
**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 September 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
*(State or other jurisdiction
of incorporation or organization)*

47-0956945
*(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	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>		

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 October 30, 2019.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 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 September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Revenues	\$ 383,536	\$ 331,058	\$ 1,293,239	\$ 1,045,493
Costs and expenses				
Cost of sales, excluding depreciation and amortization	314,894	230,009	994,360	755,428
Cost of sales depreciation and amortization	31,934	23,197	94,108	69,312
Selling, general and administrative expenses	17,961	14,506	54,662	43,883
Operating income	18,747	63,346	150,109	176,870
Other income (expenses)				
Interest expense	(18,183)	(11,729)	(55,103)	(35,972)
Loss on settlement of debt (Note 5(a))	—	—	—	(21,515)
Legal cost award	—	—	—	(6,951)
Other income (expenses)	887	(259)	3,177	(628)
Total other expenses, net	(17,296)	(11,988)	(51,926)	(65,066)
Income before provision for income taxes	1,451	51,358	98,183	111,804
Provision for income taxes	(244)	(10,182)	(35,101)	(28,224)
Net income	<u>\$ 1,207</u>	<u>\$ 41,176</u>	<u>\$ 63,082</u>	<u>\$ 83,580</u>
Net income per common share				
Basic	\$ 0.02	\$ 0.63	\$ 0.96	\$ 1.28
Diluted	\$ 0.02	\$ 0.63	\$ 0.96	\$ 1.27
Dividends declared per common share	\$ 0.1375	\$ 0.1250	\$ 0.4000	\$ 0.3750

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Net income	\$ 1,207	\$ 41,176	\$ 63,082	\$ 83,580
Other comprehensive income (loss), net of taxes				
Foreign currency translation adjustment	(48,538)	(1,982)	(28,285)	(41,477)
Change in unrecognized losses and prior service costs related to defined benefit pension plans, net of tax of \$7 and \$43, respectively (2018 - \$nil)	39	(574)	134	(1,302)
Other comprehensive loss, net of taxes	(48,499)	(2,556)	(28,151)	(42,779)
Total comprehensive income (loss)	<u>\$ (47,292)</u>	<u>\$ 38,620</u>	<u>\$ 34,931</u>	<u>\$ 40,801</u>

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)

	September 30, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 264,899	\$ 240,491
Accounts receivable	228,154	252,692
Inventories	269,443	303,813
Prepaid expenses and other	20,512	13,703
Total current assets	783,008	810,699
Property, plant and equipment, net	1,009,639	1,029,257
Investment in joint ventures	55,382	62,574
Intangible assets, net	53,442	53,927
Operating lease right-of-use assets	13,054	—
Other long-term assets	32,220	17,904
Deferred income tax	2,908	1,374
Total assets	<u>\$ 1,949,653</u>	<u>\$ 1,975,735</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and other	\$ 203,279	\$ 194,484
Pension and other post-retirement benefit obligations	778	904
Total current liabilities	204,057	195,388
Debt	984,087	1,041,389
Pension and other post-retirement benefit obligations	26,534	25,829
Finance lease liabilities	21,677	24,669
Operating lease liabilities	10,631	—
Other long-term liabilities	13,423	13,924
Deferred income tax	97,857	93,107
Total liabilities	1,358,266	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	343,994	342,438
Retained earnings	338,116	301,990
Accumulated other comprehensive loss	(156,321)	(128,170)
Total shareholders' equity	591,387	581,429
Total liabilities and shareholders' equity	<u>\$ 1,949,653</u>	<u>\$ 1,975,735</u>

Commitments and contingencies (Note 14)

Subsequent events (Note 5(a), 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)

	<u>Common shares</u>			<u>Accumulated</u>		
	Number (thousands of shares)	Amount, at Par Value	Additional Paid -in Capital	Retained Earnings	Other Comprehensive Loss	Total Equity
Three Months Ended September 30:						
Balance June 30, 2019	65,629	\$ 65,598	\$ 342,815	\$ 345,934	\$ (107,822)	\$ 646,525
Stock compensation expense	—	—	1,179	—	—	1,179
Net income	—	—	—	1,207	—	1,207
Dividends declared	—	—	—	(9,025)	—	(9,025)
Other comprehensive loss	—	—	—	—	(48,499)	(48,499)
Balance September 30, 2019	<u>65,629</u>	<u>\$ 65,598</u>	<u>\$ 343,994</u>	<u>\$ 338,116</u>	<u>\$ (156,321)</u>	<u>\$ 591,387</u>
Balance June 30, 2018	65,202	\$ 65,171	\$ 340,450	\$ 232,105	\$ (99,224)	\$ 538,502
Stock compensation expense	—	—	970	—	—	970
Net income	—	—	—	41,176	—	41,176
Dividends declared	—	—	—	(8,150)	—	(8,150)
Other comprehensive loss	—	—	—	—	(2,556)	(2,556)
Balance September 30, 2018	<u>65,202</u>	<u>\$ 65,171</u>	<u>\$ 341,420</u>	<u>\$ 265,131</u>	<u>\$ (101,780)</u>	<u>\$ 569,942</u>
Nine Months Ended September 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	—	—	2,036	—	—	2,036
Net income	—	—	—	63,082	—	63,082
Dividends declared	—	—	—	(26,255)	—	(26,255)
Repurchase of common shares	(53)	(53)	—	(701)	—	(754)
Other comprehensive loss	—	—	—	—	(28,151)	(28,151)
Balance September 30, 2019	<u>65,629</u>	<u>\$ 65,598</u>	<u>\$ 343,994</u>	<u>\$ 338,116</u>	<u>\$ (156,321)</u>	<u>\$ 591,387</u>
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	—	—	2,922	—	—	2,922
Net income	—	—	—	83,580	—	83,580
Dividends declared	—	—	—	(24,447)	—	(24,447)
Other comprehensive loss	—	—	—	—	(42,779)	(42,779)
Balance September 30, 2018	<u>65,202</u>	<u>\$ 65,171</u>	<u>\$ 341,420</u>	<u>\$ 265,131</u>	<u>\$ (101,780)</u>	<u>\$ 569,942</u>

