



President's Report

MERCER INTERNATIONAL INC.
ANNUAL REPORT 2022





FROM THE PRESIDENT & CEO

JUAN CARLOS BUENO

**TO THE SHAREHOLDERS OF
MERCER INTERNATIONAL,**

The year 2022 was an exciting one for both Mercer and myself. I joined in May and immediately set to work learning the intricacies of the business. I visited our operations and met as many employees as I could as well as many of our most important customers, shareholders, suppliers and business partners. During this period, what stood out to me was the strong culture, dedication and high quality of our employees and the world-class nature of Mercer's assets.

I believe Mercer has an excellent foundation that we can further build upon. To that end, I have carried out a thorough review of our strategy, an exercise that will mark the path Mercer will follow for years to come. We will have more to say about this during 2023 but you can be sure that my objective is to continue to grow Mercer in the future and, while doing so, focus on taking our profitability to an even higher level.

Operationally, we had a very strong year. Among other successes, we achieved record sales and earnings, closed on a major acquisition in Germany that we now call Mercer Torgau, made solid progress on the ramp-up of our exciting cross-laminated timber (CLT) business, further developed our carbon emissions reduction pathway, and took a major step forward in improving our safety performance.

The four pillars of our strategy are:

- 1 Operating world-class assets
- 2 Growing and diversifying our core competencies
- 3 Managing the integrity of our balance sheet and liquidity
- 4 Maintaining sustainable operations





Operating world-class assets

In 2022, we invested almost \$180 million in our operations, the majority of which was on high-return projects.

Wood fiber is by far the largest input cost in all of our operations, and we allocate considerable resources to understand the different dynamics of our fiber markets to more effectively manage these costs. Two significant initiatives underway for the year were upgrading the woodrooms at our Peace River and Celgar mills. These are compelling projects as they will reduce our wood costs and greenhouse gas (GHG) emissions, give us greater flexibility when it comes to wood purchases and allow us to utilize sources of fiber that were previously left to decay. Our Peace River woodroom will begin ramping up operationally in the second quarter of 2023 while our Celgar woodroom is expected to be operational in the year's fourth quarter, when our annual maintenance shutdown will allow us to complete the various tie-ins that can only be addressed when the mill is down.

We also took advantage of capital incentives where possible as we are finding that governments are particularly supportive of projects that include an element of carbon emissions reduction.

