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

FORM 10-Q

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

For the quarterly period ended June 30, 2020

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 (§232.405 of this chapter) 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.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<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 65,868,086 shares of common stock outstanding as of July 29, 2020.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

(Unaudited)

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

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Revenues	\$ 341,195	\$ 425,753	\$ 691,794	\$ 909,703
Costs and expenses				
Cost of sales, excluding depreciation and amortization	284,333	336,433	560,389	679,466
Cost of sales depreciation and amortization	30,179	32,038	63,090	62,174
Selling, general and administrative expenses	16,368	19,472	33,938	36,701
Operating income	10,315	37,810	34,377	131,362
Other income (expenses)				
Interest expense	(20,108)	(18,369)	(40,192)	(36,920)
Other income	2,264	1,251	238	2,290
Total other expenses, net	(17,844)	(17,118)	(39,954)	(34,630)
Income (loss) before provision for income taxes	(7,529)	20,692	(5,577)	96,732
Provision for income taxes	(882)	(10,433)	(6,226)	(34,857)
Net income (loss)	<u>\$ (8,411)</u>	<u>\$ 10,259</u>	<u>\$ (11,803)</u>	<u>\$ 61,875</u>
Net income (loss) per common share				
Basic and diluted	\$ (0.13)	\$ 0.16	\$ (0.18)	\$ 0.94
Dividends declared per common share	\$ 0.0650	\$ 0.1375	\$ 0.2025	\$ 0.2625

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

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Net income (loss)	\$ (8,411)	\$ 10,259	\$ (11,803)	\$ 61,875
Other comprehensive income (loss), net of taxes				
Foreign currency translation adjustment	44,202	24,125	(30,792)	20,253
Change in unrecognized losses and prior service costs related to defined benefit pension plans, net of tax of \$nil (2019 - \$30 and \$36, respectively)	17	35	23	95
Other comprehensive income (loss), net of taxes	44,219	24,160	(30,769)	20,348
Total comprehensive income (loss)	<u>\$ 35,808</u>	<u>\$ 34,419</u>	<u>\$ (42,572)</u>	<u>\$ 82,223</u>

See accompanying Notes to the Interim Consolidated Financial Statements.

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

	June 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 303,334	\$ 351,085
Accounts receivable, net	209,184	208,740
Inventories	261,453	272,599
Prepaid expenses and other	9,665	12,273
Total current assets	783,636	844,697
Property, plant and equipment, net	1,040,171	1,074,242
Investment in joint ventures	48,413	53,122
Amortizable intangible assets, net	49,893	53,371
Operating lease right-of-use assets	12,866	13,004
Other long-term assets	37,414	26,038
Deferred income tax	1,216	1,246
Total assets	<u>\$ 1,973,609</u>	<u>\$ 2,065,720</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and other	\$ 196,238	\$ 255,544
Pension and other post-retirement benefit obligations	716	768
Total current liabilities	196,954	256,312
Debt	1,114,069	1,087,932
Pension and other post-retirement benefit obligations	24,044	25,489
Finance lease liabilities	38,628	31,103
Operating lease liabilities	10,052	10,520
Other long-term liabilities	13,733	14,114
Deferred income tax	81,869	89,847
Total liabilities	1,479,349	1,515,317
Shareholders' equity		
Common shares \$1 par value; 200,000,000 authorized; 65,868,000 issued and outstanding (2019 – 65,629,000)	65,800	65,598
Additional paid-in capital	344,688	344,994
Retained earnings	231,101	256,371
Accumulated other comprehensive loss	(147,329)	(116,560)
Total shareholders' equity	494,260	550,403
Total liabilities and shareholders' equity	<u>\$ 1,973,609</u>	<u>\$ 2,065,720</u>
Commitments and contingencies (Note 13)		
Subsequent event (Note 7)		

See accompanying Notes to the 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 Other Comprehensive Loss</u>	<u>Total Shareholders' Equity</u>
	<u>Number (thousands of shares)</u>	<u>Amount, at Par Value</u>	<u>Additional Paid -in Capital</u>	<u>Retained Earnings</u>		
Three Months Ended June 30:						
Balance as of March 31, 2020	65,800	\$ 65,769	\$ 344,753	\$ 243,794	\$ (191,548)	\$ 462,768
Shares issued on grants of restricted shares	68	31	(31)	—	—	—
Stock compensation recovery	—	—	(34)	—	—	(34)
Net loss	—	—	—	(8,411)	—	(8,411)
Dividends declared	—	—	—	(4,282)	—	(4,282)
Other comprehensive income	—	—	—	—	44,219	44,219
Balance as of June 30, 2020	<u>65,868</u>	<u>\$ 65,800</u>	<u>\$ 344,688</u>	<u>\$ 231,101</u>	<u>\$ (147,329)</u>	<u>\$ 494,260</u>
Balance as of March 31, 2019	65,651	\$ 65,620	\$ 341,644	\$ 345,400	\$ (131,982)	\$ 620,682
Shares issued on grants of restricted shares	31	31	(31)	—	—	—
Stock compensation expense	—	—	1,202	—	—	1,202
Net income	—	—	—	10,259	—	10,259
Dividends declared	—	—	—	(9,024)	—	(9,024)
Repurchase of common shares	(53)	(53)	—	(701)	—	(754)
Other comprehensive income	—	—	—	—	24,160	24,160
Balance as of June 30, 2019	<u>65,629</u>	<u>\$ 65,598</u>	<u>\$ 342,815</u>	<u>\$ 345,934</u>	<u>\$ (107,822)</u>	<u>\$ 646,525</u>
Six Months Ended June 30:						
Balance as of December 31, 2019	65,629	\$ 65,598	\$ 344,994	\$ 256,371	\$ (116,560)	\$ 550,403
Shares issued on grants of restricted shares	68	31	(31)	—	—	—
Shares issued on grants of performance share units	195	195	(195)	—	—	—
Stock compensation recovery	—	—	(80)	—	—	(80)
Net loss	—	—	—	(11,803)	—	(11,803)
Dividends declared	—	—	—	(13,329)	—	(13,329)
Repurchase of common shares	(24)	(24)	—	(138)	—	(162)
Other comprehensive loss	—	—	—	—	(30,769)	(30,769)
Balance as of June 30, 2020	<u>65,868</u>	<u>\$ 65,800</u>	<u>\$ 344,688</u>	<u>\$ 231,101</u>	<u>\$ (147,329)</u>	<u>\$ 494,260</u>
Balance as of December 31, 2018	65,202	\$ 65,171	\$ 342,438	\$ 301,990	\$ (128,170)	\$ 581,429
Shares issued on grants of restricted shares	31	31	(31)	—	—	—
Shares issued on grants of performance share units	449	449	(449)	—	—	—
Stock compensation expense	—	—	857	—	—	857
Net income	—	—	—	61,875	—	61,875
Dividends declared	—	—	—	(17,230)	—	(17,230)
Repurchase of common shares	(53)	(53)	—	(701)	—	(754)
Other comprehensive income	—	—	—	—	20,348	20,348
Balance as of June 30, 2019	<u>65,629</u>	<u>\$ 65,598</u>	<u>\$ 342,815</u>	<u>\$ 345,934</u>	<u>\$ (107,822)</u>	<u>\$ 646,525</u>

