MERCER INTERNATIONAL INC.
Form 10-Q
May 02, 2019

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 March 31, 2019

OR

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

For the transition period from _____ to _____

Commission File No.: 000-51826

MERCER INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

Washington	**47-0956945**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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)

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

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

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

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

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

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**

The Registrant had 65,651,056 shares of common stock outstanding as at May 1, 2019.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2019

(Unaudited)

MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

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

	Three Months Ended March 31,	
	2019	**2018**
Revenues	$ 483,950	$ 367,903
Costs and expenses		
Cost of sales, excluding depreciation and amortization	343,033	254,285
Cost of sales depreciation and amortization	30,136	23,209
Selling, general and administrative expenses	17,229	14,361
Operating income	93,552	76,048
Other income (expenses)		
Interest expense	(18,551)	(12,115)
Loss on settlement of debt (Note 5(a))		(21,515)
Legal cost award		(6,951)
Other income (expenses)	1,039	(237)
Total other expenses, net	(17,512)	(40,818)
Income before provision for income taxes	76,040	35,230
Provision for income taxes	(24,424)	(9,581)
Net income	$ 51,616	$ 25,649
Net income per common share		
Basic	$ 0.79	$ 0.39
Diluted	$ 0.78	$ 0.39
Dividends declared per common share	$ 0.125	$ 0.125

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands of U.S. dollars)

	Three Months Ended March 31,	
	2019	**2018**
Net income	$ 51,616	$ 25,649
Other comprehensive income (loss), net of taxes		
Foreign currency translation adjustment	(3,851)	16,285

Change in unrecognized losses and prior service costs related to defined benefit pension plans, net of taxes of $6 (2018 - $nil)		60		(154)
Change in unrealized gains/losses on marketable securities, net of taxes of $nil in all periods		(21)		1
Other comprehensive income (loss), net of taxes		(3,812)		16,132
Total comprehensive income	$	47,804	$	41,781

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

MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

	March 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 233,234	$ 240,491
Accounts receivable	308,573	252,692
Inventories	282,308	303,813
Prepaid expenses and other	19,636	13,703
Total current assets	843,751	810,699
Property, plant and equipment, net	1,021,957	1,029,257
Investment in joint ventures	56,049	62,574
Intangible assets, net	55,721	53,927
Operating lease right-of-use assets	14,581	
Other long-term assets	19,985	17,904
Deferred income tax	1,351	1,374
Total assets	$ 2,013,395	$ 1,975,735
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable and other	$ 211,377	$ 194,484
Pension and other post-retirement benefit obligations	879	904
Total current liabilities	212,256	195,388
Debt	1,007,774	1,041,389
Pension and other post-retirement benefit obligations	26,052	25,829
Finance lease liabilities	23,604	24,669
Operating lease liabilities	12,145	
Other long-term liabilities	14,118	13,924
Deferred income tax	96,764	93,107
Total liabilities	1,392,713	1,394,306
Shareholders equity		
Common shares $1 par value; 200,000,000 authorized; 65,651,000 issued and outstanding (2018 65,202,000)	65,620	65,171
Additional paid-in capital	341,644	342,438
Retained earnings	345,400	301,990
Accumulated other comprehensive loss	(131,982)	(128,170)

Total shareholders equity	620,682	581,429
Total liabilities and shareholders equity	$ 2,013,395	$ 1,975,735

Commitments and contingencies (Note 14)
Subsequent events (Note 8)
The accompanying notes are an integral part of these interim consolidated financial statements.

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MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(In thousands of U.S. dollars)

	Common Shares					
	Number (thousands of shares)	Amount, at Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance December 31, 2018	65,202	$ 65,171	$ 342,438	$ 301,990	$ (128,170)	$ 581,429
Shares issued on grants of performance share units	449	449	(449)			
Stock compensation expense (recovery)			(345)			(345)
Net income				51,616		51,616
Dividends declared				(8,206)		(8,206)
Other comprehensive loss					(3,812)	(3,812)
Balance March 31, 2019	65,651	$ 65,620	$ 341,644	$ 345,400	$ (131,982)	$ 620,682
Balance December 31, 2017	65,017	$ 64,974	$ 338,695	$ 205,998	$ (59,001)	$ 550,666
Shares issued on grants of performance share units	153	153	(153)			
Stock compensation expense (recovery)			193			193
Net income				25,649		25,649
Dividends declared				(8,146)		(8,146)
Other comprehensive income					16,132	16,132
Balance March 31, 2018	65,170	$ 65,127	$ 338,735	$ 223,501	$ (42,869)	$ 584,494

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

MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands of U.S. dollars)

	Three Months Ended March 31,	
	2019	**2018**
Cash flows from (used in) operating activities		
Net income	$ 51,616	$ 25,649
Adjustments to reconcile net income to cash flows from operating activities		
Depreciation and amortization	30,247	23,319
Deferred income tax provision	3,639	4,812
Loss on settlement of debt		21,515
Defined benefit pension plans and other post-retirement benefit plan expense	856	439
Stock compensation expense (recovery)	(345)	193
Other	441	820
Defined benefit pension plans and other post-retirement benefit plan contributions	(1,158)	(45)
Changes in working capital		
Accounts receivable	(56,353)	(5,132)
Inventories	21,141	(6,822)
Accounts payable and accrued expenses	(173)	18,027
Other	(7,725)	(6,398)
Net cash from (used in) operating activities	42,186	76,377
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	(19,389)	(16,184)
Purchase of intangible assets	(316)	(167)
Other	(261)	
Net cash from (used in) investing activities	(19,966)	(16,351)
Cash flows from (used in) financing activities		
Redemption of senior notes		(317,439)
Proceeds from (repayment of) revolving credit facilities, net	(33,672)	20,071
Dividend payments		(8,127)
Payment of debt issuance costs	(509)	(1,390)
Proceeds from government grants	6,320	
Other	(862)	(848)
Net cash from (used in) financing activities	(28,723)	(307,733)
Effect of exchange rate changes on cash and cash equivalents	(754)	535
Net decrease in cash and cash equivalents	(7,257)	(247,172)