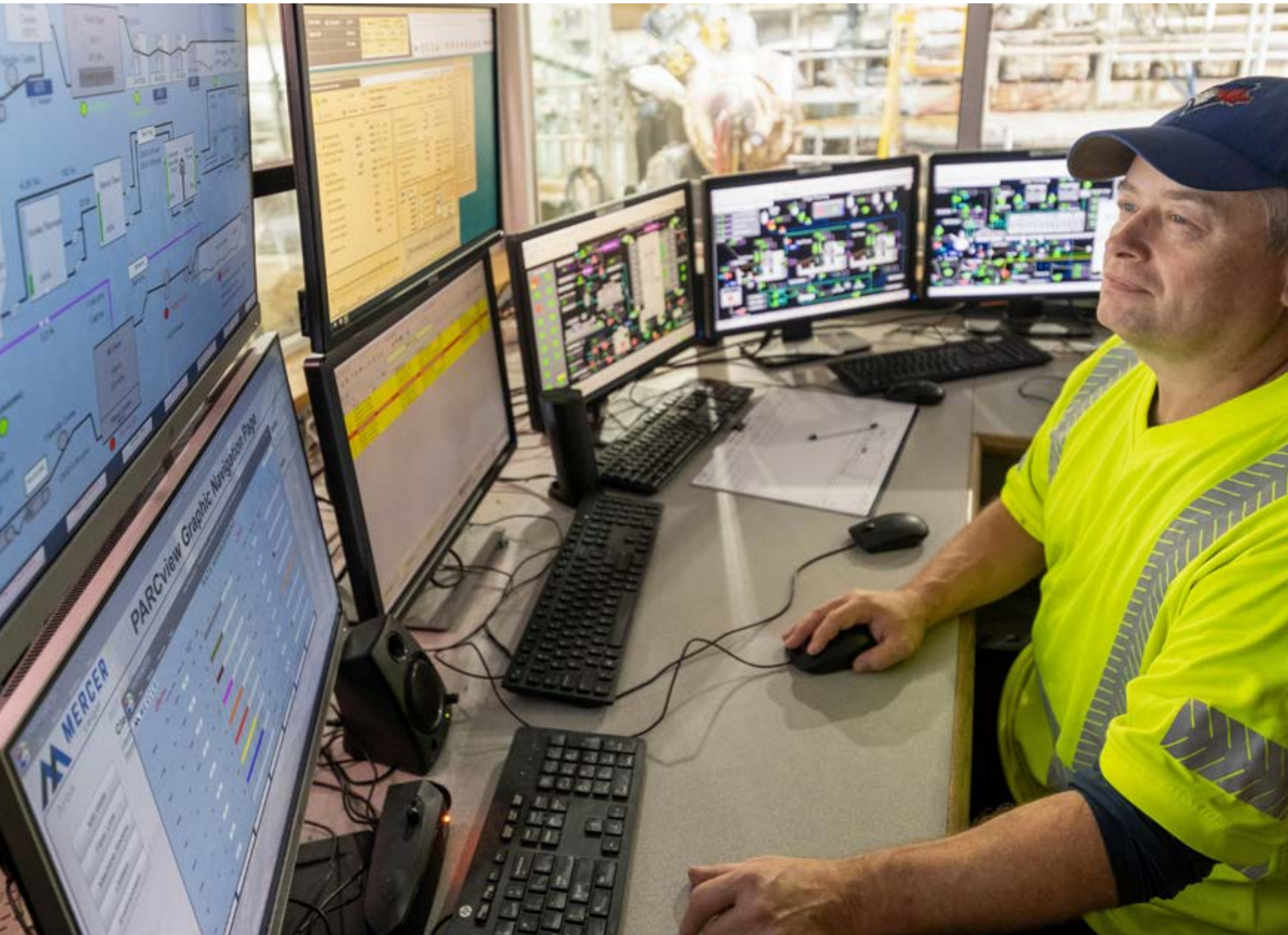


Another project that I am eagerly anticipating is our pilot lignin plant at our Rosenthal mill. This plant is expected to be operational in the second half of 2023 and will allow us to expedite our research into the commercial viability of the many potential uses of our lignin. This is the first step towards entering a growing market for green sources of carbon, where we can substitute existing fossil-fuel-based products. This is an exciting development, which has the potential to create a new line of green value-added products and upgrade the benefits of a compound that we are currently using to create biogenic electricity.

We completed the process of debottlenecking the pulp machine finishing line at the Stendal mill in the fourth quarter and, as a result, the mill's annual production capacity is now about 740,000 tonnes of pulp. Stendal is our largest pulp mill, and this extra capacity is a significant value creator for us.

We suffered a considerable setback in the third quarter when heat from a failed bearing on a conveyor roller started a fire that spread to the conveyor belt, adjoining conveyors and ultimately the chip pile at our Stendal mill. While the fire was regrettable, I was glad that it was extinguished quickly





Since late 2021, we have been focused on building the Mercer Mass Timber engineering and design team, and by the end of 2022, we had over 50 separate project bids outstanding for evaluation.

and without it causing any injuries to our employees or first responders. The fire did cause significant damage, but we returned the mill to production in only a few weeks. It took some time for the modified chip-feed process to maximize its throughput, and repairs won't be fully completed until the second quarter of 2023. However, thanks to employee ingenuity and determination, the mill was running at close to full capacity in the fourth quarter of 2022 — a truly remarkable feat and testament to the resilience of our people.

We also made considerable investment progress on the solid wood side of our business. Our multi-year investment to upgrade our Friesau sawmill is nearing completion and has made the mill one of the largest, most efficient and flexible in the world. In 2023, we will be adding extra sorting capacity, which will ensure we achieve maximum value for our many lumber products. Expanded sorting allows us to identify and isolate a larger number of different lumber grades — an advantage that should increase our average revenue for the same volume of wood.