See accompanying Notes to the Interim Consolidated Financial Statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Cash flows from (used in) operating activities				
Net income (loss)	\$ (8,411)	\$ 10,259	\$ (11,803)	\$ 61,875
Adjustments to reconcile net income (loss) to cash flows from operating activities				
Depreciation and amortization	30,201	32,148	63,147	62,395
Deferred income tax provision (benefit)	(4,744)	426	(6,075)	4,065
Inventory impairment	6,530	6,900	12,264	6,900
Defined benefit pension plans and other post-retirement benefit plan expense	739	860	1,501	1,716
Stock compensation expense (recovery)	(34)	1,202	(80)	857
Foreign exchange transaction losses	6,880	9,505	736	9,242
Other	(695)	740	(1,192)	1,444
Defined benefit pension plans and other post-retirement benefit plan contributions	(797)	(270)	(1,712)	(1,428)
Changes in working capital				
Accounts receivable	14,938	32,204	(5,988)	(24,149)
Inventories	11,442	(7,769)	(6,678)	13,372
Accounts payable and accrued expenses	7,879	4,197	(49,781)	4,024
Other	177	(1,681)	(76)	(9,406)
Net cash from (used in) operating activities	<u>64,105</u>	<u>88,721</u>	<u>(5,737)</u>	<u>130,907</u>
Cash flows from (used in) investing activities				
Purchase of property, plant and equipment	(21,544)	(24,979)	(44,562)	(44,368)
Purchase of amortizable intangible assets	(89)	(179)	(527)	(495)
Other	796	(82)	847	(343)
Net cash from (used in) investing activities	<u>(20,837)</u>	<u>(25,240)</u>	<u>(44,242)</u>	<u>(45,206)</u>
Cash flows from (used in) financing activities				
Proceeds from (repayment of) revolving credit facilities, net	(25,651)	(24,732)	25,609	(58,404)
Dividend payments	—	(8,206)	(9,047)	(8,206)
Repurchase of common shares	—	(754)	(162)	(754)
Payment of debt issuance costs	—	(248)	—	(757)
Proceeds from government grants	299	—	299	6,320
Other	(1,996)	(6,067)	(11,797)	(6,929)
Net cash from (used in) financing activities	<u>(27,348)</u>	<u>(40,007)</u>	<u>4,902</u>	<u>(68,730)</u>
Effect of exchange rate changes on cash and cash equivalents	888	614	(2,674)	(140)
Net increase (decrease) in cash and cash equivalents	16,808	24,088	(47,751)	16,831
Cash and cash equivalents, beginning of period	286,526	233,234	351,085	240,491
Cash and cash equivalents, end of period	<u>\$ 303,334</u>	<u>\$ 257,322</u>	<u>\$ 303,334</u>	<u>\$ 257,322</u>
Supplemental cash flow disclosure				
Cash paid for interest	\$ 950	\$ 5,902	\$ 38,228	\$ 22,885
Cash paid for income taxes	\$ 1,907	\$ 15,124	\$ 14,881	\$ 38,737
Supplemental schedule of non-cash investing and financing activities:				
Leased production equipment	\$ 1,702	\$ —	\$ 10,696	\$ —

See accompanying Notes to the 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"). Mercer Inc. owns 100% of the economic interest in its subsidiaries with the exception of the 50% joint venture interest in the Cariboo mill with West Fraser Mills Ltd., which is accounted for using the equity method. The Company's shares of common stock are quoted and listed for trading on the NASDAQ Global Select 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, 2019. In the opinion of the Company, the unaudited Interim Consolidated Financial Statements contained herein have been prepared on a consistent basis (except for the change in policy referred to below) 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, 2019 and 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 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.

Impact of the COVID-19 Pandemic

The Company is subject to risks and uncertainties as a result of the COVID-19 pandemic. The extent of the impact of the COVID-19 pandemic on the Company's business is highly uncertain and difficult to predict, as the response to the pandemic and information continues to evolve. Although capital markets and economies worldwide improved during the second quarter from the initial negative impacts of the COVID-19 pandemic, there remains uncertainty around the strength and timing of global economic recoveries which could cause a local and/or global economic recession. Such economic disruption could have a material adverse effect on our business.

The severity of the impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Company's customers, all of which are uncertain and cannot be predicted. The Company's future results of operations and liquidity could be adversely impacted by delays in payments of outstanding receivable amounts beyond normal payment terms, supply chain disruptions and uncertain demand, and the impact of any initiatives or programs that the Company may undertake to address financial and operational challenges faced by its customers. As of the date of issuance of these Interim Consolidated Financial Statements, the extent to which the COVID-19 pandemic may materially impact the Company's financial condition, liquidity, or results of operations remain uncertain.

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 (continued)

New Accounting Pronouncements

Accounting Pronouncements Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which replaces the current incurred loss impairment method with a method that reflects expected credit losses. In May 2019, the FASB issued ASU 2019-05, Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief, which provides entities with targeted transition relief that is intended to increase comparability of financial statement information for some entities that otherwise would have measured similar financial instruments using different measurement methodologies. These updates were effective for financial statements issued after December 15, 2019. The Company adopted these updates on January 1, 2020 using the modified-retrospective approach. The adoption of these updates did not have an impact on the Interim Consolidated Financial Statements as the Company's credit risk associated with its sales is currently managed through the purchase of credit insurance, letters of credit and setting credit limits prior to the sale. The Company reviews new customers' credit history before granting credit and conducts regular reviews of existing customers' credit performance. The Company is exposed to credit risk in the event of non-performance by counterparties to its financial instruments. The Company attempts to minimize this exposure by entering into contracts with counterparties that are believed to be of high credit quality.

The Company's exposure to credit losses may increase if its customers are adversely affected by the COVID-19 pandemic. Although the Company has historically not experienced significant credit losses, it is possible that there could be a material adverse impact from potential adjustments of the carrying amount of trade receivables if the cash flows of the Company's customers are adversely impacted by the COVID-19 pandemic.

Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, Income Taxes – Simplifying the Accounting for Income Taxes, which removes certain exceptions for investments, intraperiod tax allocations and interim calculations, and adds guidance to reduce complexity in accounting for income taxes. This update is effective for financial statements issued for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this update.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The Company is currently evaluating its contracts and the optional expedients provided by the new standard.

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. Inventories

Inventories as of June 30, 2020 and December 31, 2019, were comprised of the following:

	June 30, 2020	December 31, 2019
Raw materials	\$ 66,896	\$ 99,754
Finished goods	96,209	77,815
Spare parts and other	98,348	95,030
	<u>\$ 261,453</u>	<u>\$ 272,599</u>

For the three and six month periods ended June 30, 2020, as a result of low pulp prices and high fiber costs for the Canadian mills, the Company recorded inventory impairment charges of \$12,264 and \$17,998, respectively at certain Canadian mills (2019 – \$6,900 and \$6,900). These charges were recorded in "Cost of sales, excluding depreciation and amortization" in the Interim Consolidated Statements of Operations. As of June 30, 2020, \$5,725 of the write-down was recorded in raw materials inventory and \$6,539 of the write-down was recorded in finished goods inventory. As of December 31, 2019, the Company recorded a \$3,500 write-down in raw materials inventory and a \$5,700 write-down in finished goods inventory.

Note 3. Accounts Payable and Other

Accounts payable and other as of June 30, 2020 and December 31, 2019, was comprised of the following:

	June 30, 2020	December 31, 2019
Trade payables	\$ 53,267	\$ 73,721
Accrued expenses	82,337	111,696
Interest payable	33,204	33,198
Income tax payable	13,293	28,080
Other	14,137	8,849
	<u>\$ 196,238</u>	<u>\$ 255,544</u>

Note 4. Debt

Debt as of June 30, 2020 and December 31, 2019, was comprised of the following:

	June 30, 2020	December 31, 2019
2024 Senior Notes, principal amount \$250,000 (a)	\$ 247,289	\$ 246,911
2025 Senior Notes, principal amount \$550,000 (a)	546,090	545,665
2026 Senior Notes, principal amount \$300,000 (a)	295,741	295,356
Credit arrangements		
€200 million joint revolving credit facility (b)	—	—
C\$60 million revolving credit facility (c)	13,942	—
C\$60 million revolving credit facility (d)	11,007	—
€2.6 million demand loan (e)	—	—
	<u>\$ 1,114,069</u>	<u>\$ 1,087,932</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. Debt (continued)

The maturities of the principal portion of debt as of June 30, 2020 were as follows:

2020	\$	—
2021		—
2022		—
2023		11,007
2024		263,942
Thereafter		850,000
	<u>\$</u>	<u>1,124,949</u>

Certain of the Company's debt instruments were issued under agreements which, among other things, may limit its ability and the ability of its subsidiaries to make certain payments, including dividends. These limitations are subject to specific exceptions. As of June 30, 2020, the Company was in compliance with the terms of its debt agreements.

- (a) In 2018, the Company issued \$350,000 in aggregate principal amount of 7.375% senior notes which mature on January 15, 2025 (the "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 Mercer Peace River Pulp Ltd. ("MPR").

In October 2019, the Company issued an additional \$200,000 in aggregate principal amount of 2025 Senior Notes 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 \$202,063 after deducting the underwriter's discount and offering expenses. The net proceeds were used to redeem \$100,000 of remaining aggregate principal amount of outstanding senior notes due 2022 (the "2022 Senior 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 (the "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 net proceeds, together with cash on hand, were used to redeem \$300,000 in aggregate principal amount of the 2022 Senior Notes.

In 2017, the Company issued \$250,000 in aggregate principal amount of 6.50% senior notes which mature on February 1, 2024 (the "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 mill 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.