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		Nine Months Ended	
	September 30		September 30	
	2019	2018	2019	2018
Cash flows from (used in) operating activities				
Net income	\$ 1,207	\$ 41,176	\$ 63,082	\$ 83,580
Adjustments to reconcile net income to cash flows from operating activities				
Depreciation and amortization	32,052	23,310	94,447	69,643
Deferred income tax provision (benefit)	(1,706)	1,314	2,359	7,330
Loss on settlement of debt	—	—	—	21,515
Defined benefit pension plans and other post-retirement benefit plan expense	866	423	2,582	1,294
Stock compensation expense	1,179	970	2,036	2,922
Foreign exchange transaction losses (gains)	(8,873)	40	369	564
Other	2,887	844	11,231	2,451
Defined benefit pension plans and other post-retirement benefit plan contributions	(1,200)	(19)	(2,628)	(124)
Changes in working capital				
Accounts receivable	41,381	(150)	17,232	8,193
Inventories	9,242	(41,084)	22,614	(60,127)
Accounts payable and accrued expenses	(16,691)	(10,803)	(12,667)	44,130
Other	(3,483)	(5,252)	(12,889)	(8,480)
Net cash from (used in) operating activities	<u>56,861</u>	<u>10,769</u>	<u>187,768</u>	<u>172,891</u>
Cash flows from (used in) investing activities				
Purchase of property, plant and equipment	(37,049)	(26,744)	(81,417)	(71,583)
Purchase of intangible assets	(215)	(163)	(710)	(483)
Other	162	211	(181)	278
Net cash from (used in) investing activities	<u>(37,102)</u>	<u>(26,696)</u>	<u>(82,308)</u>	<u>(71,788)</u>
Cash flows from (used in) financing activities				
Redemption of senior notes	—	—	—	(317,439)
Proceeds from (repayment of) revolving credit facilities, net	—	(3,443)	(58,404)	34,293
Dividend payments	(9,025)	(8,150)	(17,231)	(24,424)
Repurchase of common shares	—	—	(754)	—
Payment of debt issuance costs	(369)	—	(1,126)	(1,390)
Proceeds from government grants	147	—	6,467	—
Other	(1,735)	(944)	(8,664)	(2,563)
Net cash from (used in) financing activities	<u>(10,982)</u>	<u>(12,537)</u>	<u>(79,712)</u>	<u>(311,523)</u>
Effect of exchange rate changes on cash and cash equivalents	(1,200)	1,167	(1,340)	(8,133)
Net increase (decrease) in cash and cash equivalents	7,577	(27,297)	24,408	(218,553)
Cash and cash equivalents, beginning of period	257,322	269,482	240,491	460,738
Cash and cash equivalents, end of period	<u>\$ 264,899</u>	<u>\$ 242,185</u>	<u>\$ 264,899</u>	<u>\$ 242,185</u>
Supplemental cash flow disclosure				
Cash paid for interest	\$ 32,857	\$ 19,591	\$ 55,742	\$ 35,287
Cash paid for income taxes	\$ 3,337	\$ 2,192	\$ 42,074	\$ 6,412
Supplemental schedule of non-cash investing and financing activities:				
Leased production equipment	\$ —	\$ —	\$ —	\$ 12,126

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

MERCER INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands of U.S. dollars, except share and per share data)

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.

MERCER INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(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") (being a 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 sales presence in Asia and adds northern bleached hardwood kraft to its product mix.

The following summarizes the Company's allocation of the purchase price to the fair value of the assets acquired and liabilities assumed 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	<u>\$ 344,030</u>

(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.

During the nine month period ended September 30, 2019 immaterial adjustments were made to the purchase price allocation to reflect the final valuation of the assets acquired and liabilities assumed.

Note 3. Inventories

	September 30, 2019	December 31, 2018
Raw materials	\$ 78,996	\$ 103,983
Finished goods	95,090	114,304
Spare parts and other	95,357	85,526
	<u>\$ 269,443</u>	<u>\$ 303,813</u>

MERCER INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands of U.S. dollars, except share and per share data)

Note 4. Accounts Payable and Other

	September 30, 2019	December 31, 2018
Trade payables	\$ 43,718	\$ 36,333
Accrued expenses	97,990	95,936
Interest payable	14,393	16,861
Income tax payable	25,448	29,818
Legal cost award payable	—	6,951
Dividends payable	9,025	—
Other	12,705	8,585
	<u>\$ 203,279</u>	<u>\$ 194,484</u>

Note 5. Debt

	September 30, 2019	December 31, 2018
2022 Senior Notes, principal amount \$100,000 (a)	\$ 99,125	\$ 98,918
2024 Senior Notes, principal amount \$250,000 (a)	246,722	246,154
2025 Senior Notes, principal amount \$350,000 (a)	343,076	342,761
2026 Senior Notes, principal amount \$300,000 (a)	295,164	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)	—	—
	<u>\$ 984,087</u>	<u>\$ 1,041,389</u>

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

2019	\$	—
2020		—
2021		—
2022		100,000
2023		—
Thereafter		900,000
	<u>\$</u>	<u>1,000,000</u>

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

MERCER INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands of U.S. dollars, except share and per share data)

Note 5. Debt (continued)

(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 offering 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.

Subsequent to the end of the third quarter, the Company issued an additional \$200,000 in aggregate principal amount of its 2025 Senior Notes. The additional 2025 Senior Notes were issued at a price of 102.75% of their principal amount for a yield to worst of 6.435%. The net proceeds of the offering were approximately \$202,000 after deducting the underwriter's discount and offering expenses. The net proceeds were used to redeem the remaining \$100,000 in principal amount of the Company's 7.750% Senior Notes due 2022 (the "2022 Notes") and for general corporate purposes.

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 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. 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" and collectively with the 2025 Senior Notes and 2026 Senior Notes, the "Senior Notes"). The 2024 Senior Notes were issued at a price of 100% of their principal amount. The net proceeds of the offering 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.

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, 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:

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

MERCER INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands of U.S. dollars, except share and per share data)

Note 5. Debt (continued)

- (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 September 30, 2019, approximately €11.3 million (\$12,269) of this facility was supporting bank guarantees leaving approximately €188.7 million (\$205,511) 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 September 30, 2019, approximately C\$0.8 million (\$624) was supporting letters of credit leaving approximately C\$59.2 million (\$44,682) available.
- (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 September 30, 2019, approximately C\$1.7 million (\$1,283) was supporting letters of credit leaving approximately C\$38.3 million (\$28,921) 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 September 30, 2019, approximately €2.6 million (\$2,779) of this facility was supporting bank guarantees leaving approximately \$nil available.

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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 nine month periods ended September 30, 2019 and 2018 were as follows:

	Three Months Ended September 30,			
	2019		2018	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Service cost	\$ 721	\$ 68	\$ 26	\$ 115
Interest cost	883	137	312	175
Expected return on plan assets	(1,009)	—	(380)	—
Amortization of unrecognized items	236	(170)	226	(51)
Net benefit costs	<u>\$ 831</u>	<u>\$ 35</u>	<u>\$ 184</u>	<u>\$ 239</u>

	Nine Months Ended September 30,			
	2019		2018	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Service cost	\$ 2,148	\$ 203	\$ 78	\$ 352
Interest cost	2,632	410	952	535
Expected return on plan assets	(3,008)	—	(1,157)	—
Amortization of unrecognized items	704	(507)	690	(156)
Net benefit costs	<u>\$ 2,476</u>	<u>\$ 106</u>	<u>\$ 563</u>	<u>\$ 731</u>

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 for salaried employees 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 nine month periods ended September 30, 2019, the Company made contributions of \$242 and \$988, respectively (2018 – \$215 and \$650).