The year 2022 brought a breakthrough for our mass timber operation in Spokane, Washington. Since late 2021, we have been focused on building the Mercer Mass Timber engineering and design team, and by the end of 2022, we had over 50 separate project bids outstanding for evaluation. We expect to see the results of these efforts in 2023. We have commenced work on several high-return capital projects that will make this plant larger and more flexible and cost-efficient. We continue to be excited about the growth prospects for this business as North American developers pivot towards CLT as a greener alternative to traditional concrete and steel construction.



2

Growing and diversifying our core competencies

As I mentioned earlier, we have just completed a thorough exercise to further define our strategy.

Our future growth will include strengthening our core softwood pulp and lumber businesses, introducing a new expansion in solid wood as well as CLT, and focusing strongly on innovation in biomaterials — materials that will drive us towards a more circular use of the natural fiber resource. At the same time, we have plans to further develop our offerings given the outstanding hardwood supply we enjoy in Alberta. Mercer already has extensive knowledge in all these areas, which provides a solid foundation to build upon. We remain bullish on the future of pulp and will continue to grow our product offerings in this area. However, I see Mercer as a diversified forestry company; as such, we intend to bring better balance to our pulp, solid wood and bioproduct revenues.





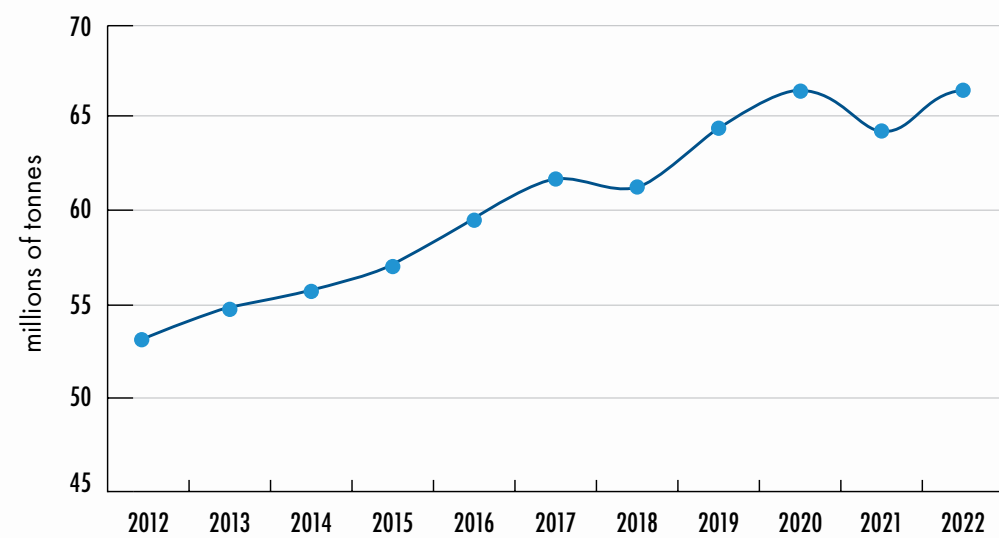
I see Mercer as a diversified forestry company; as such, we intend to bring better balance to our pulp, solid wood and bioproduct revenues.

Our recent acquisition of Mercer Torgau aligns well with this approach. Mercer Torgau is a large sawmill that has a number of complementary solid wood production capabilities. This mill is unique in that it was originally designed to fully utilize its wood fiber and be entirely self-sufficient. The mill is able to take sawlogs and produce lumber that can be sold to third parties and/or used to manufacture high-quality shipping pallets. A portion of the wood residuals created from this process is used to manufacture wood pellets, which are sold to customers for energy generation; the remaining wood residuals are burned in a boiler to generate green electricity, which is used in the manufacturing process, with the excess sold to the local grid. The mill also has the capability to manufacture its own nails for its pallet manufacturing process.

This business is accretive for Mercer as, among other things, we will be able to generate significant synergies by optimizing and sharing wood fiber in its various forms between our German operations. Our teams are working hard to integrate this promising business into Mercer.