Cash and cash equivalents, beginning of period		240,491		460,738
Cash and cash equivalents, end of period	$	233,234	$	213,566
Supplemental cash flow disclosure				
Cash paid for interest	$	16,983	$	11,272
Cash paid for income taxes	$	23,613	$	1,478

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

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MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 1. The Company and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

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

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

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

Use of Estimates

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

New Accounting Pronouncements

Accounting Pronouncements Implemented

In February 2016, the Financial Accounting Standards Board (FASB) established Topic 842, Leases, by issuing Accounting Standards Update (ASU) 2016-02, Leases, which requires lessees to recognize virtually all leases on the balance sheet, by recording a right-of-use asset and corresponding liability. Additionally, the update also requires additional disclosures in regards to the nature, timing and uncertainty of cash flows arising from leases. Topic 842 was subsequently amended by ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU

2018-10, Codification Improvements to Topic 842, Leases; and ASU 2018-11, Leases: Targeted Improvements. These updates are effective for financial statements issued for fiscal years beginning after December 15, 2018. The Company adopted these updates on January 1, 2019 using the modified retrospective method and used the effective date as the date of initial application. Consequently, financial information will not be updated before January 1, 2019. The new standard provides a number of optional practical expedients in transition and the Company elected to use all of them on adoption.

Adoption of the standard resulted in recognition of right-of-use assets and lease liabilities for operating leases of $14,581 as at March 31, 2019. The standard did not impact the Interim Consolidated Statements of Operations or the Interim Consolidated Statements of Cash Flows. The Company s lease disclosure has been included in the Lease Commitments Note.

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 2. Acquisition of Mercer Peace River (MPR)

On December 10, 2018, the Company acquired all of the issued and outstanding shares of MPR for cash consideration of $344,588, subject to certain customary working capital adjustments. The acquisition results in 100% ownership of a bleached kraft pulp mill in Peace River, Alberta, a 50% joint venture interest in the Cariboo Pulp and Paper Company (CPP), an NBSK pulp mill, in Quesnel, British Columbia, and a 50% interest in a logging and chipping operation for the areas underlying MPR s forest management agreements and timber allocations. The acquisition of MPR expands the Company s presence in Asia and adds northern bleached hardwood kraft to its product mix.

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

	Purchase Price Allocation
Current assets	$ 135,305
Property, plant and equipment	212,894
Investment in joint ventures	54,697
Amortizable intangible assets, timber cutting rights (a)	37,634
Other long-term assets	392
Total assets acquired	440,922
Current liabilities	35,578
Pension obligations	9,747
Deferred income tax	47,912
Other long-term liabilities	3,097
Total liabilities assumed	96,334
Net assets acquired	$ 344,588

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

The purchase price allocation was based on a preliminary valuation and may be revised as a result of additional information obtained regarding the assets acquired and liabilities assumed, and revisions of provisional estimates of fair value, including, but not limited to, the completion of valuations related to property, plant and equipment and the

identification of intangible assets. During the three month period ended March 31, 2019 immaterial adjustments were made to the purchase price allocation to reflect the most current valuations of the assets. The purchase price will be finalized during the 12-month measurement period following the acquisition date.

Note 3. Inventories

	March 31, 2019	December 31, 2018
Raw materials	$ 89,126	$ 103,983
Finished goods	103,370	114,304
Spare parts and other	89,812	85,526
	$ 282,308	$ 303,813

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 4. Accounts Payable and Other

	March 31, 2019	December 31, 2018
Trade payables	$ 39,579	$ 36,333
Accrued expenses	106,103	95,936
Interest payable	17,170	16,861
Income tax payable	28,799	29,818
Legal cost award payable		6,951
Dividends payable	8,206	
Other	11,520	8,585
	$ 211,377	$ 194,484

Note 5. Debt

	March 31, 2019	December 31, 2018
2022 Senior Notes, principal amount, $100,000 (a)	$ 98,987	$ 98,918
2024 Senior Notes, principal amount, $250,000 (a)	246,344	246,154
2025 Senior Notes, principal amount, $350,000 (a)	342,969	342,761
2026 Senior Notes, principal amount, $300,000 (a)	294,779	294,588
Credit arrangements		
200 million joint revolving credit facility (b)		58,968
C$60 million revolving credit facility (c)	24,695	
C$40 million revolving credit facility (d)		
2.6 million demand loan (e)		
	$ 1,007,774	$ 1,041,389

As at March 31, 2019, the maturities of the principal portion of debt were as follows:

2019	$
2020	

2021	
2022	100,000
2023	
Thereafter	924,695
	$ 1,024,695

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MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 5. Debt (continued)

Certain of the Company s debt instruments were issued under agreements which, among other things, may limit the ability to make certain payments, including dividends. These limitations are subject to specific exceptions. As at March 31, 2019, the Company was in compliance with the terms of its debt agreements.

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

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

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

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

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

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

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

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 5. Debt (continued)

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

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

(b) A 200.0 million joint revolving credit facility with all of the Company s German mills that matures in December 2023. Borrowings under the facility are unsecured and bear interest at Euribor plus a variable margin ranging from 1.05% to 2.00% dependent on conditions including but not limited to a prescribed leverage ratio. As at March 31, 2019, approximately 11.6 million ($13,057) of this facility was supporting bank guarantees leaving approximately 188.4 million ($211,643) available.