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

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 nine month periods ended September 30, 2019 totaled \$598 and \$1,569, respectively (2018 – \$529 and \$1,674).

Note 7. Income Taxes

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

	Three Months Ended September 30,		Nine Months Ended September 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	\$ (304)	\$ (10,785)	\$ (20,618)	\$ (23,479)
Tax differential on foreign income	(1,177)	(4,265)	(9,539)	(11,493)
Effect of foreign earnings (a)	892	(19,983)	(11,148)	(28,440)
Valuation allowance	(8,934)	23,492	(5,173)	45,510
Tax benefit of partnership structure	960	965	2,881	3,242
Non-taxable foreign subsidiaries	1,571	716	2,965	2,204
True-up of prior year taxes	6,733	109	5,612	(14,384)
Other	15	(431)	(81)	(1,384)
	<u>\$ (244)</u>	<u>\$ (10,182)</u>	<u>\$ (35,101)</u>	<u>\$ (28,224)</u>
Comprised of:				
Current income tax provision	\$ (1,950)	\$ (8,868)	\$ (32,742)	\$ (20,894)
Deferred income tax benefit (provision)	1,706	(1,314)	(2,359)	(7,330)
	<u>\$ (244)</u>	<u>\$ (10,182)</u>	<u>\$ (35,101)</u>	<u>\$ (28,224)</u>

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

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Note 8. Shareholders' Equity

Dividends

During the nine month period ended September 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	\$ 8,205
May 2, 2019	0.1375	9,025
August 1, 2019	0.1375	9,025
	<u>\$ 0.4000</u>	<u>\$ 26,255</u>

In October 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 December 19, 2019 to all shareholders of record on December 12, 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 nine month period ended September 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 nine month periods ended September 30, 2019, there were no issued and outstanding options, restricted stock rights, performance shares or stock appreciation rights. As at September 30, 2019, after factoring in all allocated shares, there remain approximately 2.6 million common shares available for grant.

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Note 8. Shareholders' Equity (continued)

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 nine month periods ended September 30, 2019, the Company recognized an expense of \$1,066 and \$1,669, respectively related to PSUs (2018 – \$840 and \$2,534).

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 September 30, 2019	<u>1,764,976</u>

Restricted Shares

Restricted shares generally vest at the end of one year. For the three and nine month periods September 30, 2019, the Company recognized an expense of \$113 and \$367, respectively related to restricted shares (2018 - \$130 and \$388). As at September 30, 2019, the total remaining unrecognized compensation cost related to restricted shares amounted to approximately \$300 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 September 30, 2019	<u>31,405</u>

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Note 9. Net Income Per Common Share

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Net income				
Basic and diluted	\$ 1,207	\$ 41,176	\$ 63,082	\$ 83,580
Net income per common share				
Basic	\$ 0.02	\$ 0.63	\$ 0.96	\$ 1.28
Diluted	\$ 0.02	\$ 0.63	\$ 0.96	\$ 1.27
Weighted average number of common shares outstanding:				
Basic (a)	65,598,177	65,170,531	65,538,037	65,120,976
Effect of dilutive instruments:				
PSUs	372,495	639,998	358,851	550,983
Restricted shares	3,198	7,510	13,437	20,328
Diluted	<u>65,973,870</u>	<u>65,818,039</u>	<u>65,910,325</u>	<u>65,692,287</u>

(a) For the three and nine month periods ended September 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 September 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 nine month periods ended September 30, 2019 and 2018.

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	Total
Balance as at January 1, 2019	\$ (127,000)	\$ (1,170)	\$ (128,170)
Other comprehensive loss before reclassifications	(28,285)	(20)	(28,305)
Amounts reclassified from accumulated other comprehensive loss	—	154	154
Other comprehensive income (loss), net of taxes	(28,285)	134	(28,151)
Balance as at September 30, 2019	<u>\$ (155,285)</u>	<u>\$ (1,036)</u>	<u>\$ (156,321)</u>

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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 nine month periods ended September 30, 2019 and 2018, was as follows:

Three Months Ended September 30, 2019	Pulp	Wood Products	Corporate and Other	Consolidated
Revenues from external customers	\$ 345,060	\$ 36,458	\$ 2,018	\$ 383,536
Operating income (loss)	\$ 21,386	\$ 544	\$ (3,183)	\$ 18,747
Depreciation and amortization	\$ 29,744	\$ 2,016	\$ 292	\$ 32,052
Revenues by major products				
Pulp	\$ 322,707	\$ —	\$ —	\$ 322,707
Lumber	—	32,687	—	32,687
Energy and chemicals	22,353	1,621	2,018	25,992
Wood residuals	—	2,150	—	2,150
Total revenues	<u>\$ 345,060</u>	<u>\$ 36,458</u>	<u>\$ 2,018</u>	<u>\$ 383,536</u>
Revenues by geographical markets				
U.S.	\$ 30,693	\$ 13,027	\$ —	\$ 43,720
Germany	97,339	11,915	—	109,254
China	113,578	—	—	113,578
Other countries	103,450	11,516	2,018	116,984
Total revenues	<u>\$ 345,060</u>	<u>\$ 36,458</u>	<u>\$ 2,018</u>	<u>\$ 383,536</u>

Three Months Ended September 30, 2018	Pulp	Wood Products	Corporate and Other	Consolidated
Revenues from external customers	\$ 292,969	\$ 38,089	\$ —	\$ 331,058
Operating income (loss)	\$ 68,794	\$ (1,770)	\$ (3,678)	\$ 63,346
Depreciation and amortization	\$ 20,802	\$ 2,395	\$ 113	\$ 23,310
Revenues by major products				
Pulp	\$ 274,970	\$ —	\$ —	\$ 274,970
Lumber	—	34,270	—	34,270
Energy and chemicals	17,999	1,978	—	19,977
Wood residuals	—	1,841	—	1,841
Total revenues	<u>\$ 292,969</u>	<u>\$ 38,089</u>	<u>\$ —</u>	<u>\$ 331,058</u>
Revenues by geographical markets				
U.S.	\$ 7,148	\$ 10,857	\$ —	\$ 18,005
Germany	132,233	14,771	—	147,004
China	44,981	—	—	44,981
Other countries	108,607	12,461	—	121,068
Total revenues	<u>\$ 292,969</u>	<u>\$ 38,089</u>	<u>\$ —</u>	<u>\$ 331,058</u>