Technology will also be an element in our growth strategy. We are taking advantage of our SAP upgrade to roll out full SAP ERP capabilities to all of our locations. Currently, there are locations that are only using some of the modules that are available. When the roll-out is completed in 2024, our mills will be more efficient and better able to share information and equipment among our people.

ESTIMATED GLOBAL CHEMICAL MARKET PULP DEMAND



Data Source: Pulp and Paper Products Council World Demand Report

3

Managing the integrity of our balance sheet and liquidity

In 2022, we achieved record revenues, Operating EBITDA and net income.

Our total revenues were \$2.3 billion, up \$0.5 billion from 2021. The increase was driven primarily by strong prices for all of our products throughout the year, with the biggest jump coming from the sale of energy at high market prices.

Operating EBITDA¹ totaled a record \$537 million, up \$58 million from 2021. The increased Operating EBITDA was primarily due to higher product prices, which were partially offset by higher input costs. A reconciliation of Operating EBITDA to net income is provided to the right.

¹ Operating EBITDA is not a measure of financial performance under generally accepted accounting principles in the United States (GAAP) and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.



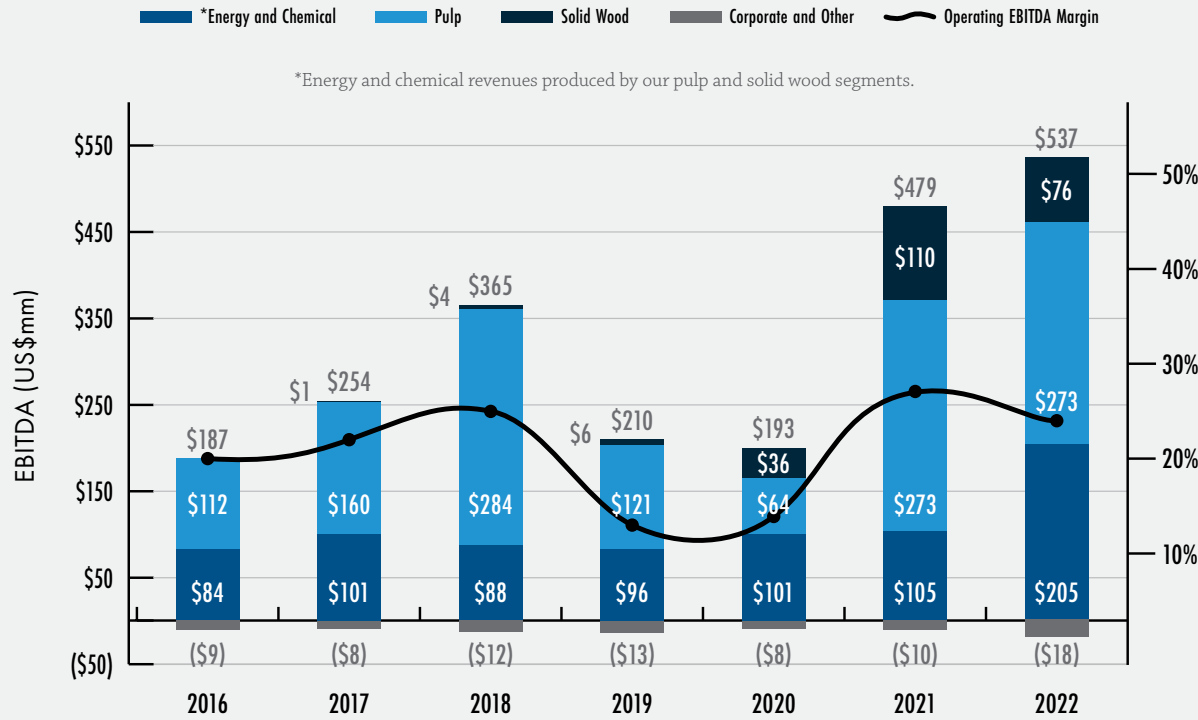
	YEAR ENDED DECEMBER 31		
	2022	2021	2020
		(in thousands)	
Net income (loss)	\$247,039	\$170,988	(\$17,235)
Income tax provision	98,264	89,579	6,096
Interest expense	71,499	70,047	80,746
Loss on early extinguishment of debt	—	30,368	—
Other income	(24,434)	(14,399)	(5,878)
Operating income	392,368	346,583	63,729
Add: Depreciation and amortization	144,153	132,199	128,921
Operating EBITDA	\$536,521	\$478,782	\$192,650



Our record net income in 2022 was \$247 million, or \$3.74 per basic share, compared to our net income of \$171 million, or \$2.59 per basic share, in 2021.