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. Debt (continued)

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

2024 Senior Notes		2025 Senior Notes		2026 Senior Notes	
12 Month Period Beginning	Percentage	12 Month Period Beginning	Percentage	12 Month Period Beginning	Percentage
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%

- (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 of June 30, 2020, approximately €9.0 million (\$10,064) of this facility was supporting bank guarantees and approximately €191.0 million (\$213,896) was available.
- (c) A C\$60.0 million revolving credit facility for MPR 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. Borrowings under the facility are collateralized by, among other things, the mill's inventories and accounts receivable. As of June 30, 2020, approximately C\$19.0 million (\$13,942) of this facility was drawn and accruing interest at a rate of 1.77%, approximately C\$0.9 million (\$680) was supporting letters of credit and approximately C\$37.0 million (\$27,138) was available.
- (d) In June 2020, Celgar amended its revolving credit facility agreement to increase the principal amount to C\$60.0 million. The revolving credit facility matures in July 2023. Borrowings under the facility are collateralized by the mill's inventories, accounts receivable, general intangibles and capital assets and are restricted by a borrowing base calculated on the mill's inventories and accounts receivable. The facility is available by way of: (i) Canadian and U.S. denominated advances, which bear interest at a designated prime rate less 0.125% to plus 0.125% per annum; (ii) banker's acceptance equivalent loans, which bear interest at the applicable Canadian dollar banker's acceptance plus 1.25% to 1.625% per annum; and (iii) dollar LIBOR advances, which bear interest at LIBOR plus 1.25% to 1.625% per annum. As of June 30, 2020, approximately C\$15.0 million (\$11,007) of this facility was drawn and accruing interest at a rate of 1.86%, approximately C\$1.7 million (\$1,247) was supporting letters of credit and approximately C\$30.6 million (\$22,463) was 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 of June 30, 2020, approximately €2.6 million (\$2,858) of this facility was supporting bank guarantees and approximately \$nil was available.

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Note 5. Pension and Other Post-Retirement Benefit Obligations

Defined Benefit Plans

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 Celgar and MPR defined benefit plans, in aggregate for the three and six month periods ended June 30, 2020 and 2019 were as follows:

	Three Months Ended June 30,			
	2020		2019	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Service cost	\$ 824	\$ 63	\$ 711	\$ 67
Interest cost	814	93	872	136
Expected return on plan assets	(1,072)	—	(997)	—
Amortization of unrecognized items	233	(216)	253	(182)
Net benefit costs	<u>\$ 799</u>	<u>\$ (60)</u>	<u>\$ 839</u>	<u>\$ 21</u>

	Six Months Ended June 30,			
	2020		2019	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Service cost	\$ 1,673	\$ 127	\$ 1,427	\$ 135
Interest cost	1,654	189	1,749	273
Expected return on plan assets	(2,165)	—	(1,999)	—
Amortization of unrecognized items	461	(438)	468	(337)
Net benefit costs	<u>\$ 1,623</u>	<u>\$ (122)</u>	<u>\$ 1,645</u>	<u>\$ 71</u>

The components of the net benefit costs other than service cost are recorded in "Other income" in the Interim Consolidated Statements of Operations. The amortization of unrecognized items relates to net actuarial losses and prior service costs.

Defined Contribution Plan

Effective December 31, 2008, the defined benefit plans at the Celgar mill were closed to new members. In addition, the related defined benefit service accrual ceased on December 31, 2008, and members began to receive pension benefits, at a fixed contractual rate, under a new defined contribution plan effective January 1, 2009. During the three and six month periods ended June 30, 2020, the Company made contributions of \$58 and \$471, respectively to this plan (2019 – \$298 and \$746).

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. During the three and six month periods ended June 30, 2020, the Company made contributions of \$555 and \$1,006, respectively to this plan (2019 – \$648 and \$971).

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Note 6. Income Taxes

Differences between the U.S. Federal statutory and the Company's effective rates for the three and six month periods ended June 30, 2020 and 2019, were as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
U.S. Federal statutory rate	21%	21%	21%	21%
U.S. Federal statutory rate on income before provision for income taxes	\$ 1,581	\$ (4,346)	\$ 1,171	\$ (20,314)
Tax differential on foreign income	(662)	(2,446)	(1,881)	(8,362)
Effect of foreign earnings (a)	(1,295)	(153)	(2,870)	(12,040)
Valuation allowance	(3,169)	(4,580)	(3,165)	3,761
Tax benefit of partnership structure	935	963	1,870	1,921
Non-taxable foreign subsidiaries	678	1,026	1,364	1,394
True-up of prior year taxes	1,068	(2,396)	(154)	(1,121)
Other	(18)	1,499	(2,561)	(96)
	<u>\$ (882)</u>	<u>\$ (10,433)</u>	<u>\$ (6,226)</u>	<u>\$ (34,857)</u>
Comprised of:				
Current income tax provision	\$ (5,626)	\$ (10,007)	\$ (12,301)	\$ (30,792)
Deferred income tax benefit (provision)	4,744	(426)	6,075	(4,065)
	<u>\$ (882)</u>	<u>\$ (10,433)</u>	<u>\$ (6,226)</u>	<u>\$ (34,857)</u>

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

Note 7. Shareholders' Equity

Dividends

During the six month period ended June 30, 2020, the Company's board of directors declared the following quarterly dividends:

<u>Date Declared</u>	<u>Dividend Per Common Share</u>	<u>Amount</u>
February 13, 2020	\$ 0.1375	\$ 9,047
April 30, 2020	0.0650	4,282
	<u>\$ 0.2025</u>	<u>\$ 13,329</u>

In July 2020, the Company's board of directors declared a quarterly dividend of \$0.065 per common share. Payment of the dividend will be made on October 6, 2020 to all shareholders of record on September 29, 2020. 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 which expired in May 2020. During the six month period ended June 30, 2020, the Company paid \$162 to acquire 23,584 common shares at an average repurchase price of \$6.84. The shares were retired upon repurchase.

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Note 7. Shareholders' Equity (continued)

Stock Based Compensation

In June 2010, the Company adopted a stock incentive plan which provides for options, restricted stock rights, restricted shares, performance shares, performance share units ("PSUs") and stock appreciation rights to be awarded to employees, consultants and non-employee directors. During the three and six month periods ended June 30, 2020, there were no issued and outstanding options, restricted stock rights, performance shares or stock appreciation rights. As of June 30, 2020, after factoring in all allocated shares, there remain approximately 1.7 million common shares available for grant.

PSUs

PSUs comprise rights to receive common shares at a future date that are contingent on the Company and the grantee achieving certain performance objectives. The performance objective period is generally three years. For the three and six month periods ended June 30, 2020, the Company recognized a recovery of \$154 and \$313, respectively related to PSUs (2019 – an expense of \$1,078 and \$603).

The following table summarizes PSU activity during the period:

	Number of PSUs
Outstanding as of January 1, 2020	1,764,976
Granted	1,140,834
Vested and issued	(194,948)
Forfeited	(319,780)
Outstanding as of June 30, 2020	<u>2,391,082</u>

Restricted Shares

Restricted shares generally vest at the end of one year. For the three and six month periods ended June 30, 2020, the Company recognized an expense of \$120 and \$233, respectively related to restricted shares (2019 - \$124 and \$254). As of June 30, 2020, the total remaining unrecognized compensation cost related to restricted shares amounted to approximately \$504 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 of January 1, 2020	31,405
Granted	68,140
Vested	(31,405)
Outstanding as of June 30, 2020	<u>68,140</u>

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Note 8. Net Income (Loss) Per Common Share

The reconciliation of basic and diluted net income (loss) per common share for the three and six month periods ended June 30, 2020 and 2019 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income (loss)				
Basic and diluted	\$ (8,411)	\$ 10,259	\$ (11,803)	\$ 61,875
Net income (loss) per common share				
Basic and diluted	\$ (0.13)	\$ 0.16	\$ (0.18)	\$ 0.94
Weighted average number of common shares outstanding:				
Basic (a)	65,778,894	65,611,484	65,736,677	65,507,469
Effect of dilutive instruments:				
PSUs	—	213,243	—	352,029
Restricted shares	—	17,012	—	18,557
Diluted	<u>65,778,894</u>	<u>65,841,739</u>	<u>65,736,677</u>	<u>65,878,055</u>

- (a) For the three and six month periods ended June 30, 2020, the basic weighted average number of common shares outstanding excludes 68,140 restricted shares which have been issued, but have not vested as of June 30, 2020 (2019 – 31,405 restricted shares).