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Note 11. Business Segment Information (continued)

Nine Months Ended September 30, 2019	Pulp	Wood Products	Corporate and Other	Consolidated
Revenues from external customers	\$ 1,166,333	\$ 120,349	\$ 6,557	\$ 1,293,239
Operating income (loss)	\$ 157,157	\$ 2,075	\$ (9,123)	\$ 150,109
Depreciation and amortization	\$ 87,616	\$ 5,937	\$ 894	\$ 94,447
Total assets (a)	\$ 1,762,994	\$ 75,467	\$ 111,192	\$ 1,949,653
Revenues by major products				
Pulp	\$ 1,095,225	\$ —	\$ —	\$ 1,095,225
Lumber	—	107,172	—	107,172
Energy and chemicals	71,108	7,075	6,557	84,740
Wood residuals	—	6,102	—	6,102
Total revenues	<u>\$ 1,166,333</u>	<u>\$ 120,349</u>	<u>\$ 6,557</u>	<u>\$ 1,293,239</u>
Revenues by geographical markets				
U.S.	\$ 124,039	\$ 38,997	\$ —	\$ 163,036
Germany	338,678	40,860	—	379,538
China	347,232	—	—	347,232
Other countries	356,384	40,492	6,557	403,433
Total revenues	<u>\$ 1,166,333</u>	<u>\$ 120,349</u>	<u>\$ 6,557</u>	<u>\$ 1,293,239</u>

(a) Total assets for the pulp segment includes the Company's \$55,382 investment in joint ventures, primarily for the CPP mill.

Nine Months Ended September 30, 2018	Pulp	Wood Products	Corporate and Other	Consolidated
Revenues from external customers	\$ 898,836	\$ 146,657	\$ —	\$ 1,045,493
Operating income (loss)	\$ 179,824	\$ 5,534	\$ (8,488)	\$ 176,870
Depreciation and amortization	\$ 63,452	\$ 5,860	\$ 331	\$ 69,643
Revenues by major products				
Pulp	\$ 845,460	\$ —	\$ —	\$ 845,460
Lumber	—	131,429	—	131,429
Energy and chemicals	53,376	8,014	—	61,390
Wood residuals	—	7,214	—	7,214
Total revenues	<u>\$ 898,836</u>	<u>\$ 146,657</u>	<u>\$ —</u>	<u>\$ 1,045,493</u>
Revenues by geographical markets				
U.S.	\$ 18,451	\$ 42,511	\$ —	\$ 60,962
Germany	373,176	58,631	—	431,807
China	204,818	—	—	204,818
Other countries	302,391	45,515	—	347,906
Total revenues	<u>\$ 898,836</u>	<u>\$ 146,657</u>	<u>\$ —</u>	<u>\$ 1,045,493</u>

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.

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Note 11. Business Segment Information (continued)

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 nine month periods ended September 30, 2019, the pulp segment sold \$59 and \$423, respectively of residual fuel to the wood products segment (2018 – \$163 and \$1,073) and the wood products segment sold \$2,360 and \$11,713, respectively of residual fiber to the pulp segment (2018 – \$3,764 and \$13,809).

Pulp purchases from the Company's 50% owned CPP mill, which are transacted at the CPP mill's cost, were \$21,232 and \$76,388 for the three and nine month periods ended September 30, 2019, respectively (2018 - \$nil) and as at September 30, 2019 the Company had a receivable balance from the CPP mill of \$4,514 (December 31, 2018 – a payable balance of \$1,347). Logging services from its 50% owned logging operation, which are transacted at arm's length negotiated prices were \$3,074 and \$11,923 for the three and nine month periods ended September 30, 2019, respectively (2018 - \$nil) and as at September 30, 2019 the Company had a payable balance to the logging operation of \$903 (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.

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

Description	Fair value measurements at September 30, 2019 using:			
	Level 1	Level 2	Level 3	Total
Senior notes	\$ —	\$ 1,013,435	\$ —	\$ 1,013,435

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

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

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 \$264,899 and accounts receivable of \$228,154 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.

The components of lease expense were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Lease cost:				
Operating lease cost	\$ 674	\$ 304	\$ 2,497	\$ 1,752
Finance lease cost:				
Amortization of right-of-use assets	976	960	2,713	2,700
Interest on lease liabilities	329	425	1,047	931
Total lease cost	<u>\$ 1,979</u>	<u>\$ 1,689</u>	<u>\$ 6,257</u>	<u>\$ 5,383</u>

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Note 13. Lease Commitments (continued)

Supplemental cash flow information related to leases were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	\$ 674	\$ 304	\$ 2,497	\$ 1,752
Operating cash flows from finance leases	\$ 329	\$ 425	\$ 1,047	\$ 931
Financing cash flows from finance leases	\$ 1,735	\$ 931	\$ 3,428	\$ 2,563

Other information related to leases is as follows:

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

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.

Supplemental balance sheet information related to leases were as follows:

	September 30,	December 31,
	2019	2018
Operating Leases		
Operating lease right-of-use assets	\$ 13,054	
Other current liabilities	\$ 2,423	
Operating lease liabilities	10,631	
Total operating lease liabilities	<u>\$ 13,054</u>	
Finance Leases		
Property and equipment, gross	\$ 40,270	\$ 44,756
Accumulated depreciation	(16,364)	(15,963)
Property and equipment, net	<u>\$ 23,906</u>	<u>\$ 28,793</u>
Other current liabilities	\$ 3,178	\$ 4,911
Finance lease liabilities	21,677	24,669
Total finance lease liabilities	<u>\$ 24,855</u>	<u>\$ 29,580</u>

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Note 13. Lease Commitments (continued)

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

	Finance Leases	Operating Leases
2019	\$ 1,731	\$ 819
2020	3,405	3,084
2021	3,280	2,941
2022	3,109	2,694
2023	3,233	2,004
Thereafter	16,147	4,617
Total lease payments	30,905	16,159
Less: imputed interest	(6,050)	(3,105)
Total lease liability	<u>\$ 24,855</u>	<u>\$ 13,054</u>

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	<u>\$ 18,963</u>
Less: imputed interest	(7,477)	
Total lease liability	<u>\$ 29,580</u>	

As at September 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.

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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 September 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 nine months ended September 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 NBSK mill in British Columbia. The Peace River mill is a swing mill that produces both NBSK and NBHK.

Current Market Environment

In the third quarter of 2019, list pulp prices declined from the second quarter of 2019 due to high producer inventories.