Additionally, I am pleased with our strong balance sheet and liquidity as we begin 2023. We have \$354 million of cash and \$282 million of available revolver capacity. This financial flexibility will allow us to take advantage of potential growth opportunities.

ANNUAL CONSOLIDATED OPERATING EBITDA



Maintaining sustainable operations

Two of the elements that attracted me to Mercer was its focus on people and its commitment towards protecting the environment. I will work to reinforce these strong values going forward.

As a result, I will continue to push the organization to meet our 2030 carbon reduction targets. Ensuring safety continues to be core to everything we do, and I am pleased to report that we have seen an improvement in our overall safety performance in 2022 compared to the prior year.

Mercer has a strong commitment to employee engagement and training as well as to diversity, equity and inclusion initiatives. These types of initiatives are critical to the ongoing success of Mercer. From focusing on employee retention to ensuring our social license is maintained, we will continue to do this important work.

We published our first Sustainability Report in 2022. We will continue to improve this report so that we can share with our stakeholders the many things we are doing: our successes, our challenges as well as our priorities, which include building a more inclusive work culture and making progress on our pathway to net zero GHG emissions.

Our sustainability milestones of 2022 include us becoming signatories of the United Nations Global Compact and having our climate change targets validated by the Science Based Targets initiative. Our environmental, social and governance (ESG) revolver is also important proof of our commitment to our long-term sustainability goals.

Setting market expectations

NBSK (northern bleached softwood kraft) and NBHK (northern bleached hardwood kraft) pulp pricing were both strong globally throughout 2022. There were a number of factors behind this, but the main ones were steady demand, global logistical challenges that made it difficult for pulp and paper producers to access certain markets, and weak supply due to unplanned pulp producer downtime.

Looking ahead, global logistics are running much smoother while demand in some regions is weakening due to slowing economic activity. However, we see China as being a catalyst for demand in 2023 as their pandemic-related lockdowns are lifted. We also expect significant new volumes of hardwood pulp to hit the market in 2023. This will be a drag on NBHK pricing while the market adjusts to the new supply, and it might have some collateral impact on NBSK. All in all, we believe we will still experience good price levels for NBSK in 2023 when compared with historical levels. Further, we don't expect any meaningful new NBSK capacity to hit the market until the first half of 2024.

On the lumber side of our business, prices were strong during the first half of the year, especially in the United States market. Lumber prices began to weaken in the later part of 2022. Until that point, low interest rates and high housing demand were driving prices in that market, and for the most part globally as well. However, as governments intervened in the form of higher interest rates in an attempt to slow inflation, potential homebuyers took a pause.



On the lumber side of our business, prices were strong during the first half of the year, especially in the United States market.

Our expectation for 2023 is that short-term production curtailments will support modestly better short-term lumber pricing. Looking further ahead into 2023, we currently expect that, once interest rates stabilize, structural factors like low housing inventory levels and favorable demographics will provide upward pricing momentum in the second half of 2023.

Finally, the CLT market price is heavily influenced by lumber prices; but we see this product as being a high-margin value-add product, and lower lumber prices will only make this product's environmental benefits more compelling. It is early days for us in this business, but we are looking to secure some significant contracts and fill the mill's order book. Given the high quality of this mill's CLT and our plans to make the mill even more efficient and cost-effective, I believe this is the starting point for a very successful business.







Looking forward to 2023

The year 2023 is starting off with reasonably strong pulp markets, although the pressure is building as a consequence of increased capacity in hardwood. Lumber prices are weaker still and, we believe, will start to recover in the second half of the year. Our wood chips and chemical costs have already started coming down in the first couple of months of 2023; we expect them to keep gradually falling to more reasonable levels. We will continue to sell our surplus green electricity at market prices following the recently announced price cap in Germany. Overall, we remain cautiously optimistic for the full year as we are seeing some positive changes to the fundamentals behind our markets.

