholders as of the new record date. At any adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting.

2.7 Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or any adjournment thereof, or entitled to receive payment of any dividend, the Board of Directors may fix in advance a record date for any such determination of shareholders, such date to be not more than seventy (70) days and, in the case of a meeting of shareholders, not less than ten (10) days prior to the meeting or action requiring such determination of shareholders. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the day before the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof, unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned more than one hundred twenty (120) days after the date is fixed for the original meeting.

2.8 Record of Shareholders Entitled to Vote. After fixing a record date for a shareholders' meeting, the Corporation shall prepare an alphabetical list of the names of all shareholders on the record date who are entitled to notice of the shareholders' meeting. The list shall be arranged by voting group, and within each voting group by class or series of shares, and show the address of and number of shares held by each shareholder. A shareholder, shareholder's agent, or a shareholder's attorney may inspect the shareholders list, beginning ten days prior to the shareholders' meeting and continuing through the meeting, at the Corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held during regular business hours and at the shareholder's expense. The shareholders list shall be kept open for inspection during such meeting or any adjournment. Failure to comply with the requirements of this Section shall not affect the validity of any action taken at such meeting.

2.9 Telephonic Meetings. Shareholders may participate in a meeting by means of a conference telephone or other communications equipment by which all persons participating in the meeting can hear each other during the meeting, and participation by such means shall constitute presence in person at a meeting.

2.10 Proxies. At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the secretary of the Corporation before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

2.11 Organization

(a) At every meeting of shareholders, the Chairperson of the Board of Directors, or, if a Chairperson has not been appointed or is absent, the Chief Executive Officer, or, if the Chief Executive Officer is absent, a chairman of the meeting chosen by a majority in interest of the shareholders entitled to vote, present in person or by proxy, shall act as chairman. The Secretary, or, in his absence, an Assistant Secretary directed to do so by the Chief Executive Officer, shall act as secretary of the meeting.

(b) The Board of Directors of the Corporation shall be entitled to make such rules or regulations for the conduct of meetings of shareholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board of Directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to shareholders of record of the Corporation and their duly authorized and constituted proxies and such other persons as the chairman shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting on matters which are to be voted on by ballot. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with rules of parliamentary procedure.

ARTICLE 3.
BOARD OF DIRECTORS

3.1 Management Responsibility. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of, the Board of Directors, except as may be otherwise provided in the Articles of Incorporation or the Washington Business Corporation Act.

3.2 Number of Directors, Qualification. The authorized number of directors of the Corporation shall be not less than three (3) nor more than thirteen (13), the specific number to be set by resolution of the Board of Directors. Directors need not be shareholders. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 Election.

(a) Except as provided in this Section 3.3(b), Section 3.4 and 3.5, and unless provided in the Articles of Incorporation, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. If, for any reason, the directors shall not have been elected at an annual meeting, they may be elected at a special meeting of shareholders called for that purpose in accordance with these Bylaws. Subject to Section 3.3(b), despite the expiration of a director's term, the director shall continue to serve until the director's successor shall have been elected and qualified or until there is a decrease in the number of directors.

(b) Except as provided in this Section 3.3(b), a nominee for director shall be elected if the votes cast for such nominee's election exceed the votes cast against such nominee's election. The following shall not be votes cast: (i) a share whose ballot is marked as abstain; (ii) a share otherwise present at the meeting but for which there is an abstention; and (iii) a share otherwise present at the meeting as to which a shareholder gives no authority or direction. Notwithstanding the foregoing, the directors shall be elected by a plurality of the votes cast in a "contested election" at any meeting of shareholders. A nominee for director in an election, other than a contested election, who does not receive the requisite votes for election, but who was a director at the time of the election, shall continue to serve as a director for a term that shall terminate on the date that is the earliest of: (A) ninety (90) days from the date on which the voting results of the election are certified, (B) the date on which an individual is selected by the Board of Directors to fill the office held by such director (which selection shall be deemed to constitute the filling of a vacancy by the Board of Directors), or (C) the date the director resigns. A "contested election" is one in which (i) on the last day for delivery of a notice under Section 2.1(b), a stockholder that has provided notice in accordance with Section 2.1(b) to nominate a person to stand for election as a director and has complied with the requirements of Section 2.1(b) with respect to one or more nominees; and (ii) there is a bona fide election contest, as evidenced by an affirmative determination of the Board of Directors to that effect (the failure by the Board of Directors to make any determination to the contrary being deemed an affirmative determination). This bylaw is intended to implement RCW 23B.10.205 of the Washington Business Corporation Act. For purposes of clarity and to resolve any ambiguity under RCW 23B.10.205, it is assumed that for purposes of determining the number of director nominees, on the last day for delivery of a notice under Section 2.1(b), there is a candidate nominated by the Board of Directors for each of the director positions to be voted on at the meeting. Nothing in this bylaws is intended to limit the authority of the Board of Directors to determine that a bona fide election contest does not exist, in which event it shall disclose the applicable voting regime in the notice of meeting or, if such determination occurs after such notice has been sent, send a new notice which shall include disclosure of the applicable voting regime.

