MERCER INTERNATIONAL INC.
Form 10-Q
May 03, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

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	*(I.R.S. Employer*
of 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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. (Check one):

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

The Registrant had 65,170,531 shares of common stock outstanding as at May 2, 2018.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2018

(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, 2018	2017
Revenues	$ 367,903	$ 242,784
Costs and expenses		
Operating costs, excluding depreciation and amortization	254,285	172,596
Operating depreciation and amortization	23,209	19,116
Selling, general and administrative expenses	14,361	9,726
Operating income	76,048	41,346
Other income (expenses)		
Interest expense	(12,115)	(13,879)
Loss on settlement of debt (Note 4(a))	(21,515)	(10,696)
Legal cost award (Note 11(c))	(6,951)	
Other income (expenses)	(237)	436
Total other expenses	(40,818)	(24,139)
Income before provision for income taxes	35,230	17,207
Provision for income taxes	(9,581)	(7,481)
Net income	$ 25,649	$ 9,726
Net income per common share		
Basic and diluted	$ 0.39	$ 0.15
Dividends declared per common share	$ 0.125	$ 0.115

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands of U.S. dollars)

Three Months Ended March 31,

	2018	2017
Net income	$ 25,649	$ 9,726
Other comprehensive income (loss), net of taxes(1)		
Foreign currency translation adjustment	16,285	11,169
Change in unrecognized losses and prior service costs related to defined benefit pension plan	(154)	293
Change in unrealized gains/losses on marketable securities	1	2
Other comprehensive income, net of taxes(1)	16,132	11,464
Total comprehensive income	$ 41,781	$ 21,190

(1) Balances are net of tax effects of $nil in all periods.

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, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 213,566	$ 143,299
Restricted cash to redeem senior notes (Note 4(a))		317,439
Accounts receivable	212,845	206,027
Inventories	185,469	176,601
Prepaid expenses and other	15,762	8,973
Total current assets	627,642	852,339
Property, plant and equipment, net	851,622	844,848
Intangible and other assets	26,025	26,147
Deferred income tax	1,891	1,376
Total assets	$ 1,507,180	$ 1,724,710
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable and other	$ 150,532	$ 133,557
Pension and other post-retirement benefit obligations	959	985
Senior notes to be redeemed with restricted cash (Note 4(a))		295,924
Total current liabilities	151,491	430,466
Debt	684,335	662,997
Pension and other post-retirement benefit obligations	21,324	21,156
Capital leases and other	27,434	27,464
Deferred income tax	38,102	31,961
Total liabilities	922,686	1,174,044
Shareholders equity		
Common shares $1 par value; 200,000,000 authorized; 65,171,000 issued and outstanding (2017 65,017,000)	65,127	64,974
Additional paid-in capital	338,735	338,695

Retained earnings	223,501	205,998
Accumulated other comprehensive loss	(42,869)	(59,001)
Total shareholders equity	584,494	550,666
Total liabilities and shareholders equity	$ 1,507,180	$ 1,724,710

Commitments and contingencies (Note 11)

Subsequent event (Note 8)

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, 2018	2017
Cash flows from (used in) operating activities		
Net income	$ 25,649	$ 9,726
Adjustments to reconcile net income to cash flows from operating activities		
Depreciation and amortization	23,319	19,221
Deferred income tax provision	4,812	4,209
Loss on settlement of debt	21,515	10,696
Defined benefit pension plan and other post-retirement benefit plan expense	439	526
Stock compensation expense	193	(161)
Other	820	678
Defined benefit pension plan and other post-retirement benefit plan contributions	(45)	(532)
Changes in working capital		
Accounts receivable	(5,132)	(6,288)
Inventories	(6,822)	9,425
Accounts payable and accrued expenses	18,027	6,881
Other	(6,398)	(996)
Net cash from (used in) operating activities	76,377	53,385
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	(16,184)	(8,164)
Purchase of intangible assets	(167)	(240)
Net cash from (used in) investing activities	(16,351)	(8,404)
Cash flows from (used in) financing activities		
Redemption of senior notes	(317,439)	(234,945)
Proceeds from issuance of notes		250,000
Proceeds from revolving credit facilities, net	20,071	
Dividend payments	(8,127)	(7,440)
Payment of debt issuance costs	(1,390)	(5,124)
Other	(848)	(921)
Net cash from (used in) financing activities	(307,733)	1,570