In the medium and long term, our bullish outlook for our products has not changed. In fact, events of the past year have only increased the visibility of the planet's need for green alternatives for textiles, packaging, energy and construction materials. We think our products can fill some of those gaps. Ultimately, this is where Mercer's future lies.

In the short term, we will keep running the business based on continuous improvement. We will work to enhance efficiency, lower costs and manage our liquidity prudently to enhance value. We will focus on executing our strategy while remaining true to our values. I am looking forward to the opportunities that 2023 will bring to Mercer.

In closing, I would like to thank our board of directors for their confidence in me and my management team and for their support through my transition. I also want to thank our employees — their dedication and resilience are inspiring. Finally, I would like to thank you, our shareholders, and our customers for the trust, support and encouragement.

Juan Carlos Bueno
President and CEO

FROM THE EXECUTIVE
CHAIRMAN OF THE BOARD

JIMMY LEE

DEAR FELLOW SHAREHOLDERS,

The year 2022 was one of adaptation and change for Mercer. The most significant change was in leadership, with the retirement of our former President and CEO, David Gandossi. During his tenure as CEO, which began in 2015, Mercer has seen its product portfolio expand and diversify with the addition of lumber, hardwood pulp, extractives and mass timber. In addition, David intensified the company's focus on safety performance and its commitment to sustainability. On behalf of all stakeholders of the company, I want to thank David for his dedicated service. We wish him the very best in his retirement.

After an exhaustive executive search and interview process, we were extremely pleased to welcome Juan Carlos Bueno as our new President and CEO. Juan Carlos brings a proven track record of innovation and achievement in growing sales and profitability for biomaterials over a 30-year career. We are excited to see where his passion for innovation and strategy drives the company in the future.

The board of directors has undertaken significant efforts to include qualified prospective members with diverse backgrounds and competencies. Our most recent additions to

the board, Alice Laberge and Janine North, are exceptionally qualified and bring a fresh perspective to our operations within the forest products industry. The board remains committed to ensuring it has the skills and expertise necessary in a rapidly changing world as well as to the principles of diversity.

The invasion of Ukraine and the ever-evolving COVID-19 pandemic made 2022 a challenging year for everyone. Mercer was certainly not exempt from the impact of such external influences and factors. Global inflation, supply chain issues and disrupted delivery logistics impacted all of our operations, particularly with the rising costs and availability of natural gas, wood fiber and transportation. Fortunately, the very nature of our recovery systems allows us to be power independent and mitigate reliance upon third parties.

We commend our operations for their continued strong safety performance and their handling of COVID-19 concerns. For the entirety of the pandemic, we were never forced to shut down nor did we experience a major outbreak that put operations at risk. While there is a growing sense of normalcy, the pandemic has not disappeared, and so our team continues to exercise caution. Notwithstanding issues such as severe bottlenecks in ports like China and railcar shortages in Canada, our team was able to successfully adapt, improvise and maneuver through the various crosscurrents to achieve a strong and, by some measurements, even record performance for the year. While logistical challenges, in particular, have yet to be fully resolved and are ongoing in Western Canada, they are improving, which we hope will reflect positively in our future results.

Though the markets for forest products are generally challenging and often unpredictable, we are optimistic about Mercer's position within the industry over the next couple of years as we further develop our product portfolio and because China, traditionally a big importer of pulp, is staging a return to normalcy.

Mercer will continue to focus on quality assets with a significant market position. With our most recent successful acquisition of the Torgau facility, Mercer has expanded not only in the solid wood sector by acquiring one of the largest Euro-pallet manufacturing facilities but also into biofuels through pellets and briquettes. The acquisition of the Spokane CLT plant continues to be exciting as it is one of the largest facilities of its kind in North America and has great potential.

Using solid wood products as climate-friendly alternatives to reduce emissions and store carbon aligns with our climate change goals. The momentum in European markets for the use of engineered wood products and sustainable alternatives has been significant and is creating market acceptance in North America, which we are well-positioned to address.