Overall, our average NBSK pulp sales realizations were approximately 13% lower in the third quarter of 2019 compared to the second quarter of 2019.

At the end of the current quarter, NBSK list prices in Europe, China and North America were approximately \$825, \$585 and \$1,135 per ADMT, respectively and NBHK list prices in China and North America were approximately \$490 and \$930 per ADMT, respectively.

In the fourth quarter of 2019, our pulp mills have 53 days of scheduled maintenance downtime, or approximately 83,000 ADMTs.

We currently expect pulp markets to stabilize and producer inventories to decline in the later part of the year as a result of producer downtime along with overall steady demand.

In the third quarter of 2019, lumber markets were generally stable but lumber sales realizations declined as a result of the supply of lumber processed from beetle damaged wood in Europe and high producer inventories in the U.S. market. We currently expect stable lumber markets and prices in the fourth quarter of 2019.

Summary Financial Highlights

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(in thousands, other than per share amounts)				
Statement of Operations Data				
Pulp segment revenues	\$ 345,060	\$ 292,969	\$ 1,166,333	\$ 898,836
Wood products segment revenues	36,458	38,089	120,349	146,657
Corporate and other revenues	2,018	—	6,557	—
Total revenues	\$ 383,536	\$ 331,058	\$ 1,293,239	\$ 1,045,493
Pulp segment operating income	\$ 21,386	\$ 68,794	\$ 157,157	\$ 179,824
Wood products segment operating income (loss)	544	(1,770)	2,075	5,534
Corporate and other operating loss	(3,183)	(3,678)	(9,123)	(8,488)
Total operating income	\$ 18,747	\$ 63,346	\$ 150,109	\$ 176,870
Pulp segment depreciation and amortization	\$ 29,744	\$ 20,802	\$ 87,616	\$ 63,452
Wood products segment depreciation and amortization	2,016	2,395	5,937	5,860
Corporate and other depreciation and amortization	292	113	894	331
Total depreciation and amortization	\$ 32,052	\$ 23,310	\$ 94,447	\$ 69,643
Operating EBITDA ⁽¹⁾	\$ 50,799	\$ 86,656	\$ 244,556	\$ 246,513
Loss on settlement of debt	\$ —	\$ —	\$ —	\$ (21,515) ⁽²⁾
Legal cost award	\$ —	\$ —	\$ —	\$ (6,951)
Provision for income taxes	\$ (244)	\$ (10,182)	\$ (35,101)	\$ (28,224)
Net income	\$ 1,207	\$ 41,176	\$ 63,082	\$ 83,580
Net income per common share				
Basic	\$ 0.02	\$ 0.63	\$ 0.96	\$ 1.28
Diluted	\$ 0.02	\$ 0.63	\$ 0.96	\$ 1.27
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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(in thousands)				
Net income	\$ 1,207	\$ 41,176	\$ 63,082	\$ 83,580
Provision for income taxes	244	10,182	35,101	28,224
Interest expense	18,183	11,729	55,103	35,972
Loss on settlement of debt	—	—	—	21,515
Legal cost award	—	—	—	6,951
Other (income) expenses	(887)	259	(3,177)	628
Operating income	18,747	63,346	150,109	176,870
Add: Depreciation and amortization	32,052	23,310	94,447	69,643
Operating EBITDA	\$ 50,799	\$ 86,656	\$ 244,556	\$ 246,513

(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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Pulp Segment				
Pulp production ('000 ADMTs)				
NBSK	441.7	363.5	1,355.1	1,037.7
NBHK	75.3		243.3	
Annual maintenance downtime ('000 ADMTs)	14.1	14.4	21.6	69.9
Annual maintenance downtime (days)	13	14	28	51
Pulp sales ('000 ADMTs)				
NBSK	451.2	319.9	1,356.6	1,025.2
NBHK	91.0		260.4	
Average NBSK pulp list prices (\$/ADMT) ⁽¹⁾				
Europe	860	1,230	987	1,176
China	585	887	649	902
North America	1,170	1,377	1,281	1,307
Average NBHK pulp list prices (\$/ADMT) ⁽¹⁾				
China	507	800	609	799
North America	970	1,192	1,083	1,131
Average pulp sales realizations (\$/ADMT) ⁽²⁾				
NBSK	609	852	689	817
NBHK	499		589	
Energy production ('000 MWh)	572.5 ⁽³⁾	388.0	1,708.3 ⁽³⁾	1,120.7
Energy sales ('000 MWh)	224.7 ⁽³⁾	141.0	668.4 ⁽³⁾	401.3
Average energy sales realizations (\$/MWh)	89	105	92	105
Wood Products Segment				
Lumber production (MMfbm)	96.6	79.5	308.0	294.1
Lumber sales (MMfbm)	97.0	83.8	307.7	312.0
Average lumber sales realizations (\$/Mfbm)	337	409	348	421
Energy production and sales ('000 MWh)	13.9	16.4	60.4	62.5
Average energy sales realizations (\$/MWh)	116	121	117	128
Average Spot Currency Exchange Rates				
\$ / € ⁽⁴⁾	1.1120	1.1629	1.1234	1.1945
\$ / C\$ ⁽⁴⁾	0.7573	0.7651	0.7523	0.7767

(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 September 30, 2019 Compared to Three Months Ended September 30, 2018

Total revenues for the three months ended September 30, 2019 increased by approximately 16% to \$383.5 million from \$331.1 million in the same quarter of 2018 primarily due to the inclusion of MPR and higher sales volumes partially offset by lower sales realizations.

Costs and expenses in the current quarter increased by approximately 36% to \$364.8 million from \$267.7 million in the third quarter of 2018 primarily due to the inclusion of MPR costs and higher pulp and lumber sales volumes partially offset by lower per unit fiber costs and the positive impact of a stronger dollar on our euro and Canadian dollar denominated costs and expenses.

In the third quarter of 2019, cost of sales depreciation and amortization increased to \$31.9 million from \$23.2 million in the same quarter of 2018 primarily due to inclusion of MPR.

Selling, general and administrative expenses increased to \$18.0 million in the third quarter of 2019 from \$14.5 million in the same quarter of 2018 primarily due to the inclusion of MPR.

In the third quarter of 2019, our operating income decreased by approximately 70% to \$18.7 million from \$63.3 million in the same quarter of 2018 due to lower pulp and lumber sales realizations.

Interest expense in the current quarter increased to \$18.2 million from \$11.7 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 third quarter of 2019, income tax expense decreased to \$0.2 million from \$10.2 million in the same quarter of 2018 due to lower income.

For the third quarter of 2019, our net income decreased to \$1.2 million, or \$0.02 per share, from \$41.2 million, or \$0.63 per share, in the same quarter of 2018.