3.4 Vacancies. Any vacancy occurring in the Board of Directors (whether caused by resignation, death, an increase in the number of directors, or otherwise) may be filled the Board of Directors or the shareholders if not filled by the Board. If the directors in office constitute fewer than a quorum of the Board, they may fill the vacancy by the affirmative vote of a majority of all the directors in office. A director elected to fill any vacancy shall hold office until the next shareholders meeting at which directors are elected.

3.5 Resignation. Any director may resign at any time by delivering his written resignation to the Secretary, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board of Directors. If no such specification is made, it shall be deemed effective at the pleasure of the Board of Directors. When one or more directors shall resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each Director so chosen shall hold office for the unexpired portion of the term of the Director whose place shall be vacated and until his successor shall have been duly elected and qualified.

3.6 Removal. One or more members of the Board of Directors (including the entire Board) may be removed, with cause, at a meeting of shareholders called expressly for that purpose. A director may be removed only if the number of votes cast to remove the director exceeds the number of votes cast not to remove the director. Neither the Board of Directors nor any individual director may be removed without cause.

3.7 Annual Meeting. The first meeting of each newly elected Board of Directors shall be known as the annual meeting thereof and shall be held without notice immediately after the annual shareholders' meeting or any special shareholders' meeting at which a Board is elected. Said meeting shall be held at the same place as such shareholders' meeting unless some other place shall be specified by resolution of the Board of Directors.

3.8 Regular Meetings. Regular meetings of the Board of Directors or of any committee designated by the Board may be held at such place and such day and hour as shall from time to time be fixed by resolution of the Board or committee, without other notice than the delivery of such resolution as provided in Section 3.10 below.

3.9 Special Meetings. Special meetings of the Board of Directors or any committee designated by the Board may be called by the Chief Executive Officer or the Chairperson of the Board (if one be elected) or any director or committee member, to be held at such place and such day and hour as specified by the person or persons calling the meeting.

3.10 Notice of Meeting. Notice of the date, time, and place of all special meetings of the Board of Directors or any committee designated by the Board shall be given by the Secretary, or by the person calling the meeting, by mail, private carrier, telegram, facsimile transmission, or personal communication over the telephone or otherwise, provided such notice is received at least one (1) day prior to the day upon which the meeting is to be held.

No notice of any regular meeting need be given if the time and place thereof shall have been fixed by resolution of the Board of Directors or any committee designated by the Board and a copy of such resolution has been delivered by mail, private carrier, telegram or facsimile transmission to every director or committee member and is received at least one (1) day before the first meeting held in pursuance thereof.

Notice of any meeting of the Board of Directors or any committee designated by the Board need not be given to any director or committee member if it is waived in a writing signed by the director entitled to the notice, whether before or after such meeting is held.

A director's attendance at or participation in a meeting waives any required notice to the director of the meeting unless the director at the beginning of the meeting, or promptly upon the director's arrival, objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors or any committee designated by the Board need be specified in the notice or waiver of notice of such meeting unless required by the Articles of Incorporation or these Bylaws.

Any meeting of the Board of Directors or any committee designated by the Board shall be a legal meeting without any notice thereof having been given if all of the directors or committee members have received valid notice thereof, are present without objecting, or waive notice thereof in a writing signed by the director and delivered to the Corporation for inclusion in the minutes or filing with the corporate records, or any combination thereof.