Effect of exchange rate changes on cash, cash equivalents and restricted cash	535	518
Net increase (decrease) in cash, cash equivalents and restricted cash	(247,172)	47,069
Cash, cash equivalents and restricted cash, beginning of period	460,738	140,896
Cash, cash equivalents and restricted cash, end of period	$ 213,566	$ 187,965
Supplemental cash flow disclosure		
Cash paid for interest	$ 3,147	$ 4,456
Cash paid for income taxes	$ 1,478	$ 2,527

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

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 1. The Company and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

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

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, 2017. 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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, Revenue Recognition Revenue from Contracts with Customers (ASU 2014-09) that requires companies to recognize revenue when a customer obtains control rather than when companies have transferred substantially all risks and rewards of a good or service. Additionally, the update provides presentation and disclosure requirements which are more detailed in regards to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted this standard as at January 1, 2018 using the modified retrospective method. The new standard does not change the timing of when the Company recognizes revenue as the majority of the Company s revenue arises from contracts with customers in which the sale of goods is the main performance obligation. The Company s revised revenue recognition disclosure has been included in the Significant Accounting Policies and the Business Segment Information 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 1. The Company and Summary of Significant Accounting Policies (continued)

In March 2017, the FASB issued Accounting Standards Update 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost (ASU 2017-07) which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This standard is effective for fiscal years beginning after December 15, 2017 and should be applied retrospectively to all periods presented. The Company adopted this standard as at January 1, 2018. For the three month period ended March 31, 2018, $293 of the net benefit cost has been recorded in other income (expenses) in the Interim Consolidated Statement of Operations. For the three month period ended March 31, 2017, $360 has been reclassified from operating costs, excluding depreciation and amortization to other income (expenses) in the Interim Consolidated Statement of Operations.

Accounting Pronouncements Not Yet Implemented

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (ASU 2016-02) which requires lessees to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and liability. This update is effective for financial statements issued for fiscal years beginning after December 15, 2018, with early adoption permitted at the beginning of an interim or annual reporting period. The Company is currently assessing the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update 2018-02, Income Statement - Reporting Comprehensive Income (ASU 2018-02) which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This standard is effective for fiscal years beginning after December 15, 2018, and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company believes this new standard will not have an impact on its consolidated financial statements.

Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue when obligations under the terms of a contract with its customer are satisfied; generally this occurs with the transfer of control of the products sold. Transfer of control to the customer is based on the standardized shipping terms in the contract as this determines when the Company has the right to payment, the customer has legal title to the asset and the customer has the risks of ownership. Payment terms are defined in the contract and payment is typically due within three months after control has transferred to the customer. The contracts do not have a significant financing component.

The Company has elected to exclude value added, sales and other taxes it collects concurrent with revenue-producing activities from revenues.

The Company may arrange shipping and handling activities as part of the sale of its products. The Company has elected to account for shipping and handling activities that occur after the customer has obtained control of the product as a fulfillment cost rather than as an additional promised service.

The following is a description of the principal activities from which the Company generates its revenues. For a breakdown of revenues by product and geographic location see the Business Segment Information 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 1. The Company and Summary of Significant Accounting Policies (continued)

Pulp and Lumber Revenues

For European sales sent by truck or train from the mills directly to the customer, the contracted sales terms are such that control transfers once the truck or train leaves the mill. For orders sent by ocean freighter, the contract terms state that control transfers at the time the product passes the ships rail. For North American sales shipped by truck or train, the contracts state that control transfers once the truck or train has arrived at the customer s specified location.

The transaction price is included in the sales contract and is net of customer discounts, rebates and other selling concessions.