(c) In 2019, MPR entered into a C$60.0 million revolving credit facility that matures in February 2024. The facility is available by way of: (i) Canadian denominated advances, which bear interest at a designated prime rate per annum; (ii) banker s acceptance equivalent loans, which bear interest at the applicable Canadian dollar banker s acceptance plus 1.25% to 1.50% per annum; (iii) dollar denominated base rate advances at the greater of the federal funds rate plus 0.50%, a designated LIBOR rate plus 1.00% and the bank s applicable reference rate for U.S. dollar loans; and (iv) dollar LIBOR advances, which bear interest at LIBOR plus 1.25% to 1.50% per annum. The facility is secured by, among other things, the mill s inventories and receivables. As at March 31, 2019, approximately C$33.0 million ($24,695) of this facility was drawn and accruing interest at a rate of 3.23% and approximately C$0.9 million ($657) was supporting letters of credit leaving approximately C$26.1 million ($19,548) available.

(d)

A C$40.0 million revolving credit facility at the Celgar mill that matures in July 2023. Borrowings under the facility are collateralized by the mill s inventory, accounts receivable, general intangibles and capital assets and are restricted by a borrowing base calculated on the mill s inventory and accounts receivable. When the borrowing capacity is less than 25% of the total facility the Canadian dollar denominated amounts bear interest at bankers acceptance plus 1.50% or Canadian prime and the U.S. dollar denominated amounts bear interest at LIBOR plus 1.50% or U.S. base. When the borrowing capacity is greater than or equal to 25% of the total facility, the respective bankers acceptance or LIBOR margins are reduced by 0.25% and the Canadian Prime or U.S. base margins are reduced by 0.125%. As at March 31, 2019, approximately C$1.7 million ($1,271) was supporting letters of credit leaving approximately C$38.3 million ($28,662) available.

(e) A 2.6 million demand loan at the Rosenthal mill that does not have a maturity date. Borrowings under this facility are unsecured and bear interest at the rate of the three-month Euribor plus 2.50%. As at March 31, 2019, approximately 2.6 million ($2,867) of this facility was supporting bank guarantees leaving approximately $nil available.

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 6. Pension and Other Post-Retirement Benefit Obligations

Defined Benefit Plans

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

Pension benefits are based on employees earnings and years of service. The defined benefit plans are funded by contributions from the Company based on actuarial estimates and statutory requirements. The components of the net benefit costs for the three month periods ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31,			
	2019		2018	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Service cost	$ 716	$ 68	$ 26	$ 120
Interest cost	877	137	323	182
Expected return on plan assets	(1,002)		(393)	
Amortization of unrecognized items	215	(155)	234	(53)
Net benefit costs	$ 806	$ 50	$ 190	$ 249

Defined Contribution Plans

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. MPR also has defined contribution plans available to most of its employees. During the three month period ended March 31, 2019, the Company made contributions of $448 (2018 $218).

Multiemployer Plan

The Company participates in a multiemployer plan for the hourly-paid employees at the Celgar mill. The contributions to the plan are determined based on a percentage of pensionable earnings pursuant to a collective bargaining agreement. The Company has no current or future contribution obligations in excess of the contractual contributions. Contributions during the three month period ended March 31, 2019 totaled $323 (2018 $487).

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MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 7. Income Taxes

Differences between the U.S. Federal statutory and the Company s effective rates for the three months ended March 31, 2019 and 2018, were as follows:

	Three Months Ended March 31,	
	2019	2018
U.S. Federal statutory rate	21%	21%
U.S. Federal statutory rate on income before provision for income taxes	$ (15,968)	$ (7,398)
Tax differential on foreign income	(5,916)	(4,589)
Effect of foreign earnings[(1)]	(11,887)	(2,717)
Valuation allowance	8,341	18,245
Adjustment to uncertain tax position		(16,677)
Tax benefit of partnership structure	958	897
Non-taxable foreign subsidies	368	756
True-up of prior year taxes	1,275	2,610
Other	(1,595)	(708)
	$ (24,424)	$ (9,581)
Comprised of:		
Current income tax provision	$ (20,785)	$ (4,769)
Deferred income tax provision	(3,639)	(4,812)
	$ (24,424)	$ (9,581)

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

Note 8. Shareholders Equity

Dividends

In February 2019, the Company s board of directors declared a quarterly dividend of $0.125 per common share. Payment of the dividend was made on April 3, 2019 to all shareholders of record on March 27, 2019.

In May 2019, the Company s board of directors declared a quarterly dividend of $0.1375 per common share. Payment of the dividend will be made on July 3, 2019 to all shareholders of record on June 24, 2019. Future dividends are subject to approval by the board of directors and may be adjusted as business and industry conditions warrant.

Common Stock 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 over the next 12 months.

Stock Based Compensation

The Company has a stock incentive plan which provides for options, restricted stock rights, restricted shares, performance shares, performance share units (PSUs) and stock appreciation rights to be awarded to employees, consultants and non-employee directors. During the three month period ended March 31, 2019, there were no issued and outstanding options, restricted stock rights, performance shares or stock appreciation rights. As at March 31, 2019, after factoring in all allocated shares, there remain approximately 2.6 million common shares available for grant.

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 8. Shareholders Equity (continued)

PSUs

PSUs comprise rights to receive common shares at a future date that are contingent on the Company and the grantee achieving certain performance objectives. The performance objective period is generally three years. For the three month period ended March 31, 2019, the Company recognized a recovery of $475 related to PSUs (2018 expense $64).

The following table summarizes PSU activity during the period:

	Number of PSUs
Outstanding as at January 1, 2019	2,036,008
Granted	641,206
Vested and issued	(449,395)
Forfeited	(462,843)
Outstanding as at March 31, 2019	1,764,976

Restricted Shares

Restricted shares generally vest at the end of one year. Expense recognized for the three month period ended March 31, 2019 was $130 (2018 $129). As at March 31, 2019, the total remaining unrecognized compensation cost related to restricted shares amounted to approximately $87 which will be amortized over the remaining vesting periods.