3.11 Quorum of Directors. A majority of the number of directors fixed by or in the manner provided by these Bylaws shall constitute a quorum for the transaction of business. If a quorum is present when a vote is taken, the affirmative vote of a majority of directors present is the act of the Board of Directors unless the Articles of Incorporation or these Bylaws require the vote of a greater number of director's.

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place. If the meeting is adjourned for more than forty-eight (48) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified in Section 3.10 of these Bylaws, to the directors who were not present at the time of the adjournment.

3.12 Presumption of Assent. Any director who is present at any meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless (a) the director objects at the beginning of the meeting, or promptly upon the director's arrival, to holding the meeting or transacting business at the meeting; (b) the director's dissent or abstention from the action taken is entered in the minutes of the meeting; or (c) the director delivers written notice of dissent or abstention to the presiding officer of the meeting before the adjournment thereof or to the Corporation within a reasonable time after adjournment of the meeting. Such right to dissent or abstain shall not be available to any director who voted in favor of such action.

3.13 Action by Directors Without a Meeting. Any action required by law to be taken or which may be taken at a meeting of the Board of Directors or of a committee thereof may be taken without a meeting if one or more written consents, setting forth the action so taken, shall be signed by all of the directors or all of the members of the committee, as the case may be, either before or after the action taken and delivered to the Corporation for inclusion in the minutes or filing with the corporate records. Such consent shall have the same effect as a unanimous vote at a meeting duly held upon proper notice on the date of the last signature thereto, unless the consent specifies a later effective date.

3.14 Telephonic Meetings. Members of the Board of Directors or any committee designated by the Board may participate in a meeting of the Board or committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other during the meeting. Participation by such means shall constitute presence in person at a meeting.

3.15 Compensation. By resolution of the Board of Directors, the directors and committee members may be paid their expenses, if any, or a fixed sum or a stated salary as a director or committee member for attendance at each meeting of the Board or of such committee as the case may be. No such payment shall preclude any director or committee member from serving the Corporation in any other capacity and receiving compensation therefor.

3.16 Committees. The Board of Directors, by resolution adopted by a majority of the full Board, may from time to time designate from among its members one or more committees, each of which must have two (2) or more members and, to the extent provided in such resolution, shall have and may exercise all the authority of the Board of Directors, except that no such committee shall have the authority to:

(a) authorize or approve a distribution except according to a general formula or method prescribed by the Board of Directors;

(b) approve or propose to shareholders action that the Washington Business Corporation Act requires to be approved by shareholders;

(c) fill vacancies on the Board of Directors or on any of its committees;

(d) adopt any amendment to the Articles of Incorporation;

(e) adopt, amend or repeal these Bylaws;

(f) approve a plan of merger; or

(g) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except that the Board of Directors may authorize a committee, or a senior executive officer of the Corporation, to do so within limits specifically prescribed by the Board of Directors.

Meetings of such committees shall be governed by the same procedures as govern the meetings of the Board of Directors. All committees so appointed shall keep regular minutes of their meetings and shall cause them to be recorded in books kept for that purpose at the office of the Corporation.

ARTICLE 4.
OFFICERS

4.1 Appointment. The officers of the Corporation shall be appointed annually by the Board of Directors at its annual meeting held after the annual meeting of the shareholders. If the appointment of officers is not held at such meeting, such appointment shall be held as soon thereafter as a Board meeting conveniently may be held. Except in the case of death, resignation or removal, each officer shall hold office at the pleasure of the Board of Directors until the next annual meeting of the Board and until his successor is appointed and qualified.

4.2 Qualification. None of the officers of the Corporation need be a director, except as specified below.
Any two or more of the corporate offices may be held by the same person.

4.3 Officers Designated. The officers of the Corporation shall include, if and when designated by the Board of Directors, a Chief Executive Officer, a President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), a Secretary, a Chief Financial Officer and a Treasurer. The Board of Directors may also appoint such other officers and assistant officers as it may deem necessary.

The Board of Directors may, in its discretion, appoint a Chairperson of the Board of Directors; and, if a Chairperson has been appointed, the Chairperson shall, when present, preside at all meetings of the Board of Directors and the shareholders and shall have such other powers commonly incident to his office and as the Board may prescribe.