The calculation of diluted net income (loss) per common share does not assume the exercise of any instruments that would have an anti-dilutive effect on net income (loss) per common share. Instruments excluded from the calculation of net income (loss) per common share because they were anti-dilutive for the three and six month periods ended June 30, 2020 and 2019 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
PSUs	2,391,082	—	2,391,082	—
Restricted shares	68,140	—	68,140	—

Note 9. Accumulated Other Comprehensive Loss

The change in the accumulated other comprehensive loss by component (net of tax) for the six month period ended June 30, 2020 was as follows:

	Foreign Currency Translation Adjustment	Defined Benefit Pension and Other Post- Retirement Benefit Items	Total
Balance as of January 1, 2020	\$ (114,709)	\$ (1,851)	\$ (116,560)
Other comprehensive loss before reclassifications	(30,792)	—	(30,792)
Amounts reclassified from accumulated other comprehensive loss	—	23	23
Other comprehensive income (loss), net of taxes	(30,792)	23	(30,769)
Balance as of June 30, 2020	<u>\$ (145,501)</u>	<u>\$ (1,828)</u>	<u>\$ (147,329)</u>

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Note 10. Related Party Transactions

The Company enters into related party transactions with its joint ventures. For the three and six month periods ended June 30, 2020, pulp purchases from the Company's 50% owned Cariboo mill, which are transacted at the Cariboo mill's cost, were \$13,942 and \$33,536, respectively (2019 – \$30,523 and \$55,156) and as of June 30, 2020 the Company had a receivable balance from the Cariboo mill of \$2,826 (December 31, 2019 – \$3,462). For the three and six month periods ended June 30, 2020, services from the Company's 50% owned logging and chipping operation, which are transacted at arm's length negotiated prices, were \$1,735 and \$8,278, respectively (2019 – \$3,055 and \$8,849) and as of June 30, 2020 the Company had a payable balance to the operation of \$1,688 (December 31, 2019 – \$1,151).

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 Cariboo 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 Statements of Operations are allocated to the segments, as those items are reviewed separately by management.

Information about certain segment data for the three and six month periods ended June 30, 2020 and 2019, was as follows:

Three Months Ended June 30, 2020	Pulp	Wood Products	Corporate and Other	Consolidated
Revenues from external customers	\$ 298,046	\$ 41,727	\$ 1,422	\$ 341,195
Operating income (loss)	\$ 8,110	\$ 4,327	\$ (2,122)	\$ 10,315
Depreciation and amortization	\$ 27,219	\$ 2,804	\$ 178	\$ 30,201
Revenues by major products				
Pulp	\$ 276,919	\$ —	\$ —	\$ 276,919
Lumber	—	37,611	—	37,611
Energy and chemicals	21,127	2,629	1,422	25,178
Wood residuals	—	1,487	—	1,487
Total revenues	\$ 298,046	\$ 41,727	\$ 1,422	\$ 341,195
Revenues by geographical markets (a)				
U.S.	\$ 39,651	\$ 17,622	\$ 575	\$ 57,848
Germany	77,568	12,294	—	89,862
China	78,814	—	—	78,814
Other countries	102,013	11,811	847	114,671
Total revenues	\$ 298,046	\$ 41,727	\$ 1,422	\$ 341,195

(a) Sales are attributed to countries based on the ship-to location provided by the customer.

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Note 11. Business Segment Information (continued)

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

(a) Sales are attributed to countries based on the ship-to location provided by the customer.

Six Months Ended June 30, 2020	Pulp	Wood Products	Corporate and Other	Consolidated
Revenues from external customers	\$ 601,651	\$ 87,505	\$ 2,638	\$ 691,794
Operating income (loss)	\$ 29,549	\$ 9,882	\$ (5,054)	\$ 34,377
Depreciation and amortization	\$ 57,590	\$ 5,181	\$ 376	\$ 63,147
Total assets (a)	\$ 1,682,524	\$ 90,741	\$ 200,344	\$ 1,973,609
Revenues by major products				
Pulp	\$ 555,867	\$ —	\$ —	\$ 555,867
Lumber	—	78,597	—	78,597
Energy and chemicals	45,784	5,260	2,638	53,682
Wood residuals	—	3,648	—	3,648
Total revenues	<u>\$ 601,651</u>	<u>\$ 87,505</u>	<u>\$ 2,638</u>	<u>\$ 691,794</u>
Revenues by geographical markets (b)				
U.S.	\$ 73,518	\$ 35,244	\$ 1,161	\$ 109,923
Germany	167,240	27,197	—	194,437
China	164,362	—	—	164,362
Other countries	196,531	25,064	1,477	223,072
Total revenues	<u>\$ 601,651</u>	<u>\$ 87,505</u>	<u>\$ 2,638</u>	<u>\$ 691,794</u>

(a) Total assets for the pulp segment includes the Company's \$48,413 investment in joint ventures, primarily for the Cariboo mill.

(b) Sales are attributed to countries based on the ship-to location provided by the customer.

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Note 11. Business Segment Information (continued)

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

(a) Sales are attributed to countries based on the ship-to location provided by the customer.

As of December 31, 2019, the Company had total assets of \$1,782,105 in the pulp segment, \$83,102 in the wood products segment and \$200,513 in corporate and other. Total assets for the pulp segment includes the Company's \$53,122 investment in joint ventures, primarily for the Cariboo mill.

Revenues between segments are accounted for at prices that approximate fair value. These include revenues from the sale of residual fiber from the wood products segment to the pulp segment for use in the pulp production process and from the sale of residual fuel from the pulp segment to the wood products segment for use in energy production. For the three and six month periods ended June 30, 2020, the pulp segment sold \$164 and \$346, respectively of residual fuel to the wood products segment (2019 – \$108 and \$364) and the wood products segment sold \$3,594 and \$7,430, respectively of residual fiber to the pulp segment (2019 – \$3,946 and \$9,353).

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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 estimated fair values of the Company's outstanding debt under the fair value hierarchy as of June 30, 2020 and December 31, 2019 were as follows:

Description	Fair value measurements as of June 30, 2020 using:			
	Level 1	Level 2	Level 3	Total
Revolving credit facilities	\$ —	\$ 24,949	\$ —	\$ 24,949
Senior Notes	—	1,074,928	—	1,074,928
	<u>\$ —</u>	<u>\$ 1,099,877</u>	<u>\$ —</u>	<u>\$ 1,099,877</u>

Description	Fair value measurements as of December 31, 2019 using:			
	Level 1	Level 2	Level 3	Total
Senior Notes	\$ —	\$ 1,156,673	\$ —	\$ 1,156,673

The carrying value of the revolving credit facilities classified as Level 2 approximates the 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 Company's Senior Notes are not carried at fair value on the Interim Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019. However, fair value disclosure is required. The carrying value of the Company's Senior Notes, net of note issuance costs and premium is \$1,089,120 as of June 30, 2020 (December 31, 2019 – \$1,087,932).

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. The Company reviews new customers' credit history before granting credit and conducts regular reviews of existing customers' credit performance. 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 Company's exposure to credit losses may increase if its customers are adversely affected by the COVID-19 pandemic. Although the Company has historically not experienced significant credit losses, it is possible that there could be a material adverse impact from potential adjustments of the carrying amount of trade receivables if the cash flows of the Company's customers are adversely impacted by the COVID-19 pandemic.

The carrying amount of cash and cash equivalents of \$303,334 and accounts receivable of \$209,184 recorded in the Interim Consolidated Balance Sheet, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

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Note 13. 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 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 operating income as a measure of performance, or as an alternative to net cash from operating activities as a measure of liquidity. Operating EBITDA is an internal measure and therefore may not be comparable to other companies.

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

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

In this document: (i) unless the context otherwise requires, references to "we", "our", "us", the "Company" or "Mercer" mean Mercer International Inc. and its subsidiaries; (ii) references to "Mercer Inc." mean the Company excluding its subsidiaries; (iii) information is provided as of June 30, 2020, unless otherwise stated; (iv) our reporting currency is dollars and references to "€" mean euros and "C\$" mean Canadian dollars; (v) "ADMTs" refers to air-dried metric tonnes; (vi) "NBSK" refers to northern bleached softwood kraft; (vii) "NBHK" refers to northern bleached hardwood kraft; (viii) "MW" refers to megawatts and "MWh" refers to megawatt hours; (ix) "Mfbm" refers to thousand board feet of lumber and "MMfbm" mean million board feet of lumber; and (x) our lumber metrics are converted from cubic meters to Mfbm using a conversion ratio of 1.6 cubic meters to one Mfbm, which is the ratio commonly used in the industry.

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

The following discussion and analysis of our results of operations and financial condition for the three and six months ended June 30, 2020 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, 2019 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.

Current Market Environment

The COVID-19 pandemic is continuing to cause significant widespread global infections and fatalities. It has also materially adversely affected global economic activity, caused significant market volatility and resulted in numerous governments declaring emergencies and implementing measures, such as travel bans, quarantines, business closures, shelter-in-place and other restrictions.