Note 9. Net Income Per Common Share

	Three Months Ended March 31,	
	2019	2018
Net income		

Basic and diluted	$ 51,616	$ 25,649
Net income per common share		
Basic	$ 0.79	$ 0.39
Diluted	$ 0.78	$ 0.39
Weighted average number of common shares outstanding:		
Basic[(1)]	65,400,222	65,050,275
Effect of dilutive shares:		
PSUs	490,814	492,031
Restricted shares	20,102	32,515
Diluted	65,911,138	65,574,821

(1) For the three month period ended March 31, 2019, the basic weighted average number of common shares outstanding excludes 31,130 restricted shares which have been issued, but have not vested as at March 31, 2019 (2018 43,635 restricted shares).

The calculation of diluted net income per common share does not assume the exercise of any instruments that would have an anti-dilutive effect on net income per common share. There were no anti-dilutive instruments for the three month periods ended March 31, 2019 and 2018.

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 10. Accumulated Other Comprehensive Loss

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

	Foreign Currency Translation Adjustment	Defined Benefit Pension and Other Post-Retirement Benefit Items	Unrealized Gains / Losses on Marketable Securities	Total
Balance as at January 1, 2019	$ (127,003)	$ (1,170)	$ 3	$ (128,170)
Other comprehensive loss before reclassifications	(3,851)		(21)	(3,872)
Amounts reclassified from accumulated other comprehensive loss		60		60
Other comprehensive income (loss)	(3,851)	60	(21)	(3,812)
Balance as at March 31, 2019	$ (130,854)	$ (1,110)	$ (18)	$ (131,982)

Note 11. Business Segment Information

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

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

Information about certain segment data for the three month periods ended March 31, 2019 and 2018, was as follows:

Three Months Ended March 31, 2019	Pulp	Wood Products	Corporate and Other	Consolidated

Revenues from external customers	$ 436,474	$ 44,439	$ 3,037	$ 483,950
Operating income (loss)	$ 93,520	$ 1,620	$ (1,588)	$ 93,552
Depreciation and amortization	$ 28,023	$ 1,911	$ 313	$ 30,247
Total assets[1]	$ 1,782,453	$ 81,397	$ 149,545	$ 2,013,395
Revenues by major products				
Pulp	$ 413,313	$	$	$ 413,313
Lumber		39,163		39,163
Energy and chemicals	23,161	2,666	3,037	28,864
Wood residuals		2,610		2,610
Total revenues	$ 436,474	$ 44,439	$ 3,037	$ 483,950
Revenues by geographical markets				
U.S.	$ 54,568	$ 13,292	$	$ 67,860
Germany	132,189	14,916		147,105
China	115,319			115,319
Other countries	134,398	16,231	3,037	153,666
Total revenues	$ 436,474	$ 44,439	$ 3,037	$ 483,950

(1) Total assets for the pulp segment includes the Company s $56,049 investment in joint ventures, primarily for the CPP mill.

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MERCER INTERNATIONAL INC.

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

Note 11. Business Segment Information (continued)

Three Months Ended March 31, 2018	Pulp	Wood Products	Corporate and Other	Consolidated
Revenues from external customers	$ 314,235	$ 53,668	$	$ 367,903
Operating income (loss)	$ 74,054	$ 2,982	$ (988)	$ 76,048
Depreciation and amortization	$ 21,523	$ 1,686	$ 110	$ 23,319
Revenues by major products				
Pulp	$ 290,551	$	$	$ 290,551
Lumber		48,168		48,168
Energy and chemicals	23,684	2,781		26,465
Wood residuals		2,719		2,719
Total revenues	$ 314,235	$ 53,668	$	$ 367,903
Revenues by geographical markets				
U.S.	$ 5,650	$ 16,405	$	$ 22,055
Germany	124,738	21,766		146,504
China	84,481			84,481
Other countries	99,366	15,497		114,863
Total revenues	$ 314,235	$ 53,668	$	$ 367,903

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

Revenues between segments are accounted for at prices that approximate fair value. These include revenues from the sale of residual fiber from the wood products segment to the pulp segment for use in the pulp production process and from the sale of residual fuel from the pulp segment to the wood products segment for use in energy production. For the three month period ended March 31, 2019, the pulp segment sold $256 of residual fuel to the wood products segment (2018 $354) and the wood products segment sold $5,407 of residual fiber to the pulp segment (2018 $4,949).

The Company purchases and sells pulp produced by the 50% owned CPP mill. The pulp purchases are transacted at the CPP mill s cost. For the three month period ended March 31, 2019, the Company purchased $24,633 of pulp

(2018 $nil) and as at March 31, 2019 had a balance owing to the CPP mill of $2,653 (December 31, 2018 $1,347). The Company also purchases fiber from its 50% owned logging operation. For the three month period ended March 31, 2019, the Company purchased $5,794 of fiber (2018 $nil) and as at March 31, 2019 had a balance owing to the logging operation of $2,884 (December 31, 2018 $2,343).

Note 12. Financial Instruments and Fair Value Measurement

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

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

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

	Fair value measurements as at March 31, 2019 using:			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Revolving credit facility	$	$ 24,695	$	$ 24,695
Senior notes		1,021,125		1,021,125
	$	$ 1,045,820	$	$ 1,045,820

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

Credit Risk

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

The carrying amount of cash and cash equivalents of $233,234 and accounts receivable of $308,573 recorded in the Interim Consolidated Balance Sheet, net of any allowances for losses, represents the Company s maximum exposure to credit risk.