(a) **Chief Executive Officer.** The Chief Executive Officer shall be the chief executive officer of the corporation and, subject to the direction and control of the Board, shall supervise and control all of the assets, business, and affairs of the corporation. The Chief Executive Officer shall vote the shares owned by the corporation in other corporations, domestic or foreign, unless otherwise prescribed by resolution of the Board. In general, the Chief Executive Officer shall perform all duties incident to the office of Chief Executive Officer and such other duties as may be prescribed by the Board from time to time.

The Chief Executive Officer shall, unless a Chairperson of the Board of Directors has been appointed and is present, preside at all meetings of the shareholders and the Board of Directors.

(b) **President.** The President shall report to the Chief Executive Officer. In the absence of the Chief Executive Officer or his inability to act, the President, if any, shall perform all the duties of the Chief Executive Officer and when so acting shall have all the powers of, and be subject to all the restrictions upon, the Chief Executive Officer; provided that no such President shall assume the authority to preside as Chairperson of meetings of the Board unless such President is a member of the Board. In general, the President shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board from time to time.

(c) **Vice Presidents.** In the absence of the President or his inability to act, the Vice Presidents, if any, in order of their rank as fixed by the Board of Directors or, if not ranked a Vice President designated by the Board shall perform all the duties of the President and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President; provided that no such Vice President shall assume the authority to preside as Chairperson of meetings of the Board unless such Vice President is a member of the Board. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be respectively prescribed for them by the Board, these Bylaws or the President.

(d) **Secretary.** The Secretary shall attend all meetings of the shareholders and of the Board of Directors and shall record all acts and proceedings thereof in the minute book of the Corporation. The Secretary shall give notice in conformity with these Bylaws of all meetings of the shareholders and of all meetings of the Board of Directors and any committee thereof requiring notice. The Secretary shall perform all other duties given him in these Bylaws and other duties commonly incident to his office and shall also perform such other duties and have such other powers, as the Board of Directors shall designate from time to time. The President may direct any Assistant Secretary to assume and perform the duties of the Secretary in the absence or disability of the Secretary, and each Assistant Secretary shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(e) **Chief Financial Officer.** The Chief Financial Officer shall keep or cause to be kept the books of account of the Corporation in a thorough and proper manner and shall render statements of the financial affairs of the Corporation in such form and as often as required by the Board of Directors or the President. The Chief Financial Officer, subject to the order of the Board of Directors, shall have the custody of all funds and securities of the Corporation. The Chief Financial Officer shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time. The President may direct the Treasurer or any Assistant Treasurer, or the Controller or any Assistant Controller to assume and perform the duties of the Chief Financial Officer in the absence or disability of the Chief Financial Officer, and each Treasurer and Assistant Treasurer and each Controller and Assistant Controller shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(f) **Treasurer.** Subject to the direction and control of the Board of Directors, the Treasurer shall have charge and custody of and be responsible for all funds and securities of the Corporation; and, at the expiration of his term of office, he shall turn over to his successor all property of the Corporation in his possession.

In the absence of the Treasurer, an Assistant Treasurer may perform the duties of the Treasurer.

4.4 Delegation, In case of the absence or inability to act of any officer of the Corporation and of any person herein authorized to act in his place, the Board of Directors may from time to time delegate the powers or duties of such officer to any other officer or director or other person whom it may select.

4.5 Resignation. Any officer may resign at any time by delivering written notice to the Corporation. Any such resignation shall take effect when the notice is delivered unless the notice specifies a later date. Unless otherwise specified in the notice, acceptance of such resignation by the Corporation shall not be necessary to make it effective. Any resignation shall be without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

4.6 Removal. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board at any time with or without cause. Election or appointment of an officer or agent shall not of itself create contract rights.

4.7 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, creation of a new office, or any other cause may be filled by the Board of Directors for the unexpired portion of the term or for a new term established by the Board.

4.8 Compensation. Compensation, if any, for officers and other agents and employees of the Corporation shall be determined by the Board of Directors, or by the Chief Executive Officer to the extent such authority may be delegated to him by the Board. No officer shall be prevented from receiving compensation in such capacity by reason of the fact that he is also a director of the Corporation.