In the third quarter of 2019, Operating EBITDA decreased by approximately 41% to \$50.8 million from \$86.7 million in the same quarter of 2018 primarily due to lower pulp and lumber sales realizations partially offset by lower per unit fiber costs, higher sales volumes and the positive impact of a stronger dollar on our euro and Canadian dollar denominated costs and expenses.

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 September 30, 2019 Compared to Three Months Ended September 30, 2018

Selected Financial Information

	Three Months Ended September 30,	
	2019	2018
	(in thousands)	
Pulp revenues	\$ 322,707	\$ 274,970
Energy and chemical revenues	\$ 22,353	\$ 17,999
Depreciation and amortization	\$ 29,744	\$ 20,802
Operating income	\$ 21,386	\$ 68,794

Pulp revenues in the third quarter of 2019 increased by approximately 17% to \$322.7 million from \$275.0 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 24% to \$22.4 million in the third quarter of 2019 from \$18.0 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 21% to 441,672 ADMTs in the current quarter from 363,543 ADMTs in the same quarter of 2018, primarily due to the inclusion of MPR and steady production at all of our mills. In the current quarter of 2019, our pulp mills had 13 days of scheduled maintenance downtime (approximately 14,100 ADMTs). In the third quarter of 2018, we had 14 days (approximately 14,400 ADMTs) of annual maintenance downtime.

We estimate that annual maintenance downtime in the current quarter adversely impacted our operating income by approximately \$10.4 million, comprised primarily of direct out-of-pocket expenses.

In the fourth quarter of 2019, our pulp mills have 53 days of scheduled maintenance downtime or approximately 83,000 ADMTs.

NBSK pulp sales volumes increased by approximately 41% to 451,171 ADMTs in the current quarter from 319,850 ADMTs in the same quarter of 2018 primarily due to the inclusion of MPR and strong sales volumes to China.

In the current quarter of 2019, list prices for NBSK pulp decreased from the same quarter of 2018, largely as a result of high producer inventory levels. Average list prices for NBSK pulp in Europe were approximately \$860 per ADMT in the third quarter of 2019 compared to approximately \$1,230 per ADMT in the same quarter of 2018. Average list prices for NBSK pulp in China and North America were approximately \$585 per ADMT and \$1,170 per ADMT, respectively, in the current quarter compared to approximately \$887 per ADMT and \$1,377 per ADMT, respectively, in the same quarter of 2018.

Average NBSK pulp sales realizations decreased by approximately 29% to \$609 per ADMT in the third quarter of 2019 from approximately \$852 per ADMT in the same quarter of 2018 primarily due to lower list prices.

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

In the current quarter of 2019 as a result of the effect of the strengthening of the dollar against the euro and Canadian dollar on our dollar denominated cash and receivables at our mills and our euro and Canadian dollar denominated costs and expenses, we recorded a net positive impact of approximately \$14.6 million on operating income due to foreign exchange compared to the same quarter of 2018.

Costs and expenses for our pulp segment in the current quarter increased by approximately 44% to \$323.7 million from \$224.3 million in the third quarter of 2018 primarily due to the inclusion of MPR costs and higher pulp sales volumes partially offset by lower per unit fiber costs and the positive impact of a stronger dollar. In the current quarter of 2019, we received German regulatory approval to reverse a wastewater fee accrual of \$7.2 million as a result of certain capital projects.

In the third quarter of 2019, pulp segment depreciation and amortization increased to \$29.7 million from \$20.8 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 14% from the same quarter of 2018 primarily due to lower per unit fiber costs for our German mills and the positive impact of a stronger dollar on our euro and Canadian dollar denominated fiber costs. In the current quarter, fiber costs for our German mills declined due to the continued availability of beetle damaged wood. For our Canadian mills, per unit fiber costs modestly declined but remain at historically high levels due to strong demand for fiber in Celgar's fiber procurement area. We currently expect stable per unit fiber costs in the fourth quarter of 2019.

Transportation costs for our pulp segment increased to \$37.2 million in the current quarter from \$15.8 million in the same quarter of 2018 primarily as a result of the inclusion of MPR and higher sales volumes.

In the third quarter of 2019, pulp segment operating income decreased to \$21.4 million from \$68.8 million in the same quarter of 2018 as lower pulp sales realizations were only partially offset by higher sales volumes and lower per unit fiber costs.

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

Selected Financial Information

	Three Months Ended September 30,	
	2019	2018
	(in thousands)	
Lumber revenues	\$ 32,687	\$ 34,270
Energy revenues	\$ 1,621	\$ 1,978
Wood residual revenues	\$ 2,150	\$ 1,841
Depreciation and amortization	\$ 2,016	\$ 2,395
Operating income (loss)	\$ 544	\$ (1,770)

In the third quarter of 2019, lumber revenues decreased 5% to \$32.7 million from \$34.3 million in the same quarter of 2018 due to lower sales realizations partially offset by higher sales volumes. In the current quarter approximately 31% of sales volumes were in the U.S. market and the majority of remaining sales were to Europe.

Energy and wood residual revenues in the third quarter of 2019 were flat at \$3.8 million compared to the same quarter of 2018.

Production increased by approximately 22% to 96.6 MMfbm of lumber in the current quarter of 2019 from 79.5 MMfbm in the same quarter of 2018 primarily due to planned downtime for capital projects in the prior quarter of 2018.

Average lumber sales realizations decreased by approximately 18% to \$337 per Mfbm in the third quarter of 2019 from approximately \$409 per Mfbm in the same quarter of 2018 primarily due to lower pricing in both the U.S. and Europe. U.S. lumber pricing declined as record pricing in 2018 resulted in increased supply and high producer inventory levels. European lumber pricing also declined due to an increase in the supply of lumber processed from beetle damaged wood which generally obtains lower prices.

Fiber costs were approximately 75% of our lumber cash production costs in the current quarter. In the current quarter per unit fiber costs decreased by approximately 34% from the same quarter of 2018 primarily due to the availability of lower cost beetle damaged wood. We currently expect stable per unit fiber costs in the fourth quarter of 2019 because of the continuing availability of beetle damaged wood.

In the third quarter of 2019, lumber segment depreciation and amortization decreased to \$2.0 million from \$2.4 million in the same quarter of 2018 primarily due to higher depreciation in the third quarter of 2018 for assets being replaced and the positive impact of a stronger dollar on our euro denominated depreciation expense.

Transportation costs for our wood products segment in the third quarter of 2019 increased by approximately 22% to \$5.6 million from \$4.6 million in the same quarter of 2018 due to higher lumber sales volumes and shipments to the U.S. market.