Note 13. Lease Commitments

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

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 13. Lease Commitments (continued)

The components of lease expense were as follows:

	Three Months Ended March 31,	
	2019	2018
Lease cost:		
Operating lease cost	$ 932	$ 850
Finance lease cost:		
Amortization of right-of-use assets	881	853
Interest on lease liabilities	366	234
Total lease cost	$ 2,179	$ 1,937

Supplemental cash flow information related to leases were as follows:

	Three Months Ended March 31,	
	2019	2018
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 932	$ 850
Operating cash flows from finance leases	$ 366	$ 234
Financing cash flows from finance leases	$ 862	$ 848

Other information related to leases is as follows:

	Three Months Ended March 31,	
	2019	2018
Weighted average remaining lease term:		
Operating leases	7 years	5 years

Finance leases	9 years	10 years
Weighted average discount rate:		
Operating leases	6%	
Finance leases	5%	5%

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

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

Note 13. Lease Commitments (continued)

Supplemental balance sheet information related to leases were as follows:

		March 31, 2019		December 31, 2018
Operating Leases				
Operating lease right-of-use assets	$	14,581		
Other current liabilities	$	2,436		
Operating lease liabilities		12,145		
Total operating lease liabilities	$	14,581		
Finance Leases				
Property and equipment, gross	$	43,625	$	44,756
Accumulated depreciation		(16,223)		(15,963)
Property and equipment, net	$	27,402	$	28,793
Other current liabilities	$	4,597	$	4,911
Finance lease liabilities		23,604		24,669
Total finance lease liabilities	$	28,201	$	29,580

As at March 31, 2019, maturities of lease liabilities were as follows:

		Finance Leases		Operating Leases
2019	$	4,943	$	2,683

2020		3,512		3,197
2021		3,383		2,919
2022		3,216		2,734
2023		3,346		2,054
Thereafter		16,707		4,777
Total lease payments		35,107		18,364
Less: imputed interest		(6,906)		(3,783)
Total lease liability	$	28,201	$	14,581

As at March 31, 2019, the Company has additional finance leases for rail cars that have not yet commenced. The leases have a term of 12 years with annual renewal options thereafter. The total payments over the term of the leases will be approximately $19,600. The leases will commence in 2019.

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 14. Commitments and Contingencies

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

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

NON-GAAP FINANCIAL MEASURES

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

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

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

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

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

In this document: (i) unless the context otherwise requires, references to we , our , us , the Company or Mercer Mercer International Inc. and its subsidiaries; (ii) references to Mercer Inc. mean the Company excluding its subsidiaries; (iii) information is provided as of March 31, 2019, unless otherwise stated; (iv) our reporting currency is dollars and references to mean euros and C$ mean Canadian dollars; (v) ADMTs refers to air-dried metric tonne (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 lumbe 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 months ended March 31, 2019 should be read in conjunction with our interim consolidated financial statements and related notes included in this quarterly report, as well as our most recent annual report on Form 10-K for the fiscal year ended December 31, 2018 filed with the Securities and Exchange Commission, referred to as the SEC .

Results of Operations

General

We have two reportable operating segments:

Pulp consists of the manufacture, sale and distribution of pulp, electricity and other by-products at our pulp mills.

Wood Products consists of the manufacture, sale and distribution of lumber, electricity and other wood residuals at the Friesau sawmill.

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

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

Current Market Environment

In the first quarter of 2019, pulp prices declined from the fourth quarter of 2018 due to lower overall demand in China and a buildup in pulp producer inventories. In China, demand from tissue producers was steady but there was a decline in demand from paper and packaging producers.

Overall, our average NBSK pulp sales realizations were approximately 9% lower in the first quarter of 2019 compared to the fourth quarter of 2018.

At the end of the current quarter, NBSK list prices in Europe, China and North America were approximately $1,070, $730 and $1,355 per ADMT, respectively and NBHK list prices in China and North America were approximately $700 and $1,160 per ADMT, respectively.

Our integration of MPR is proceeding well and according to plan.

In the second quarter of 2019, our 50% joint venture Cariboo mill has 12 days of scheduled maintenance downtime (which will reduce our production by approximately 5,800 ADMTs).

We currently expect pulp markets to moderately strengthen with improving pricing in the second half of the year. We believe that, in the second quarter of 2019, pulp producer inventories will decline due to continued steady demand in Europe and North America, moderately higher demand from paper producers in China and scheduled producer downtime. At the end of March 2019, world NBSK producer inventories were about 37 days supply.

In the first quarter of 2019, U.S. lumber markets modestly recovered due to increased demand after strong declines in the second half of 2018. In the first quarter of 2019, European lumber pricing declined due to the continuation of beetle and storm damaged wood entering the market which obtains lower prices.

Summary Financial Highlights

	Three Months Ended March 31,	
	2019	2018
	(in thousands, other than per share amounts)	
Statement of Operations Data		
Pulp segment revenues	$ 436,474	$ 314,235
Wood products segment revenues	44,439	53,668
Corporate and other revenues	3,037	
Total revenues	$ 483,950	$ 367,903
Pulp segment operating income	$ 93,520	$ 74,054
Wood products segment operating income	1,620	2,982
Corporate and other operating loss	(1,588)	(988)
Total operating income	$ 93,552	$ 76,048
Pulp segment depreciation and amortization	$ 28,023	$ 21,523
Wood products segment depreciation and amortization	1,911	1,686
Corporate and other depreciation and amortization	313	110
Total depreciation and amortization	$ 30,247	$ 23,319
Operating EBITDA[(1)]	$ 123,799	$ 99,367
Loss on settlement of debt	$	$ (21,515)[(2)]
Legal cost award	$	$ (6,951)
Provision for income taxes	$ (24,424)	$ (9,581)
Net income	$ 51,616	$ 25,649
Net income per common share		
Basic	$ 0.79	$ 0.39
Diluted	$ 0.78	$ 0.39
Common shares outstanding at period end	65,651	65,171

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

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Net income	$ 51,616	$ 25,649

Provision for income taxes	24,424	9,581
Interest expense	18,551	12,115
Loss on settlement of debt		21,515
Legal cost award		6,951
Other (income) expenses	(1,039)	237
Operating income	93,552	76,048
Add: Depreciation and amortization	30,247	23,319
Operating EBITDA	$ 123,799	$ 99,367