Even though Mercer achieved strong financial results this past year, we are acutely aware that past outcomes are not necessarily indicative of future results, especially in the current inflationary environment. However, we remain optimistic about our competitive position due to management's proven ability to navigate turbulent times and its unwavering focus on operating and maintaining world-class assets that manufacture quality products in a sustainable fashion for growing markets.

I wish to thank our frontline employees for their service and loyalty to the company's core values as well as my fellow members of the board for their guidance and support of the company's vision of being a world leader in sustainable solutions.



Jimmy Lee
Executive Chairman of the Board



SHAREHOLDER INFORMATION

MARKET INFORMATION

Our shares are listed and quoted for trading on the NASDAQ Stock Market under the symbol “MERC.” The adjoining table shows the high and low sale prices of our shares on the NASDAQ index for each quarter in 2021 and 2022 and for the first quarter of 2023.

FORM 10-K

Our annual report on Form 10-K for the fiscal year ended December 31, 2022, was filed with the Securities and Exchange Commission and is [posted](#) on the company website. The Form 10-K provides important information about the company, including business, financial and other information, and should be read in conjunction with this report.

SHARES OUTSTANDING

As of March 31, 2023, there are a total of 66,420,639 shares outstanding.

FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements that involve known and unknown risks and uncertainties, which may cause the company’s actual results in future periods to differ materially from forecasted results. Those factors include market conditions, competition and other risk factors listed from time to time in the company’s SEC reports.

ANNUAL MEETING

The annual shareholders’ meeting will be held on May 31, 2023.

FISCAL QUARTER ENDED		
2021		
	High	Low
March 31	\$16.70	\$10.04
June 30	\$18.14	\$12.26
September 30	\$12.85	\$10.58
December 31	\$12.16	\$9.51
2022		
	High	Low
March 31	\$14.95	\$10.83
June 30	\$17.17	\$12.70
September 30	\$17.50	\$11.46
December 31	\$14.97	\$11.33
2023		
	High	Low
March 31	\$9.80	\$9.65

CORPORATE INFORMATION

BOARD OF DIRECTORS

Jimmy S.H. Lee

Executive Chairman of the Board

William D. McCartney

Pemcorp Management Corp.

R. Keith Purchase

Retired Businessperson

James Shepherd

Retired Businessperson

Alan C. Wallace

CEO, Peloton Advisors Inc.

Linda J. Welty

Director, GCP Applied Technologies and Huber Engineered Materials; President & CEO, Welty Strategic Consulting, LLC

Rainer Rettig

Retired Businessperson

Alice Laberge

Director, Nutrien Ltd. and Russel Metals Inc.

Janine North

Director, Conifex Timber Inc., Imperial Metals Corporation, B.C. Ferry Services Corp. and Fraser Basin Council


Juan Carlos Bueno

President & CEO

 Member of Audit Committee

 Member of Governance and Nominating Committee

 Member of Human Resources Committee

 Member of Environmental, Health and Safety Committee

EXECUTIVE OFFICERS AND SENIOR MANAGEMENT

Juan Carlos Bueno

President, CEO & Director

David K. Ure

Sr. Vice President, Finance, CFO & Secretary

Guy Arguin

Chief Human Resources Officer

Adolf Koppensteiner

Chief Operating Officer, Pulp Products

Carsten Merforth

Chief Operating Officer, Wood Products

Christoph Grewe-Franze

Chief Information Officer

Wolfgang Beck

Sr. Vice President, Global Wood Sourcing

Wolfram Ridder

Sr. Vice President, Innovation and Government Relations

Brian Merwin

Vice President, Corporate Development

William Adams

Vice President, Sustainability and Innovation

Richard Short

Vice President, Controller

Genevieve Stannus

Vice President, Treasurer

Leonhard Nossol

Controller, European Operations & Managing Director, Rosenthal

Mark Goebel

Vice President, Health and Safety

Stefan Duda

Vice President, Procurement

Kenneth William MacPherson

Managing Director, Celgar

Martin Stöhr

Managing Director, Holz

Roger Ashfield

Managing Director, Peace River

Christian Sörgel

Managing Director, Rosenthal

André Listemann

Managing Director, Stendal

Torsten Kröger

Managing Director, Timber Products

Christian Pospiech

Managing Director, Torgau

Jason Herman

General Manager, Mercer Mass Timber

SALES

Pulp Products

Eric Heine

Vice President, Sales, Marketing and Logistics, North America and Asia

Uwe Bentlage

Managing Director, Mercer Pulp Sales & Vice President, Sales and Marketing, Europe