ARTICLE 5.
EXECUTION OF CORPORATION INSTRUMENTS AND VOTING OF SECURITIES OWNED BY THE CORPORATION

5.1 Execution of Corporate Instruments. The Board of Directors may, in its discretion, determine the method and designate the signatory officer or officers, or other person or persons, to execute on behalf of the Corporation any corporate instrument or document, or to sign on behalf of the Corporation the corporate name without limitation, or to enter into contracts on behalf of the Corporation, except where otherwise provided by law or these Bylaws, and such execution or signature shall be binding upon the Corporation.

All checks and drafts drawn on banks or other depositaries on funds to the credit of the Corporation or in special accounts of the Corporation shall be signed by such person or persons as the Board of Directors shall authorize so to do.

Unless authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

5.2 Voting of Securities Owned by the Corporation. All stock and other securities of other corporations owned or held by the Corporation for itself, or for other parties in any capacity, shall be voted, and all proxies with respect thereto shall be executed, by the person authorized so to do by resolution of the Board of Directors, or, in the absence of such authorization, by the Chairperson of the Board of Directors, the Chief Executive Officer, the President or any Vice President.

ARTICLE 6.
STOCK

6.1 Form and Execution of Certificates. Certificates for the shares of stock of the Corporation shall be in such form as is consistent with the Articles of Incorporation and applicable law. Every holder of stock in the Corporation shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairperson of the Board of Directors, the Chief Executive Officer, the President or any Vice President and by the Treasurer or Assistant Treasurer or the Secretary or Assistant Secretary, certifying the number of shares owned by him in the Corporation. Any or all of the signatures on the certificate may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. Each certificate shall state upon the face or back thereof, in full or in summary, all of the powers, designations, preferences, and rights, and the limitations or restrictions of the shares authorized to be issued or shall, except as otherwise required by law, set forth on the face or back a statement that the Corporation will furnish without charge to each shareholder who so requests the powers, designations, preferences and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this Section or otherwise required by law or with respect to this Section a statement that the Corporation will furnish without charge to each shareholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

6.2 Lost Certificates. A new certificate or certificates shall be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. The corporation may require, as a condition precedent to the issuance of a new certificate or certificates, the owner of such lost, stolen, or destroyed certificate or certificates, or his legal representative, to agree to indemnify the Corporation in such manner as it shall require or to give the Corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen, or destroyed.

6.3 Transfers

(a) Transfers of record of shares of stock of the Corporation shall be made only upon its books by the holders thereof, in person or by attorney duly authorized, and upon the surrender of a properly endorsed certificate or certificates for a like number of shares.

(b) The corporation shall have power to enter into and perform any agreement with any number of shareholders of any one or more classes of stock of the Corporation to restrict the transfer of shares of stock of the Corporation of any one or more classes owned by such shareholders in any manner not prohibited by the Act.

6.4 Registered Shareholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Washington.

6.5 Execution of Other Securities. All bonds, debentures and other corporate securities of the

Corporation, other than stock certificates (covered in Section 6.1), may be signed by the Chairperson of the Board of Directors, the Chief Executive Officer, the President or any Vice President, or such other person as may be authorized by the Board of Directors, and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an Assistant Secretary, or the Chief Financial Officer or Treasurer or an Assistant Treasurer; provided, however, that where any such bond, debenture or other corporate security shall be authenticated by the manual signature, or where permissible facsimile signature, of a trustee under an indenture pursuant to which such bond, debenture or other corporate security shall be issued, the signatures of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, shall be signed by the Treasurer or an Assistant Treasurer of the Corporation or such other person as may be authorized by the Board of Directors, or bear imprinted thereon the facsimile signature of such person. In case any officer who shall have signed or attested any bond, debenture or other corporate security, or whose facsimile signature shall appear thereon or on any such interest coupon, shall have ceased to be such officer before the bond, debenture or other corporate security so signed or attested shall have been delivered, such bond, debenture or other corporate security nevertheless may be adopted by the Corporation and issued and delivered as though the person who signed the same or whose facsimile signature shall have been used thereon had not ceased to be such officer of the Corporation.

Except as otherwise specifically provided in these Bylaws, no shares of stock shall be transferred on the books of the Corporation until the outstanding certificate therefor has been surrendered to the Corporation. All certificates surrendered to the Corporation for transfer shall be cancelled, and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed, or mutilated certificate a new one may be issued therefor upon such terms (including indemnity to the Corporation) as the Board of Directors may prescribe.