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

Selected Production, Sales and Other Data

	Three Months Ended March 31,	
	2019	**2018**
Pulp Segment		
Pulp production (000 ADMTs)		
NBSK	460.6	364.5
NBHK	78.6	
Annual maintenance downtime (000 ADMTs)		
Annual maintenance downtime (days)		
Pulp sales (000 ADMTs)		
NBSK	466.9	367.1
NBHK	87.8	
Average NBSK pulp list prices ($/ADMT) (1)		
Europe	1,105	1,097
China	710	910
North America	1,380	1,233
Average NBHK pulp list prices ($/ADMT)(1)		
China	687	798
North America	1,180	1,077
Average pulp sales realizations ($/ADMT)(2)		
NBSK	757	783
NBHK	656	
Energy production (000 MWh)	560.5(3)	438.0
Energy sales (000 MWh)	211.8(3)	175.7
Average energy sales realizations ($/MWh)	94	107
Wood Products Segment		
Lumber production (MMfbm)	110.7	102.7
Lumber sales (MMfbm)	109.2	115.1
Average lumber sales realizations ($/Mfbm)	359	418
Energy production and sales (000 MWh)	22.4	20.6
Average energy sales realizations ($/MWh)	119	135
Average Spot Currency Exchange Rates		
$ / (4)	1.1354	1.2289
$ / C$(4)	0.7521	0.7904

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

Consolidated - Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Total revenues for the three months ended March 31, 2019 increased by approximately 32% to $484.0 million from $367.9 million in the same quarter of 2018 primarily due to the inclusion of the results of MPR and higher pulp sales volumes partially offset by lower product sales realizations.

Costs and expenses in the current quarter increased by approximately 34% to $390.4 million from $291.9 million in the first quarter of 2018 primarily due to the inclusion of MPR and higher pulp sales volumes partially offset by the positive impact of a stronger dollar on our euro denominated costs.

In the first quarter of 2019, cost of sales depreciation and amortization increased to $30.1 million from $23.2 million in the same quarter of 2018.

Selling, general and administrative expenses increased to $17.2 million in the first quarter of 2019 from $14.4 million in the same quarter of 2018 primarily due to the inclusion of MPR.

In the first quarter of 2019, our operating income increased by approximately 23% to $93.6 million from $76.0 million in the same quarter of 2018 due to the inclusion of MPR, the net positive impact of a stronger dollar and higher pulp sales volumes.

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

Interest expense in the current quarter increased to $18.6 million from $12.1 million in the same quarter of 2018 primarily as a result of the issuance in December 2018 of $350.0 million of our 7.375% senior notes due in 2025 (2025 Senior Notes) to finance the acquisition of MPR.

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

During the first quarter of 2019, income tax expense increased to $24.4 million from $9.6 million in the same quarter of 2018 due to higher income.

For the first quarter of 2019, our net income increased to $51.6 million, or $0.79 per basic share and $0.78 per diluted share, from $25.6 million, or $0.39 per share, in the same quarter of 2018.

In the first quarter of 2019, Operating EBITDA increased by approximately 25% to $123.8 million from $99.4 million in the same quarter of 2018 primarily due to the inclusion of MPR and the positive impact of a stronger dollar and higher pulp sales volumes partially offset by lower product sales realizations.

Operating Results by Business Segment

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

Pulp Segment - Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Selected Financial Information

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Pulp revenues	$ 413,313	$ 290,551
Energy and chemical revenues	$ 23,161	$ 23,684
Depreciation and amortization	$ 28,023	$ 21,523
Operating income	$ 93,520	$ 74,054

Pulp revenues in the first quarter of 2019 increased by approximately 42% to $413.3 million from $290.6 million in the same quarter of 2018 due to the inclusion of MPR and higher sales volumes partially offset by lower sales realizations.

Energy and chemical revenues decreased by approximately 2% to $23.2 million in the first quarter of 2019 from $23.7 million in the same quarter of 2018 primarily due to lower chemical yields from processing storm and beetle damaged wood and the negative impact of a stronger dollar on our euro denominated sales partially offset by higher energy sales volumes.

NBSK pulp production increased by approximately 26% to 460,613 ADMTs in the current quarter from 364,486 ADMTs in the same quarter of 2018, primarily due to strong overall operating performance and the inclusion of MPR.

NBSK pulp sales volumes increased by approximately 27% to 466,893 ADMTs in the current quarter from 367,074 ADMTs in the same quarter of 2018. In the current quarter, we also sold 87,848 ADMTs of NBHK pulp.

In the current quarter of 2019 list prices for NBSK pulp in Europe and North America increased from the same quarter of 2018 largely as a result of overall steady demand. In China list prices for NBSK pulp decreased from the same quarter of 2018 as a result of reduced overall demand. Average list prices for NBSK pulp in Europe were approximately $1,105 per ADMT in the first quarter of 2019 compared to approximately $1,097 per ADMT in the same quarter of 2018. Average list prices for NBSK pulp in China and North America were approximately $710 per ADMT and $1,380 per ADMT, respectively, in the current quarter compared to approximately $910 per ADMT and $1,233 per ADMT, respectively, in the same quarter of 2018.

Average NBSK pulp sales realizations decreased by approximately 3% to $757 per ADMT in the first quarter of 2019 from approximately $783 per ADMT in the same quarter of 2018 due to lower prices in China. The NBHK pulp sales realizations in the current quarter were $656 per ADMT.

The stronger dollar versus the euro in the current quarter compared to the same quarter of the prior year decreased the dollar cost of our euro denominated costs and expenses and contributed to a positive foreign exchange impact of approximately $15.3 million on operating income.

Costs and expenses for our pulp segment in the current quarter increased by approximately 43% to $343.2 million from $240.5 million in the first quarter of 2018 primarily due to the inclusion of MPR and higher pulp sales volumes partially offset by the positive impact of a stronger dollar on our euro denominated costs.

In the first quarter of 2019, pulp segment depreciation and amortization increased to $28.0 million from $21.5 million in the same quarter of 2018.