Commencing around the end of the second quarter of 2020, many countries have taken measures to ease restrictions on economic and social activities to, among other things, reopen their economies by allowing businesses to restart and encourage economic recovery. The results of such economic measures and the reopening have varied from country to country, with certain countries currently reporting relatively stable infection rates and others, such as the United States, reporting a spike in infections and fatalities. Currently we are unable to predict the outcome or pace of such economic reopening and the strength or timing of any recovery. Neither can we predict whether the easing of pandemic health restrictions will result in such a material resurgence in infections and fatalities as would cause governments to re-impose some or all prior or new restrictive measures, including business closures. See "Part II. Other Information - Item 1A. Risk Factors - The COVID-19 pandemic could materially adversely affect our business, financial position and results of operations".

Since the start of the COVID-19 pandemic, we have implemented a number of important health and safety measures at our operations both to protect our employees and to allow our mills to operate responsibly and efficiently

including with respect to social distancing, sanitation and personal protection equipment. Such measures include those recommended by governments and health agencies. We are constantly monitoring our operations and guidance from governmental and health organizations to ensure we take appropriate and necessary actions to protect our people.

During the second quarter of 2020, our average NBSK pulp sales realizations were approximately 2% higher compared to the first quarter of 2020 as a result of steady demand.

At the end of the current quarter, NBSK list prices in Europe and North America were approximately \$840 per ADMT and \$1,160 per ADMT, respectively. Commencing in 2020 only net prices (which are net of discounts, allowances and rebates) are published for China. At the end of the current quarter, NBSK net prices in China were approximately \$555 per ADMT. NBHK list prices in North America were approximately \$900 per ADMT and NBHK net prices in China were approximately \$450 per ADMT.

As a result of the global economic uncertainty resulting from the COVID-19 pandemic including efforts to reopen economies and the seasonal third quarter slowdown, we are expecting an overall weakening in pulp demand in the upcoming quarter.

On the pulp supply side, to date various pulp mills globally have delayed their annual maintenance schedules due to the current pandemic. As a result, we currently expect mills to curtail production to implement such delayed maintenance in the later part of this year or the early part of next year.

In the second quarter of 2020, lumber sales realizations were flat from the first quarter of 2020. We currently expect strong lumber demand and higher lumber sales realizations in the U.S. market and steady demand and sales realizations in the European lumber market in the upcoming quarter.

Summary Financial Highlights

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(in thousands, other than per share amounts)				
Statement of Operations Data				
Pulp segment revenues	\$ 298,046	\$ 384,799	\$ 601,651	\$ 821,273
Wood products segment revenues	41,727	39,452	87,505	83,891
Corporate and other revenues	1,422	1,502	2,638	4,539
Total revenues	\$ 341,195	\$ 425,753	\$ 691,794	\$ 909,703
Pulp segment operating income	\$ 8,110	\$ 42,251	\$ 29,549	\$ 135,771
Wood products segment operating income (loss)	4,327	(89)	9,882	1,531
Corporate and other operating loss	(2,122)	(4,352)	(5,054)	(5,940)
Total operating income	\$ 10,315	\$ 37,810	\$ 34,377	\$ 131,362
Pulp segment depreciation and amortization	\$ 27,219	\$ 29,849	\$ 57,590	\$ 57,872
Wood products segment depreciation and amortization	2,804	2,010	5,181	3,921
Corporate and other depreciation and amortization	178	289	376	602
Total depreciation and amortization	\$ 30,201	\$ 32,148	\$ 63,147	\$ 62,395
Operating EBITDA ⁽¹⁾	\$ 40,516	\$ 69,958	\$ 97,524	\$ 193,757
Provision for income taxes	\$ (882)	\$ (10,433)	\$ (6,226)	\$ (34,857)
Net income (loss)	\$ (8,411)	\$ 10,259	\$ (11,803)	\$ 61,875
Net income (loss) per common share				
Basic and diluted	\$ (0.13)	\$ 0.16	\$ (0.18)	\$ 0.94
Common shares outstanding at period end	65,868	65,629	65,868	65,629

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(in thousands)				
Net income (loss)	\$ (8,411)	\$ 10,259	\$ (11,803)	\$ 61,875
Provision for income taxes	882	10,433	6,226	34,857
Interest expense	20,108	18,369	40,192	36,920
Other income	(2,264)	(1,251)	(238)	(2,290)
Operating income	10,315	37,810	34,377	131,362
Add: Depreciation and amortization	30,201	32,148	63,147	62,395
Operating EBITDA	\$ 40,516	\$ 69,958	\$ 97,524	\$ 193,757

Selected Production, Sales and Other Data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Pulp Segment				
Pulp production ('000 ADMTs)				
NBSK	423.8	452.8	879.0	913.4
NBHK	88.8	89.4	167.8	168.0
Annual maintenance downtime ('000 ADMTs)	11.3	7.5	13.6	7.5
Annual maintenance downtime (days)	15	15	17	15
Pulp sales ('000 ADMTs)				
NBSK	422.6	438.5	860.9	905.4
NBHK	69.3	81.5	135.4	169.4
Average NBSK pulp prices (\$/ADMT) ⁽¹⁾				
Europe	850	997	842	1,051
China	572	630	573	665
North America	1,158	1,292	1,143	1,336
Average NBHK pulp prices (\$/ADMT) ⁽¹⁾				
China	465	607	463	651
North America	897	1,100	893	1,140
Average pulp sales realizations (\$/ADMT) ⁽²⁾				
NBSK	573	699	567	729
NBHK	475	618	472	638
Energy production ('000 MWh) ⁽³⁾	562.9	575.4	1,141.3	1,135.8
Energy sales ('000 MWh) ⁽³⁾	222.0	231.9	453.7	443.7
Average energy sales realizations (\$/MWh) ⁽³⁾	85	93	90	94
Wood Products Segment				
Lumber production (MMfbm)	113.5	100.8	229.8	211.5
Lumber sales (MMfbm)	109.0	101.5	226.7	210.7
Average lumber sales realizations (\$/Mfbm)	345	348	347	354
Energy production and sales ('000 MWh)	22.7	24.1	45.4	46.4
Average energy sales realizations (\$/MWh)	116	116	116	118
Average Spot Currency Exchange Rates				
\$ / € ⁽⁴⁾	1.1016	1.1237	1.1019	1.1293
\$ / C\$ ⁽⁴⁾	0.7221	0.7475	0.7328	0.7497

- (1) Source: RISI pricing report. Europe and North America are list prices. China are net prices which include discounts, allowances and rebates. Effective January 2020, the RISI pricing report does not provide list prices for China.
- (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) Does not include our 50% joint venture interest in the Cariboo mill, which is accounted for using the equity method.
- (4) Average Federal Reserve Bank of New York Noon Buying Rates over the reporting period.

Consolidated - Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019

Total revenues for the three months ended June 30, 2020 decreased by approximately 20% to \$341.2 million from \$425.8 million in the same quarter of 2019 primarily due to lower pulp sales realizations and pulp sales volumes.

Costs and expenses in the current quarter decreased by approximately 15% to \$330.9 million from \$387.9 million in the second quarter of 2019 primarily due to lower per unit fiber costs and lower pulp sales volumes and the positive impact of a stronger dollar on our Canadian dollar and euro denominated costs and expenses.

In the second quarter of 2020, cost of sales depreciation and amortization decreased to \$30.2 million from \$32.0 million in the same quarter of 2019 primarily due to the positive impact of a stronger dollar.

Selling, general and administrative expenses decreased to \$16.4 million in the second quarter of 2020 from \$19.5 million in the same quarter of 2019 primarily due to lower stock based compensation expense and the positive impact of a stronger dollar.

In the second quarter of 2020, our operating income decreased by approximately 73% to \$10.3 million from \$37.8 million in the same quarter of 2019 primarily due to lower pulp sales realizations partially offset by lower per unit fiber costs and the positive impact of a stronger dollar.

Interest expense in the current quarter increased to \$20.1 million from \$18.4 million in the same quarter of 2019 primarily as a result of higher indebtedness.

During the second quarter of 2020, the provision for income taxes was \$0.9 million primarily due to income before tax for our German operations only partially offset by tax recoveries for our Canadian operations. In the comparative quarter of 2019, the provision for income taxes was \$10.4 million due to higher income.

For the second quarter of 2020, our net loss was \$8.4 million, or \$0.13 per share compared to net income of \$10.3 million, or \$0.16 per share, in the same quarter of 2019.

In the second quarter of 2020, Operating EBITDA decreased by approximately 42% to \$40.5 million from \$70.0 million in the same quarter of 2019 primarily due to lower pulp sales realizations partially offset by lower per unit fiber costs and the positive impact of a stronger dollar.