Nils Hegerding

Managing Director, Mercer Pulp Sales & Vice President, Sales and Marketing, Europe

Wood Products

Frank Turnbull

Director, Sales, United States

Johannes Mörth

Sales Director

Bob Iwami

Director, Sales, Asia

OPERATIONS

Mercer Celgar Limited Partnership

PO Box 1000, 1921 Arrow Lakes Road
Castlegar, B.C. V1N 3H9
Canada
T: (1) 250 365 7211
F: (1) 250 365 4211
E: info.mcc@mercerint.com

Mercer Mass Timber LLC

19202 E Garland Avenue
Spokane Valley, Washington 99027
United States
T: (1) 509 606 0767
E: clt@mercerint.com

Mercer Peace River Pulp Ltd.

1 Pulp Mill Road, P.O. Bag 4400
Peace River, AB T8S 1V7
Canada
T: (1) 780 624 7000
F: (1) 780 624 7040
E: info.mpr@mercerint.com

Mercer Rosenthal GmbH

Hauptstraße 16
07366 Rosenthal am Rennsteig
Germany
T: (49) 366 428 0
F: (49) 366 428 2000
E: info.mr@mercerint.com

Mercer Stendal GmbH

Goldbecker Straße 1
39596 Arneburg
Germany
T: (49) 393 215 50
F: (49) 393 215 5108
E: info.ms@mercerint.com

Mercer Timber Products GmbH

Am Bahnhof 123
07929 Saalburg-Ebersdorf
Germany
T: (49) 366 518 00
F: (49) 366 518 0100
E: info.mtp@mercerint.com

Mercer Torgau GmbH Co. KG

Forstweg 1
04860 Torgau
Germany
T: (49) 342 173 830
E: info@hit-holz.de

CORPORATE INFORMATION

OFFICES

Canadian Office (Corporate)

700 West Pender Street
Suite 1120
Vancouver, B.C. V6C 1G8
Canada
T: (1) 604 684 1099
F: (1) 604 684 1094
E: info@mercerint.com

U.S. Office (Registered)

14900 Interurban Avenue South
Suite 282
Seattle, Washington 98168
United States
T: (1) 206 674 4639

German Office (Sales)

Charlottenstraße 59
10117 Berlin
Germany
T: (49) 303 064 710
F: (49) 303 064 7199

INVESTOR RELATIONS AND MEDIA CONTACTS

Juan Carlos Bueno

President, CEO & Director

David K. Ure

Sr. Vice President, Finance,
CFO & Secretary

Mercer International Inc.

700 West Pender Street
Suite 1120
Vancouver, B.C. V6C 1G8
Canada
T: (1) 604 684 1099
F: (1) 604 684 1094
E: info@mercerint.com

AUDITORS

PricewaterhouseCoopers LLP

250 Howe Street
Suite 700
Vancouver, B.C. V6C 3S7
Canada

LEGAL

Sangra Moller LLP Barristers and Solicitors

1000 Cathedral Place
925 West Georgia Street
Vancouver, B.C. V6C 3L2
Canada

INCORPORATION

Washington State, U.S.

TRANSFER AGENTS

Computershare Investor Services

P.O. Box 505000
462 South 4th Street
Suite 1600
Louisville, Kentucky 40202
United States
Toll-Free: (1) 800 522 6645
Foreign Shareholders: (49) 303 064 7199
E: www.computershare.com/investor

STOCK LISTINGS

NASDAQ Global Market

Trading Symbol: MERC

WEBSITE

mercerint.com





1120 – 700 W Pender St,
Vancouver, B.C. V6C 1G8

mercerint.com