On average, in the current quarter overall per unit fiber costs decreased by about 6% from the same quarter of 2018 due to the positive impact of a stronger dollar on our euro and Canadian dollar denominated fiber costs. In the current quarter, the fiber market for our German mills was stable due to the continued availability of storm and beetle damaged wood. For our Canadian mills, per unit fiber costs remained high due to continued strong demand for fiber in Celgar s fiber procurement area. We currently expect generally lower per unit fiber costs in the second quarter of 2019.

Transportation costs for our pulp segment increased by approximately 90% to $37.9 million in the current quarter from $19.9 million primarily as a result of the inclusion of MPR.

In the first quarter of 2019, pulp segment operating income increased by approximately 26% to $93.5 million from $74.1 million in the same quarter of 2018 primarily due to the positive impact of a stronger dollar, the inclusion of MPR and higher pulp sales volumes partially offset by lower product sales realizations.

Wood Products Segment - Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Selected Financial Information

	Three Months Ended March 31,	
	2019	**2018**
	(in thousands)	
Lumber revenues	$ 39,163	$ 48,168
Energy revenues	$ 2,666	$ 2,781
Wood residual revenues	$ 2,610	$ 2,719
Depreciation and amortization	$ 1,911	$ 1,686
Operating income	$ 1,620	$ 2,982

In the first quarter of 2019 lumber revenues decreased by approximately 19% to $39.2 million from $48.2 million primarily due to lower sales realizations and volumes. In the current quarter approximately 28% of sales volumes were in the U.S. market and the majority of remaining sales were to Europe.

Energy and wood residual revenues decreased by approximately 4% to $5.3 million in the first quarter of 2019 from $5.5 million in the same quarter of 2018 due to the negative impact of a weaker euro on our euro denominated sales.

Production increased by approximately 8% to 110.7 MMfbm of lumber in the current quarter from 102.7 MMfbm in the same quarter of 2018 due to steady operating performance.

Average lumber sales realizations decreased by approximately 14% to $359 per Mfbm in the first quarter of 2019 from approximately $418 per Mfbm in the same quarter of 2018 primarily due to a weaker U.S. lumber market. U.S. lumber pricing declined as record pricing in 2018 resulted in increased supply and high customer inventory levels. European lumber pricing also declined due to an increase in beetle and storm damaged wood which obtains lower prices.

Fiber costs are approximately 80% of our cash production costs. In the current quarter per unit fiber costs decreased by approximately 21% from the same quarter of 2018 primarily due to the availability of lower cost storm and beetle damaged wood and the positive impact of a stronger dollar on our euro denominated fiber costs. We currently expect modestly lower per unit fiber costs in the second quarter of 2019 as a result of the continuing availability of storm damaged wood.

In the first quarter of 2019, wood products segment depreciation and amortization increased to $1.9 million from $1.7 million in the same quarter of 2018 primarily due to capital improvements at the mill.

Transportation costs for our wood products segment increased by approximately 5% to $6.2 million in the current quarter of 2019 from $5.9 million in the same quarter of 2018.

In the first quarter of 2019, our wood products segment had operating income of $1.6 million compared to $3.0 million in the same quarter of 2018 primarily due to a lower realized sales price partially offset by the positive impact of a stronger dollar on our euro denominated costs and expenses.

Liquidity and Capital Resources

Summary of Cash Flows

	Three Months Ended March 31,	
	2019	**2018**
	(in thousands)	
Net cash from operating activities	$ 42,186	$ 76,377
Net cash used in investing activities	(19,966)	(16,351)
Net cash used in financing activities	(28,723)	(307,733)[1]
Effect of exchange rate changes on cash and cash equivalents	(754)	535
Net decrease in cash and cash equivalents	$ (7,257)	$ (247,172)

(1) Includes cash of $317.4 million used for the redemption of $300.0 million of 2022 Senior Notes.

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

Cash Flows from Operating Activities. In the first quarter of 2019, cash provided by operating activities declined to $42.2 million from $76.4 million in the same period of 2018 primarily due to a net increase in working capital. An increase in accounts receivable used cash of $56.4 million in the three months ended March 31, 2019 compared to $5.1 million in the same period of 2018. A decrease in inventories provided cash of $21.1 million in the three months ended March 31, 2019 compared to an increase in inventories using cash of $6.8 million in the same period of 2018. A decrease in accounts payable and accrued expenses used cash of $0.2 million in the three months ended March 31, 2019 compared to an increase in accounts payable and accrued expenses providing cash of $18.0 million in the same period of 2018.

Cash Flows from Investing Activities. Investing activities in the three months ended March 31, 2019 used cash of $20.0 million primarily related to capital expenditures including the planer line replacement project at our Friesau sawmill, wastewater improvement projects at our German pulp mills and large maintenance projects at our Celgar mill. In the three months ended March 31, 2018, capital expenditures used cash of $16.2 million primarily related to large maintenance projects and improvements to the digester performance at our Celgar mill, the replacement of mobile equipment and saw line optimization at our Friesau sawmill and various other smaller projects.

Cash Flows from Financing Activities. In the three months ended March 31, 2019, financing activities used cash of $28.7 million primarily to repay $33.7 million of revolving credit facilities. In the three months ended March 31, 2019 we received $6.3 million of government grants to finance greenhouse gas reduction capital projects at the Peace River mill. In the same period of 2018, financing activities used cash of $307.7 million primarily in connection with the redemption of the 2022 Senior Notes, which used cash of $317.4 million. In the three months ended March 31, 2018, we drew $20.1 million on our revolving credit facilities primarily to finance wood procurement activities and paid a dividend of $8.1 million.

In December 2018, certain of our German subsidiaries entered into a 200 million revolving credit facility, referred to as the German Facility , which consolidated and replaced prior existing revolving credit facilities. Pursuant to such facility, in March 2019 our German subsidiaries entered into a cash pooling arrangement which permits cash withdrawals based upon the subsidiaries aggregate operating cash balances deposited with the agent for the German Facility. The net balance of the withdrawals and the aggregate cash deposits are used by the agent to determine such subsidiaries net interest income. Our Interim Consolidated Balance Sheets reflect cash, net of bank overdrafts under such pooling arrangement.