In the third quarter of 2019, our wood products segment had operating income of \$0.5 million compared to an operating loss of \$1.8 million in the same quarter of 2018 primarily due to lower per unit fiber costs partially offset by lower sales realizations.

Consolidated - Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

Total revenues for the nine months ended September 30, 2019 increased by approximately 24% to \$1,293.2 million from \$1,045.5 million in the nine months ended September 30, 2018 primarily due to the inclusion of the results of MPR and higher pulp and energy sales volumes partially offset by lower sales realizations.

Costs and expenses in the nine months ended September 30, 2019 increased by approximately 32% to \$1,143.1 million from \$868.6 million in the nine months ended September 30, 2018 primarily due to the inclusion of MPR

costs and higher pulp sales volumes partially offset by lower per unit fiber costs, the positive impact of a stronger dollar on our euro denominated costs and expenses and lower maintenance costs.

In the nine months ended September 30, 2019, cost of sales depreciation and amortization increased to \$94.1 million from \$69.3 million in the same period of 2018 primarily due to the inclusion of MPR.

Selling, general and administrative expenses increased to \$54.7 million in the nine months ended September 30, 2019 from \$43.9 million in the same period of 2018 primarily due to the inclusion of MPR.

In the nine months ended September 30, 2019, operating income decreased by approximately 15% to \$150.1 million from \$176.9 million in the same period of 2018 due to 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 nine months ended September 30, 2019 increased to \$55.1 million from \$36.0 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 nine months ended September 30, 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 ("NAFTA").

During the nine months ended September 30, 2019, income tax expense increased to \$35.1 million from \$28.2 million in the same period of 2018. The annual effective tax rate was 36% in the current period.

For the nine months ended September 30, 2019, our net income decreased to \$63.1 million, or \$0.96 per share from \$83.6 million, or \$1.28 per basic and \$1.27 per diluted share in the same period of 2018, 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.

In the nine months ended September 30, 2019, Operating EBITDA modestly declined to \$244.6 million from \$246.5 million in the same period of 2018 primarily due to lower pulp and lumber sales realizations partially offset by higher pulp and energy sales volumes, lower per unit fiber costs, the inclusion of MPR, lower maintenance costs and the positive impact of a stronger dollar on our euro denominated costs and expenses.

Pulp Segment – Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

Selected Financial Information

	Nine Months Ended September 30,	
	2019	2018
	(in thousands)	
Pulp revenues	\$ 1,095,225	\$ 845,460
Energy and chemical revenues	\$ 71,108	\$ 53,376
Depreciation and amortization	\$ 87,616	\$ 63,452
Operating income	\$ 157,157	\$ 179,824

Pulp revenues in the nine months ended September 30, 2019 increased by approximately 30% to \$1,095.2 million from \$845.5 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 33% to \$71.1 million in the nine months ended September 30, 2019 from \$53.4 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 31% to 1,355,120 ADMTs in the nine months ended September 30, 2019 from 1,037,697 ADMTs in the same period of 2018. We had annual maintenance downtime of 28 days (approximately 21,600 ADMTs) in the nine months ended September 30, 2019, compared to 51 days (approximately 69,900 ADMTs) in the nine months ended September 30, 2018.

We estimate that annual maintenance downtime in the nine months ended September 30, 2019 adversely impacted our operating income by approximately \$21.1 million, comprised primarily of direct out-of-pocket expenses.

NBSK pulp sales volumes increased by approximately 32% to 1,356,584 ADMTs in the nine months ended September 30, 2019 compared to 1,025,232 ADMTs in the same period of 2018 primarily due to the inclusion of MPR and higher production.

In the nine months ended September 30, 2019, pulp pricing decreased from the same period of 2018, largely as a result of high producer inventory levels. Average list prices for NBSK pulp in Europe were approximately \$987 per ADMT in the nine months ended September 30, 2019, compared to approximately \$1,176 per ADMT in the same period of 2018. Average list prices for NBSK pulp in China and North America were approximately \$649 per ADMT and \$1,281 per ADMT, respectively, in the nine months ended September 30, 2019, compared to approximately \$902 per ADMT and \$1,307 per ADMT, respectively, in the nine months ended September 30, 2018.

Average NBSK pulp sales realizations decreased by approximately 16% to \$689 per ADMT in the nine months ended September 30, 2019 from approximately \$817 per ADMT in the same period of 2018 primarily due to lower list prices.

As a result of the decline in pulp prices in China, during the nine months ended September 30, 2019, we recorded a net write down of our inventory carrying values at our Canadian mills of \$6.9 million.

In the nine months ended September 30, 2019, foreign exchange had a net positive impact of \$25.7 million on operating income compared to the same period of 2018 primarily due to the strengthening of the dollar against the euro which decreased the dollar cost of our euro denominated costs and expenses.

Costs and expenses in the nine months ended September 30, 2019 increased by approximately 40% to \$1,009.6 million from \$720.1 million in the nine months ended September 30, 2018 primarily due to the inclusion of MPR and higher pulp sales volumes partially offset by lower maintenance and per unit fiber costs and the positive impact of a stronger dollar on our euro denominated costs and expenses. In the nine months ended September 30, 2019, we reversed a wastewater fee accrual of \$7.2 million.

In the nine months ended September 30, 2019, depreciation and amortization increased to \$87.6 million from \$63.5 million in the same period of 2018 primarily due the inclusion of MPR.

On average, in the nine months ended September 30, 2019 overall per unit fiber costs decreased by approximately 10% from the same period of 2018 primarily due to lower per unit fiber costs for our German mills and the positive impact of a stronger dollar on our euro denominated fiber costs. In the nine months ended September 30, 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 strong demand for fiber in Celgar's fiber procurement area.

Transportation costs for our pulp segment increased to \$111.4 million in the nine months ended September 30, 2019 from \$53.2 million in the same period of 2018 primarily as a result of the inclusion of MPR.

In the nine months ended September 30, 2019, pulp segment operating income decreased by approximately 13% to \$157.2 million from \$179.8 million in the same period of 2018 primarily due to lower pulp sales realizations partially offset by higher pulp and energy sales volumes, lower maintenance and per unit fiber costs and the positive impact of a stronger dollar.

Wood Products Segment - Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

Selected Financial Information

	Nine Months Ended September 30,	
	2019	2018
	(in thousands)	
Lumber revenues	\$ 107,172	\$ 131,429
Energy revenues	\$ 7,075	\$ 8,014
Wood residual revenues	\$ 6,102	\$ 7,214
Depreciation and amortization	\$ 5,937	\$ 5,860
Operating income	\$ 2,075	\$ 5,534

In the nine months ended September 30, 2019, lumber revenues decreased to \$107.2 million from \$131.4 million, primarily due to lower sales realizations. In the nine months ended September 30, 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 \$13.2 million in the nine months ended September 30, 2019 from \$15.2 million in the same period of 2018 primarily due to lower sales realizations.