ARTICLE 7.
BOOKS AND RECORDS

7.1 Books of Accounts, Minutes and Share Register. The corporation shall keep as permanent records minutes of all meetings of its shareholders and Board of Directors, a record of all actions taken by the shareholders or Board of Directors without a meeting, and a record of all actions taken by a committee of the Board of Directors exercising the authority of the Board of Directors on behalf of the Corporation. The corporation shall maintain appropriate accounting records. The corporation or its agent shall maintain a record of its shareholders, in a form that permits preparation of a list of the names and addresses of all shareholders, in alphabetical order by class of shares showing the number and class of shares held by each. The corporation shall keep a copy of the following records at its principal office: the Articles or Restated Articles of Incorporation and all amendments to them currently in effect; the Bylaws or Restated Bylaws and all amendments to them currently in effect; the minutes of all shareholders' meetings, and records of all actions taken by shareholders without a meeting, for the past three years; its financial statements for the past three years, including balance sheets showing in reasonable detail the financial condition of the Corporation as of the close of each fiscal year, and an income statement showing the results of its operations during each fiscal year prepared on the basis of generally accepted accounting principles or, if not, prepared on a basis explained therein; all written communications to shareholders generally within the past three years; a list of the names and business addresses of its current directors and officers; and its most recent annual report delivered to the Secretary of State of Washington.

7.2 Copies of Resolutions. Any person dealing with the Corporation may rely upon a copy of any of the records of the proceedings, resolutions, or votes of the Board of Directors or shareholders, when certified by the Chief Executive Officer, the President or Secretary.

ARTICLE 8.
FISCAL YEAR

The fiscal year of the Corporation shall be set by resolution of the Board of Directors.

ARTICLE 9.
CORPORATE SEAL

The Board of Directors may adopt a corporate seal for the Corporation which shall have inscribed thereon the name of the Corporation, the year and state of incorporation and the words "corporate seal".

ARTICLE 10.
INDEMNIFICATION

10.1 Right to Indemnification. Each individual (hereinafter an "indemnitee") who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the Corporation or that, while serving as a director or officer of the Corporation, he or she is or was also serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation or of a foreign or domestic partnership, joint venture, trust, employee benefit plan or other enterprise, whether the basis of the proceeding is alleged action in an official capacity as such a director, officer, employee, partner, trustee, or agent or in any other capacity while serving as such director, officer, employee, partner, trustee, or agent, shall be indemnified and held harmless by the Corporation to the full extent permitted by applicable law as then in effect, against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts to be paid in settlement) incurred or suffered by such indemnitee in connection therewith, and such indemnification shall continue as to an indemnitee who has ceased to be a director, officer, employee, partner, trustee, or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators; provided, however, that no indemnification shall be provided to any such indemnitee if the Corporation is prohibited by the Washington Business Corporation Act or other applicable law as then in effect from paying such indemnification; and provided, further, that except as provided in Section 10.2 of this Article with respect to proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized or ratified by the Board of Directors. The right to indemnification conferred in this Section 10.1 shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any proceeding in advance of its final disposition (hereinafter an "advancement of expenses"). Any advancement of expenses shall be made only upon delivery to the Corporation of a written undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Section 10.1 and upon delivery to the Corporation of a written affirmation (hereinafter an "affirmation") by the indemnitee of his or her good faith belief that such indemnitee has met the standard of conduct necessary for indemnification by the Corporation pursuant to this Article.

10.2 Right of Indemnitee to Bring Suit. If a written claim for indemnification under Section 10.1 of this Article is not paid in full by the Corporation within ninety (90) days after the Corporation's receipt thereof, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (20) days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful, in whole or in part, in any such suit or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expenses of prosecuting or defending such suit. The indemnitee shall be presumed to be entitled to indemnification under this Article upon submission of a written claim (and, in an action brought to enforce a claim for an advancement of expenses, where the required undertaking and affirmation have been tendered to the Corporation) and thereafter the Corporation shall have the burden of proof to overcome the presumption that the indemnitee is so entitled. Neither the failure of the Corporation (including the Board of Directors, independent legal counsel or the shareholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances nor an actual determination by the Corporation (including the Board of Directors, independent legal counsel or the shareholders) that the indemnitee is not entitled to indemnification shall be a defense to the suit or create a presumption that the indemnitee is not so entitled.