Operating Results by Business Segment

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

Pulp Segment - Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019

Selected Financial Information

	Three Months Ended June 30,	
	2020	2019
	(in thousands)	
Pulp revenues	\$ 276,919	\$ 359,205
Energy and chemical revenues	\$ 21,127	\$ 25,594
Depreciation and amortization	\$ 27,219	\$ 29,849
Operating income	\$ 8,110	\$ 42,251

Pulp revenues in the second quarter of 2020 decreased by approximately 23% to \$276.9 million from \$359.2 million in the same quarter of 2019 due to lower sales realizations and sales volumes.

Energy and chemical revenues decreased by approximately 18% to \$21.1 million in the second quarter of 2020 from \$25.6 million in the same quarter of 2019 primarily due to lower chemical production at our German mills caused by processing dry beetle damaged wood and lower energy revenue at our Peace River mill.

NBSK pulp production declined 6% to 423,773 ADMTs in the current quarter from 452,835 ADMTs in the same quarter of 2019 primarily due to planned downtime at our pulp mills and modestly lower production at all our mills. In the current quarter of 2020, our pulp mills had 15 days of annual maintenance downtime (approximately 11,300 ADMTs) and our 50% joint venture Cariboo mill had four weeks of market related downtime. In the comparative quarter of 2019, the Cariboo mill had 15 days of scheduled maintenance downtime (approximately 7,500 ADMTs).

We estimate that annual maintenance downtime in the current quarter adversely impacted our operating income by approximately \$4.5 million, comprised of approximately \$2.0 million in direct out-of-pocket expenses and the balance in reduced production.

In the third quarter of 2020, our pulp mills have planned for six days of annual maintenance downtime or approximately 9,500 ADMTs. Further, as previously announced, starting in July 2020 our Celgar mill is taking 30 days of market related downtime.

NBSK pulp sales volumes decreased by approximately 4% to 422,586 ADMTs in the current quarter from 438,520 ADMTs in the same quarter of 2019 primarily due to lower production.

In the current quarter of 2020, prices for NBSK pulp decreased from the same quarter of 2019 largely as a result of high producer inventory levels. Average list prices for NBSK pulp in Europe and North America were approximately \$850 per ADMT and \$1,158 per ADMT, respectively in the second quarter of 2020 compared to approximately \$997 per ADMT and \$1,292 per ADMT, respectively, in the same quarter of 2019. NBSK net prices in China were approximately \$572 per ADMT in the current quarter compared to approximately \$630 per ADMT in the same quarter of 2019.

Average NBSK pulp sales realizations decreased by approximately 18% to \$573 per ADMT in the second quarter of 2020 from approximately \$699 per ADMT in the same quarter of 2019.

In the current quarter our Canadian mills recorded a non-cash write down of our inventory carrying values of \$12.3 million as a result of lower pulp sales realizations and high fiber costs. In the same quarter of the prior year our Canadian mills recorded a non-cash write down of our inventory carrying values of \$6.9 million.

In the current quarter of 2020 as a result of the effect of the stronger dollar on our Canadian dollar and euro denominated costs and expenses, we recorded a positive impact of approximately \$5.3 million in operating income due to foreign exchange compared to the same quarter of 2019.

Costs and expenses in the current quarter decreased by approximately 15% to \$290.1 million from \$342.7 million in the second quarter of 2019 primarily due to lower per unit fiber costs, lower pulp sales volumes and the positive impact of a stronger dollar. In the current quarter of 2020 we received approximately \$4.5 million of wage assistance under a Canadian wage subsidy program.

In the second quarter of 2020, depreciation and amortization decreased to \$27.2 million from \$29.8 million in the same quarter of 2019 primarily due to the positive impact of a stronger dollar.

On average, in the current quarter overall per unit fiber costs decreased by approximately 16% from the same quarter of 2019 due to lower per unit fiber costs for all of our mills. In the current quarter, per unit fiber costs for our German mills declined due to the continued availability of beetle damaged wood. For our Canadian mills, per unit fiber costs declined but remained at historically high levels due to strong demand for fiber in the mills' fiber procurement areas. We currently expect stable per unit fiber costs in the third quarter of 2020.

Transportation costs for our pulp segment decreased to \$34.6 million in the current quarter from \$36.3 million in the same quarter of 2019 primarily as a result of lower sales volumes.

In the second quarter of 2020, pulp segment operating income decreased to \$8.1 million from \$42.3 million in the same quarter of 2019 as lower pulp sales realizations were only partially offset by the positive impact of lower per unit fiber costs and a stronger dollar.

Wood Products Segment - Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019

Selected Financial Information

	Three Months Ended June 30,	
	2020	2019
	(in thousands)	
Lumber revenues	\$ 37,611	\$ 35,322
Energy revenues	\$ 2,629	\$ 2,788
Wood residual revenues	\$ 1,487	\$ 1,342
Depreciation and amortization	\$ 2,804	\$ 2,010
Operating income (loss)	\$ 4,327	\$ (89)

In the second quarter of 2020, lumber revenues increased 7% to \$37.6 million from \$35.3 million in the same quarter of 2019 due to higher sales volumes. In the current quarter approximately 38% of sales volumes were in the U.S. market and the majority of remaining sales were to Europe.

Energy and wood residual revenues were flat at \$4.1 million.

Lumber production increased by approximately 13% to 113.5 MMfbm in the current quarter of 2020 from 100.8 MMfbm in the same quarter of 2019 primarily due to capital improvements.

Average lumber sales realizations were generally flat at approximately \$345 per Mfbm in the second quarter of 2020 compared to approximately \$348 per Mfbm in the same quarter of 2019 as higher pricing in the U.S. market was offset by lower pricing in Europe. U.S. lumber pricing increased due to stronger demand during the current quarter. European lumber pricing declined due to an increase in the supply of lumber processed from beetle damaged wood which generally obtains lower prices.

Fiber costs were approximately 70% of our lumber cash production costs in the current quarter. In the current quarter per unit fiber costs decreased by approximately 26% from the same quarter of 2019 primarily due to the availability of lower cost beetle damaged wood. We currently expect stable per unit fiber costs in the third quarter of 2020 due to the continuing availability of such wood.

In the second quarter of 2020, depreciation and amortization increased to \$2.8 million from \$2.0 million in the same quarter of 2019 primarily due to the completion of capital projects.

Transportation costs for our wood products segment in the second quarter of 2020 increased by approximately 22% to \$7.2 million from \$5.9 million in the same quarter of 2019 primarily due to higher sales volumes to the U.S.

In the second quarter of 2020, our wood products segment had operating income of \$4.3 million compared to an operating loss of \$0.1 million in the same quarter of 2019 primarily due to strong production and lower per unit fiber costs.

Consolidated - Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Total revenues for the first half of 2020 decreased by approximately 24% to \$691.8 million from \$909.7 million in the first half of 2019 primarily due to lower pulp sales realizations and pulp sales volumes.

Costs and expenses in the first half of 2020 decreased by approximately 16% to \$657.4 million from \$778.3 million in the first half of 2019 primarily due to lower per unit fiber costs, lower pulp sales volumes and the positive impact of a stronger dollar on our Canadian dollar and euro denominated costs and expenses.

In the first half of 2020, cost of sales depreciation and amortization increased to \$63.1 million from \$62.2 million in the same period of 2019.

Selling, general and administrative expenses decreased to \$33.9 million in the first half of 2020 from \$36.7 million in the first half of 2019 primarily due to lower stock based compensation expense and the positive impact of a stronger dollar.

In the first half of 2020, our operating income decreased by approximately 74% to \$34.4 million from \$131.4 million in the same period of 2019 primarily due to lower pulp sales realizations and pulp sales volumes partially offset by lower per unit fiber costs and the positive impact of a stronger dollar.

Interest expense in the first half of 2020 increased to \$40.2 million from \$36.9 million in the same period of 2019 primarily as a result of higher indebtedness resulting from our issuance of an additional \$100.0 million of senior notes in October 2019.

During the first half of 2020, the provision for income taxes was \$6.2 million primarily due to income before tax for our German operations only partially offset by tax recoveries for our Canadian operations. In the same period of 2019, the provision for income taxes was \$34.9 million due to higher income.

For the first half of 2020, our net loss was \$11.8 million, or \$0.18 per share compared to net income of \$61.9 million, or \$0.94 per share, in the same period of 2019.

In the first half of 2020, Operating EBITDA decreased by approximately 50% to \$97.5 million from \$193.8 million in the same period of 2019 primarily due to lower pulp sales realizations and pulp sales volumes partially offset by lower per unit fiber costs and the positive impact of a stronger dollar versus the Canadian dollar and euro.