Balance Sheet Data

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

	March 31, 2019	December 31, 2018
	(in thousands)	
Financial Position		
Cash and cash equivalents	$ 233,234	$ 240,491
Working capital	$ 631,495	$ 615,311
Total assets	$ 2,013,395	$ 1,975,735
Long-term liabilities	$ 1,180,457	$ 1,198,918
Total equity	$ 620,682	$ 581,429

Primarily as a result of the strengthening of the dollar versus the euro as at March 31, 2019, we recorded a net non-cash decrease in the carrying value of our net assets, consisting primarily of our fixed assets denominated in euros. This net non-cash decrease of approximately $3.9 million does not affect our net income, Operating EBITDA or cash flows but is reflected in our other comprehensive loss and as a decrease to our total equity.

Sources and Uses of Funds

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

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

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Capital expenditures	$ 19,389	$ 16,184
Cash paid for interest expense[1]	$ 16,983	$ 11,272
Interest expense[2]	$ 18,551	$ 12,115

(1) Amounts differ from interest expense which includes non-cash items. See supplemental disclosure of cash flow information from our Interim Consolidated Statement of Cash Flows included in this report.

(2) Interest on our 2022 Senior Notes is paid semi-annually in June and December of each year and interest on our senior notes due in 2024 is paid semi-annually in February and August of each year. Interest on our 2025 Senior Notes and our senior notes due in 2026 is paid semi-annually in January and July of each year, commencing in July 2019 and July 2018, respectively.

As at March 31, 2019 our cash and cash equivalents decreased to $233.2 million from $240.5 million at the end of 2018. As at March 31, 2019, we had approximately $259.9 million available under our revolving credit facilities.

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

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

Debt Covenants

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

As at March 31, 2019, we were in full compliance with all of the covenants of our indebtedness.

Off-Balance Sheet Arrangements

At March 31, 2019, we did not have any off-balance sheet arrangements (as defined in Item 303(a)(4)(ii) of Regulation S-K).

Contractual Obligations and Commitments

There were no material changes outside the ordinary course to any of our material contractual obligations during the three months ended March 31, 2019.

Foreign Currency

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

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

As a result of the strengthening of the dollar versus the euro as at March 31, 2019, we recorded a net non-cash decrease of $3.9 million in the carrying value of our net assets, consisting primarily of our fixed assets denominated in euros. As a result, our accumulated other comprehensive loss increased to $132.0 million.

Based upon the exchange rate as at March 31, 2019, the dollar has strengthened by approximately 2% against the euro and weakened by approximately 2% against the Canadian dollar since December 31, 2018. See Quantitative and Qualitative Disclosures about Market Risk .

Critical Accounting Policies

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

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

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

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

Cautionary Statement Regarding Forward-Looking Information

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

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

- our business is highly cyclical in nature;

- a weakening of the global economy, including capital and credit markets, could adversely affect our business and financial results and have a material adverse effect on our liquidity and capital resources;

our level of indebtedness could negatively impact our financial condition, results of operations and liquidity;

cyclical fluctuations in the price and supply of our raw materials, particularly fiber, could adversely affect our business;

we face intense competition in our markets;

we are exposed to currency exchange rate fluctuations;

political uncertainty, the rise of populist political parties and an increase in trade protectionism could have a material adverse effect on global macro-economic activities and trade and adversely affect our business, results of operations and financial condition;

we are subject to extensive environmental regulation and we could incur substantial costs as a result of compliance with, violations of or liabilities under applicable environmental laws and regulations;

our business is subject to risks associated with climate change and social and government responses thereto;

our operations require substantial capital and we may be unable to maintain adequate capital resources to provide for such capital requirements;

our acquisition of MPR and other future acquisitions may result in additional risks and uncertainties in our business;

the operations of MPR are subject to their own risks, which we may not be able to manage successfully;

we may not be able to enhance the operating performance and financial results or lower the costs of MPR s operations as planned;

fluctuations in prices and demand for lumber could adversely affect our business;

adverse housing market conditions may increase the credit risk from customers of our wood products segment;

our wood products segment lumber products are vulnerable to declines in demand due to competing technologies or materials;

changes in credit ratings issued by nationally recognized statistical rating organizations could adversely affect our cost of financing and have an adverse effect on the market price of our securities;

we participate in German statutory energy programs;

we are subject to risks related to our employees;

we are dependent on key personnel;

we may experience material disruptions to our production;

if our long-lived assets become impaired, we may be required to record non-cash impairment charges that could have a material impact on our results of operations;

we may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks or natural disasters;

our insurance coverage may not be adequate;

we rely on third parties for transportation services;

we periodically use derivatives to manage certain risks which could cause significant fluctuations in our operating results;

failures or security breaches of our information technology systems could disrupt our operations and negatively impact our business;

the price of our common stock may be volatile;

a small number of our shareholders could significantly influence our business;

our international sales and operations are subject to applicable laws relating to trade, export controls and foreign corrupt practices, the violation of which could adversely affect our operations; and

we are exposed to interest rate fluctuations.

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

Cyclical Nature of Business

Revenues

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

Industry capacity can fluctuate as changing industry conditions can influence producers to idle production capacity or permanently close mills. In addition, to avoid substantial cash costs in idling or closing a mill, some producers will choose to operate at a loss, sometimes even a cash loss, which can prolong weak pricing environments due to

oversupply. Oversupply of our products can also result from producers introducing new capacity in response to favorable pricing trends. Certain integrated pulp and paper producers have the ability to discontinue paper production by idling their paper machines and selling their NBSK pulp production on the market, if market conditions, prices and trends warrant such actions.

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

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

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

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

Costs

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

Currency

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Changes in Internal Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

None.

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 statements from the Company s Form 10-Q for the fiscal period ended March 31, 2019, formatted in XBRL: (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.

* 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: May 2, 2019

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