10.3 Nonexclusivity of Rights. The right to indemnification and the advancement of expenses conferred in this Article X shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Articles of Incorporation or Bylaws of the Corporation, general or specific action of the Board of Directors, contract or otherwise.

10.4 Insurance, Contracts and Funding. The corporation may maintain insurance, at its expense, to protect itself and any individual who is or was a director, officer, employee or agent of the Corporation or who, while a director, officer, employee or agent of the Corporation, is or was serving at the request of the Corporation as a agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any expense, liability or loss asserted against or incurred by the individual in that capacity or arising from the individual's status as a director, officer, employee or agent, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Washington Business Corporation Act. The corporation may enter into contracts with any director, officer, employee or agent of the Corporation in furtherance of the provisions of this Article and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

10.5 Indemnification of Employees and Agents of the Corporation. The corporation may, by action of the Board of Directors, grant rights to indemnification and advancement of expenses to employees and agents of the Corporation with the same scope and effect as the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the Corporation or pursuant to rights granted pursuant to, or provided by, the Washington Business Corporation Act or otherwise.

10.6 Persons Serving Other Entities. Any individual who is or was a director, officer or employee of the Corporation who, while a director, officer or employee of the Corporation, is or was serving (a) as a director or officer of another foreign or domestic corporation of which a majority of the shares entitled to vote in the election of its directors is held by the Corporation, (b) as a trustee of an employee benefit plan and the duties of the director or officer to the Corporation also impose duties on, or otherwise involve services by, the director or officer to the plan or to participants in or beneficiaries of the plan or (c) in an executive or management capacity in a foreign or domestic partnership, joint venture, trust or other enterprise of which the Corporation or a wholly owned subsidiary of the Corporation is a general partner or has a majority ownership or interest shall be deemed to be so serving at the request of the Corporation and entitled to indemnification and advancement of expenses under this Article.

ARTICLE 11.
AMENDMENT OF BYLAWS

11.1 These Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Board, except that the Board may not repeal or amend any Bylaw that the shareholders have expressly provided, in amending or repealing such Bylaw, may not be amended or repealed by the Board. The shareholders may also alter, amend and repeal these Bylaws or adopt new Bylaws. All Bylaws made by the Board may be amended, repealed, altered or modified by the shareholders.

ADOPTION AND AMENDMENTS

Date of Adoption / Amendment	Section(s)	Effect of Amendment	Date of Shareholder Approval (if applicable)
Adoption by Board on July 14, 2005	—	—	January 25, 2006
Amendment adopted by Board on January 25, 2006	2.2	Amended Section 2.2 to permit shareholders to call a special meeting	January 25, 2006
Amendment adopted by Board on December 14, 2005		Amended name of Corporation to Mercer International Inc. (effective upon merger of the Corporation and Mercer Delaware Inc. on March 1, 2006)	February 17, 2006
Amendment adopted by Board on April 16, 2019	3.3	Amended Election of Directors to the Board	—

EXHIBIT 31.1

CERTIFICATION OF PERIODIC REPORT

I, David M. Gandossi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mercer International Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: August 1, 2019

/s/ David M. Gandossi
David M. Gandossi
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PERIODIC REPORT

I, David K. Ure, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mercer International Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: August 1, 2019

/s/ David K. Ure
David K. Ure
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF PERIODIC REPORT

I, David M. Gandossi, Chief Executive Officer of Mercer International Inc. (the "Company"), certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002*, that, to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the *Securities Exchange Act of 1934*; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 1, 2019

/s/ David M. Gandossi
David M. Gandossi
Chief Executive Officer

A signed original of this written statement required by Section 906 of the *Sarbanes-Oxley Act of 2002* has been provided to Mercer International Inc. and will be retained by Mercer International Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002* and shall not, except to the extent required by the *Sarbanes-Oxley Act of 2002*, be deemed filed by the Company for purposes of Section 18 of the *Securities Exchange Act of 1934*, as amended.

EXHIBIT 32.2

CERTIFICATION OF PERIODIC REPORT

I, David K. Ure, Chief Financial Officer of Mercer International Inc. (the "Company"), certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 1, 2019

/s/ David K. Ure
David K. Ure
Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Mercer International Inc. and will be retained by Mercer International Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.