Pulp Segment - Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Selected Financial Information

	Six Months Ended June 30,	
	2020	2019
	(in thousands)	
Pulp revenues	\$ 555,867	\$ 772,518
Energy and chemical revenues	\$ 45,784	\$ 48,755
Depreciation and amortization	\$ 57,590	\$ 57,872
Operating income	\$ 29,549	\$ 135,771

Pulp revenues in the first half of 2020 decreased by approximately 28% to \$555.9 million from \$772.5 million in the same period of 2019 due to lower sales realizations and sales volumes.

Energy and chemical revenues decreased by approximately 6% to \$45.8 million in the first half of 2020 from \$48.8 million in the same period of 2019 primarily due to lower chemical production caused by our German mills processing dry beetle damaged wood.

NBSK pulp production declined approximately 4% to 878,965 ADMTs in the first half of 2020 from 913,448 ADMTs in the same period of 2019 primarily due to 17 days of annual maintenance downtime (approximately 13,600 ADMTs) and four weeks of planned market related downtime at our 50% joint venture Cariboo mill and modestly lower production at our German and Peace River mills. In the first half of 2019, the Cariboo mill had 15 days of scheduled maintenance downtime (approximately 7,500 ADMTs).

We estimate that annual maintenance downtime in the first half of 2020 adversely impacted our operating income by approximately \$5.5 million, comprised of approximately \$2.4 million in direct out-of-pocket expenses and the balance in reduced production.

NBSK pulp sales volumes decreased by approximately 5% to 860,912 ADMTs in the first half of 2020 from 905,413 ADMTs in the same period of 2019 primarily due to lower production.

In the first half of 2020, prices for NBSK pulp decreased from the same period of 2019, largely as a result of high producer inventory levels and market uncertainty due to the COVID-19 pandemic. Average list prices for NBSK pulp in Europe and North America were approximately \$842 per ADMT and \$1,143 per ADMT, respectively in the first half of 2020 compared to approximately \$1,051 per ADMT and \$1,336 per ADMT, respectively, in the same period of 2019. NBSK net prices in China were approximately \$573 per ADMT in the first half of 2020 compared to approximately \$665 per ADMT in the first half of 2019.

Average NBSK pulp sales realizations decreased by approximately 22% to \$567 per ADMT in the first half of 2020 from approximately \$729 per ADMT in the same period of 2019.

In the first half of 2020, our Canadian mills recorded non-cash write downs of our inventory carrying values of \$18.0 million as a result of lower pulp sales realizations and high fiber costs. In the same period of 2019 our Canadian mills recorded a non-cash write down of our inventory carrying values of \$6.9 million.

In the first half of 2020 primarily as a result of the effect of the strengthening dollar on our Canadian dollar and euro denominated costs and expenses, we recorded a positive impact of approximately \$22.0 million in operating income due to foreign exchange compared to the same period of 2019.

Costs and expenses in the first half of 2020 decreased by approximately 17% to \$572.4 million from \$685.9 million in the first half of 2019 primarily due to lower pulp sales volumes, lower per unit fiber costs and the positive impact of a stronger dollar. In the first half of 2020 we have received approximately \$4.5 million of wage assistance under a Canadian wage subsidy program.

In the first half of 2020, depreciation and amortization decreased to \$57.6 million from \$57.9 million in the same period of 2019.

On average, in the first half of 2020 overall per unit fiber costs decreased by approximately 14% from the same period of 2019 primarily due to lower per unit fiber costs at our German mills. In the first half of 2020, per unit 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 remained at historically high levels due to strong demand for fiber in the mills' fiber procurement areas.

Transportation costs for our pulp segment decreased to \$70.2 million in the first half of 2020 from \$74.2 million in the same period of 2019 primarily as a result of lower sales volumes.

In the first half of 2020, pulp segment operating income decreased to \$29.5 million from \$135.8 million in the same period of 2019 as lower pulp sales realizations and pulp sales volumes were only partially offset by the positive impact of lower per unit fiber costs and a stronger dollar.

Wood Products Segment - Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Selected Financial Information

	Six Months Ended June 30,	
	2020	2019
	(in thousands)	
Lumber revenues	\$ 78,597	\$ 74,485
Energy revenues	\$ 5,260	\$ 5,454
Wood residual revenues	\$ 3,648	\$ 3,952
Depreciation and amortization	\$ 5,181	\$ 3,921
Operating income	\$ 9,882	\$ 1,531

In the first half of 2020, lumber revenues increased approximately 6% to \$78.6 million from \$74.5 million in the same period of 2019 due to higher sales volumes. In the first half of 2020 approximately 34% of sales volumes were in the U.S. market and the majority of remaining sales were to Europe.

Energy and wood residual revenues decreased approximately 5% to \$8.9 million in the first half of 2020 from \$9.4 million in the same period of 2019 primarily due to lower sales realizations for wood residuals.

Lumber production increased by approximately 9% to 229.8 MMfbm in the first half of 2020 from 211.5 MMfbm in the same period of 2019 primarily due to capital improvements.

Average lumber sales realizations decreased by approximately 2% to \$347 per Mfbm in the first half of 2020 from approximately \$354 per Mfbm in the same period of 2019 primarily due to lower pricing in Europe partially offset by higher pricing in the U.S. market. European lumber pricing declined due to an increase in the supply of lumber processed from beetle damaged wood which generally obtains lower prices. U.S. lumber pricing increased due to stronger demand.

Fiber costs were approximately 70% of our lumber cash production costs in the first half of 2020. In the first half of 2020 per unit fiber costs decreased by approximately 26% from the same period of 2019 primarily due to the availability of lower cost beetle damaged wood. We currently expect stable per unit fiber costs in the third quarter of 2020 due to the continuing availability of beetle damaged wood.

In the first half of 2020, depreciation and amortization increased to \$5.2 million from \$3.9 million in the same period of 2019 primarily due to the completion of capital projects.

Transportation costs for our wood products segment in the first half of 2020 increased by approximately 16% to \$14.0 million from \$12.1 million in the same period of 2019 primarily due to higher sales volumes to the U.S.

In the first half of 2020, our wood products segment had operating income of \$9.9 million compared to \$1.5 million in the same period of 2019 primarily due to strong production and lower per unit fiber costs.

Liquidity and Capital Resources

Summary of Cash Flows

	Six Months Ended June 30,	
	2020	2019
	(in thousands)	
Net cash from (used in) operating activities	\$ (5,737)	\$ 130,907
Net cash used in investing activities	(44,242)	(45,206)
Net cash from (used in) financing activities	4,902	(68,730)
Effect of exchange rate changes on cash and cash equivalents	(2,674)	(140)
Net increase (decrease) in cash and cash equivalents	<u>\$ (47,751)</u>	<u>\$ 16,831</u>

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 used in operating activities was \$5.7 million in the six months ended June 30, 2020 compared to cash provided by operating activities of \$130.9 million in the comparative period of 2019. An increase in accounts receivable used cash of \$6.0 million in the six months ended June 30, 2020 compared to \$24.1 million in the same period of 2019. An increase in inventories used cash of \$6.7 million in the six months ended June 30, 2020 compared to a decrease in inventories providing cash of \$13.4 million in the same period of 2019. A decrease in accounts payable and accrued expenses used cash of \$49.8 million in the six months ended June 30, 2020 compared to an increase in accounts payable and accrued expenses providing cash of \$4.0 million in the same period of 2019.

Cash Flows from Investing Activities. Investing activities in the six months ended June 30, 2020 used cash of \$44.2 million primarily related to capital expenditures of \$44.6 million. In the six months ended June 30, 2020, capital expenditures included the Phase II expansion and optimization project at our Friesau sawmill, additional land for fiber storage at the Stendal mill and other smaller maintenance and optimization projects. In the six months ended June 30, 2019, investing activities used cash of \$45.2 million primarily related to capital expenditures of \$44.4 million. In the first half of 2019, capital expenditures included the planer line replacement project at our Friesau sawmill, wastewater improvement projects at our German pulp mills and large maintenance projects at our Celgar mill.

Cash Flows from Financing Activities. In the first half of 2020, financing activities provided cash of \$4.9 million primarily from \$25.6 million of borrowings under our revolving credit facilities. In the six months ended June 30, 2020 we paid dividends of \$9.0 million and used \$0.2 million to repurchase common shares. In the first half of 2019, financing activities used cash of \$68.7 million primarily to repay \$58.4 million under our revolving credit facilities. In the six months ended June 30, 2019, we received \$6.3 million of government grants to finance greenhouse gas reduction capital projects at the Peace River mill, paid dividends of \$8.2 million and used \$0.8 million to repurchase common shares.