Production increased to 308.0 MMfbm of lumber in the nine months ended September 30, 2019 from 294.1 MMfbm in the same period of 2018 primarily due to planned downtime for capital projects in the prior year period.

Average lumber sales realizations decreased by approximately 17% to \$348 per Mfbm in the nine months ended September 30, 2019 from approximately \$421 per Mfbm in the same period of 2018 primarily due to lower pricing in both the U.S. and Europe. U.S. lumber pricing declined as record pricing in 2018 resulted in increased supply and high producer 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 lumber cash production costs in the nine months ended September 30, 2019. In the nine months ended September 30, 2019 per unit fiber costs decreased by approximately 26% from the same period of 2018 primarily due to the availability of lower cost storm and beetle damaged wood.

In the nine months ended September 30, 2019, lumber segment depreciation and amortization was flat at \$5.9 million compared to the same period of 2018.

Transportation costs increased to \$17.7 million in the nine months ended September 30, 2019 from \$16.4 million in the same period of 2018 due to a higher proportion of sales to the U.S. market.

In the nine months ended September 30, 2019, our wood products segment operating income decreased to \$2.1 million from \$5.5 million in the same period of 2018 primarily due to lower sales realizations partially offset by lower per unit fiber costs.

Liquidity and Capital Resources

Summary of Cash Flows

	<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
	<u>(in thousands)</u>	
Net cash from operating activities	\$ 187,768	\$ 172,891
Net cash used in investing activities	(82,308)	(71,788)
Net cash used in financing activities	(79,712)	(311,523) ⁽¹⁾
Effect of exchange rate changes on cash and cash equivalents	(1,340)	(8,133)
Net increase (decrease) in cash and cash equivalents	<u>\$ 24,408</u>	<u>\$ (218,553)</u>

(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 fiber, labor and chemicals. 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 increased to \$187.8 million in the nine months ended September 30, 2019 from \$172.9 million in the comparative period of 2018. A decrease in accounts receivable provided cash of \$17.2 million in the nine months ended September 30, 2019 compared to \$8.2 million in the same period of 2018. A decrease in inventories provided cash of \$22.6 million in the nine months ended September 30, 2019 compared to an increase in inventories using cash of \$60.1 million in the same period of 2018. A decrease in accounts payable and accrued expenses, excluding non-cash items, used cash of \$12.7 million in the nine months ended September 30, 2019 compared to an increase in accounts payable and accrued expenses providing cash of \$44.1 million in the same period of 2018.

Cash Flows from Investing Activities. Investing activities in the nine months ended September 30, 2019 used cash of \$82.3 million primarily related to capital expenditures of \$81.4 million. In the nine months ended September 30, 2019, capital expenditures included improvements to the bale line and a turpentine extraction project at our Celgar mill, the planer line replacement project at our Friesau sawmill and wastewater improvement projects at our German pulp mills. In the nine months ended September 30, 2018, investing activities used cash of \$71.8 million primarily related to capital expenditures of \$71.6 million. In the nine months ended September 30, 2018, capital expenditures included spending on large maintenance projects at our pulp mills, improvements to the digester performance at our Celgar mill, wastewater improvement projects at our German pulp mills and upgrades to our planer mill and large saw line and the replacement of mobile equipment at our Friesau sawmill.

Cash Flows from Financing Activities. In the nine months ended September 30, 2019, financing activities used cash of \$79.7 million primarily to repay \$58.4 million of revolving credit facilities. In the nine months ended September 30, 2019 we received \$6.5 million of government grants primarily to finance greenhouse gas reduction capital projects at the Peace River mill. We paid dividends of \$17.2 million and used \$0.8 million to repurchase common shares. In the nine months ended September 30, 2018, financing activities used cash of \$311.5 million primarily in connection with the redemption of \$300.0 million of 2022 Senior Notes, which used cash of \$317.4 million. In the nine months ended September 30, 2018, advances of \$34.3 million on our revolving credit facilities were used primarily to finance capital projects at the Friesau sawmill and wood procurement activities. In the nine months ended September 30, 2018, we paid dividends of \$24.4 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	September 30,	December 31,
	2019	2018
	(in thousands)	
Cash and cash equivalents	\$ 264,899	\$ 240,491
Working capital	\$ 578,951	\$ 615,311
Total assets	\$ 1,949,653	\$ 1,975,735
Long-term liabilities	\$ 1,154,209	\$ 1,198,918
Total equity	\$ 591,387	\$ 581,429

Primarily as a result of the strengthening of the dollar versus the euro as at September 30, 2019, we recorded a net non-cash decrease in the carrying value of our net assets, consisting primarily of our fixed assets denominated in euros. This net non-cash decrease of approximately \$28.3 million does not affect our net income, Operating EBITDA or cash flows but is reflected in our other comprehensive loss and as a decrease 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:

	Nine Months Ended September 30,	
	2019	2018
	(in thousands)	
Capital expenditures	\$ 81,417	\$ 71,583
Cash paid for interest expense ⁽¹⁾	\$ 55,742	\$ 35,287
Interest expense ⁽²⁾	\$ 55,103	\$ 35,972

(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 September 30, 2019 our cash and cash equivalents increased to \$264.9 million from \$240.5 million at the end of 2018. As at September 30, 2019, we had approximately \$279.1 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 October 2019, we issued \$200.0 million aggregate principal amount of additional 2025 Senior Notes at 102.75% of their principal amount for a yield to worst of 6.435%. The net proceeds of the issue were used, in part, to redeem \$100.0 million in principal amount of our 2022 Senior Notes and the balance will be used for general corporate purposes.

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

Off-Balance Sheet Arrangements

At September 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 nine months ended September 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 strengthening of the dollar versus the euro as at September 30, 2019, we recorded a net non-cash decrease of \$28.3 million in the carrying value of our net assets, consisting primarily of our fixed assets denominated in euros. As a result, our accumulated other comprehensive loss increased to \$156.3 million.

Based upon the exchange rate as at September 30, 2019, the dollar has strengthened by approximately 5% against the euro and weakened by approximately 3% 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 foregoing 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 nine month period ended September 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	
	<u>52,879</u>			\$ 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

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 September 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.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, has been formatted in Inline XBRL.

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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: October 31, 2019

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: October 31, 2019

/s/ David M. Gandossi

David M. Gandossi
Chief Executive Officer

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: October 31, 2019

/s/ David K. Ure

David K. Ure
Chief Financial Officer

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 September 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: October 31, 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.

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 September 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: October 31, 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.