Balance Sheet Data

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

	June 30, 2020	December 31, 2019
	(in thousands)	
Cash and cash equivalents	\$ 303,334	\$ 351,085
Working capital	\$ 586,682	\$ 588,385
Total assets	\$ 1,973,609	\$ 2,065,720
Long-term liabilities	\$ 1,282,395	\$ 1,259,005
Total equity	\$ 494,260	\$ 550,403

Sources and Uses of Funds

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

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

	Six Months Ended	
	June 30,	
	2020	2019
	(in thousands)	
Capital expenditures	\$ 44,562	\$ 44,368
Cash paid for interest expense ⁽¹⁾	\$ 38,228	\$ 22,885
Interest expense ⁽²⁾	\$ 40,192	\$ 36,920

- (1) Amounts differ from interest expense which includes non-cash items. See supplemental disclosure of cash flow information from our Interim Consolidated Statements of Cash Flows included in this report.
- (2) Interest on our senior notes due 2022 was paid semi-annually in June and December of each year. In October 2019, we redeemed the remaining \$100.0 million of our senior notes due 2022. Interest on our senior notes due 2024 is paid semi-annually in February and August of each year. Interest on our senior notes due 2025 and on our senior notes due 2026 is paid semi-annually in January and July of each year, commencing in July 2019 for our senior notes due 2025.

As of June 30, 2020 we had cash and cash equivalents of \$303.3 million and approximately \$263.5 million available under our revolving credit facilities and as a result aggregate liquidity of about \$566.8 million.

We currently consider the majority of undistributed earnings of our foreign subsidiaries to be indefinitely reinvested and, accordingly, no U.S. income tax has been provided on such earnings. However, if we were required to repatriate funds to the United States, we believe that we currently could repatriate the majority thereof without incurring any material amount of taxes as a result of our shareholder advances and U.S. tax reform. However, it is currently not practical to estimate the income tax liability that might be incurred if such earnings were remitted to the United States. Substantially all of our undistributed earnings are held by our foreign subsidiaries outside of the United States.

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

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

Debt Covenants

Certain of our long-term obligations contain various financial tests and covenants customary to these types of arrangements. See our annual report on Form 10-K for the fiscal year ended December 31, 2019.

As of June 30, 2020, we were in full compliance with all of the covenants of our indebtedness.

Off-Balance Sheet Arrangements

At June 30, 2020, we did not have any off-balance sheet arrangements (as defined in Item 303(a)(4)(ii) of Regulation S-K).

Contractual Obligations and Commitments

There were no material changes outside the ordinary course to any of our material contractual obligations during the six months ended June 30, 2020.

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 Canadian dollar and euro as of June 30, 2020, we recorded a non-cash decrease of \$30.8 million in the carrying value of our net assets, consisting primarily of our fixed assets denominated in Canadian dollars and euros. This non-cash decrease does not affect our net income (loss), Operating EBITDA or cash but is reflected in our other comprehensive income (loss) and as a decrease to our total equity. As a result, our accumulated other comprehensive loss increased to \$147.3 million.

Based upon the exchange rate as of June 30, 2020, the dollar was flat against the euro and has strengthened by approximately 5% against the Canadian dollar since December 31, 2019. See "Quantitative and Qualitative Disclosures about Market Risk".

Credit Rating of Senior Notes

We and our Senior Notes are rated by Standard & Poor's Rating Services, referred to as "S&P", and Moody's Investors Service, Inc., referred to as "Moody's".

In July 2020 Moody's confirmed its rating on our Senior Notes is Ba3 and its outlook is stable. In April 2020, S&P reduced its rating on our Senior Notes to B+ from BB- and its outlook to negative from stable. Its recovery rating remained unchanged at "3". Credit ratings are not recommendations to buy, sell or hold securities and may be subject to revision or withdrawal by the assigning rating organization. Each rating should be evaluated independently of any other rating.

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, 2019. 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 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, 2019.

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;
- the COVID-19 pandemic could materially adversely affect our business, financial position and results of operations;
- 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 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;
- future acquisitions may result in additional risks and uncertainties in our business;
- we have limited control over the operations of the Cariboo mill;
- 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 sell surplus energy pursuant to statutory energy programs in Germany and electricity purchase agreements with a utility in Western Canada;
- we may experience material disruptions to our production;
- we are subject to risks related to our employees;
- we are dependent on key personnel;
- 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 under "Part II. Other Information – Item 1A. Risk Factors" and 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, 2019. 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 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 2010 and 2019, European list prices for NBSK pulp have fluctuated between a low of approximately \$760 per ADMT in 2012 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 \$700 per ADMT in 2012 to a high of \$1,235 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 pulp producer's actual sales price realizations are net of customer discounts, rebates and other selling concessions.

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, 2019.

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, 2019. 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

Other than as set out below, 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, 2019.

The COVID-19 pandemic could materially adversely affect our business, financial position and results of operations.

The outbreak of COVID-19 in late 2019 initially in China and its subsequent spread globally through 2020 has resulted in significant and widespread global infections and fatalities. In March 2020, the World Health Organization declared the spread of the COVID-19 virus a pandemic. The rapid spread of the virus has resulted in various federal, state and provincial governments declaring emergency measures and the implementation of numerous measures to attempt to contain the virus, including travel bans and restrictions, quarantines, business closures, shelter in place orders and other shutdowns and restrictions.

The impact of the pandemic and the global response thereto has, among other things, significantly disrupted global economic activity, negatively impacted gross domestic product and caused significant volatility in financial markets, with various countries already reporting significant declines in gross domestic product and business activity and material increases in unemployment. While various countries, including the United States, Germany, Canada and China have implemented stimulus packages and other fiscal measures to attempt to reduce the impact of the pandemic on their economies, the impact of the pandemic on global economic activity and markets both in the short and longer term is uncertain at this time.

As demand for our products has principally historically been determined by general global macro-economic activities, demand and prices for our products have historically decreased substantially during economic slowdowns. A significant economic downturn may adversely affect our sales and profitability and may also adversely affect our customers and suppliers. Additionally, significant disruptions and volatility in financial markets could have a negative impact on our ability to access capital in the future.

Commencing around the end of the second quarter of 2020, many countries have taken measures to ease restrictions on economic and social activities to, among other things, reopen their economies by allowing businesses to restart and encourage economic recovery. The results of such economic measures and the reopening have varied from country to country, with certain countries currently reporting relatively stable infection rates and others, such as the United States, reporting a spike in infections and fatalities. Currently we are unable to predict the outcome or pace of such economic reopening and the strength or timing of any recovery. Neither can we predict whether the easing of pandemic health restrictions will result in such a material resurgence in infections and fatalities as would cause governments to re-impose some or all prior or new restrictive measures, including business closures.

Our products are an important constituent of many pandemic related high demand goods such as tissue and cleaning products and certain personal protective equipment. However, our mills could experience disruptions, downtime and closures in the future as a result of changes to existing government response measures, outbreaks of the virus among our employees or operations or disruptions to raw material supplies or access to logistics networks.

The magnitude and duration of the disruption and resulting decline in business activity resulting from the COVID-19 pandemic is currently uncertain. The extent to which the COVID-19 pandemic impacts our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including:

- the duration and scope of the pandemic;
- governmental, business and individuals' actions that have been and may in the future be taken in response to the pandemic including any resurgence or additional waves of viral infection;
- the impact of the pandemic on economic activity and actions taken in response including the recent easing of health and safety restrictions, measures and closures to reopen economies;
- any resurgence in infections and fatalities resulting from recent efforts of governments to reopen economies;
- any additional waves of the virus;
- if any successful treatment option or vaccine will be developed and, if so, when will they be widely available;
- the effect on our customers' demand for pulp and wood products;
- our vendors' ability to supply us with raw materials;
- the availability of logistics networks, our ability to ship our products to customers and the availability of any required contractors to perform maintenance services;
- the ability of our customers to pay for our products; and
- any closures of our and our customers' facilities and offices.

The effect of the pandemic, including remote working arrangements for employees, has also increased the risk of cyberattacks on, and other material breaches of, our and our third party service providers' information technology systems.

Any of these events could cause or contribute to the risks and uncertainties enumerated in our annual report on Form 10-K for the year ended December 31, 2019 and could materially adversely affect our business, financial position and results of operations.

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 which expired in 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 was subject to market conditions, applicable legal requirements and other factors.

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
March 1 - March 31, 2020	23,584	\$ 6.84	23,584	\$ 49,084,880

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 June 30, 2020 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 June 30, 2020 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: July 30, 2020

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: July 30, 2020

/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: July 30, 2020

/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 June 30, 2020 (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: July 30, 2020

/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 June 30, 2020 (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: July 30, 2020

/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.