The Company s pulp sales are to tissue and paper producers and the Company s lumber sales are to manufacturers and retailers. The Company s sales to Europe and North America are direct to the customer. The Company s pulp sales to overseas customers are primarily through third party sales agents and the Company s lumber sales to overseas customers are either direct to the customer or through third party sales agents.

By-Product Revenues

Energy sales are to utility companies in Canada and Germany. Sales of energy are recognized as the electricity is consumed by the customer and is based on contractual usage rates and meter readings that measure electricity consumption.

Chemicals and wood residuals are sold into the European market direct to the customer and have shipping terms where control transfers once the chemicals or wood residuals are loaded onto the truck at the mill.

Note 2. Inventories

	March 31, 2018	December 31, 2017
Raw materials	$ 53,648	$ 49,137
Finished goods	57,502	58,364
Spare parts and other	74,319	69,100
	$ 185,469	$ 176,601

Note 3. Accounts Payable and Other

	March 31, 2018	December 31, 2017
Trade payables	$ 42,828	$ 36,151
Accrued expenses	70,829	67,528
Interest payable	10,377	10,093
Legal cost award payable (Note 11(c))	6,951	
Dividends payable	8,148	8,126
Other	11,399	11,659
	$ 150,532	$ 133,557

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 4. Debt

	March 31, 2018	December 31, 2017
2022 Senior Notes, principal amount, $100,000 (a)	$ 98,710	$ 394,565
2024 Senior Notes, principal amount, $250,000 (a)	245,587	245,398
2026 Senior Notes, principal amount, $300,000 (a)	294,011	293,773
Revolving credit facilities		
75.0 million (b)		
C$40.0 million (c)		
70.0 million (d)	28,338	25,185
5.0 million (e)		
25.0 million (f)	17,689	
	$ 684,335	$ 958,921

As at March 31, 2018, the maturities of the principal portion of debt are as follows:

2018	$
2019	
2020	17,689
2021	
2022	128,338
Thereafter	550,000
	$ 696,027

Certain of the Company s debt instruments were issued under agreements which, among other things, may limit its ability and the ability of its subsidiaries to make certain payments, including dividends. These limitations are subject to specific exceptions. As at March 31, 2018, the Company is in compliance with the terms of its debt agreements.

(a) On December 20, 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 100.00% of their principal amount. The net proceeds of the offering were $293,795, after deducting the underwriter s discount and offering expenses.

In January 2018, the Company used the net proceeds, together with cash on hand, to redeem $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. As at December 31, 2017, the total cash used to redeem the 2022 Senior Notes was classified as restricted cash and the carrying value of the 2022 Senior Notes was classified as a current liability in the Consolidated Balance Sheet.

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 4. Debt (continued)

On February 3, 2017, the Company issued $225,000 in aggregate principal amount of 6.50% senior notes which mature on February 1, 2024 (2024 Senior Notes) and on March 16, 2017, the Company issued an additional $25,000 in aggregate principal amount of its 2024 Senior Notes. The 2024 Senior Notes were issued at a price of 100.00% 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 from the 2024 Senior Notes, 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 a German sawmill and bio-mass power plant near Friesau Germany (the Friesau Facility) and for general working capital purposes. In connection with the redemption, the Company recorded a loss on settlement of debt of $10,696 in the Interim Consolidated Statement of Operations.

On November 26, 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 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 2026 Senior Notes, upon not less than 10 days or more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) discussed below, plus accrued and unpaid interest to (but not including) the applicable redemption date. 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 prices (expressed as percentages of principal amount) discussed below, plus accrued and unpaid interest to (but not including) the applicable redemption date. The 2026 Senior Notes redemption prices are equal to 102.750% for the twelve month period beginning on January 15, 2021, 101.375% for the twelve month period beginning on January 15, 2022, and 100.000% beginning on January 15, 2023 and at any time thereafter. The 2024 Senior Notes redemption prices are equal to 103.250% for the twelve month period beginning on February 1, 2020, 101.625% for the twelve month period beginning on February 1, 2021, and 100.000% beginning on February 1, 2022 and at any time thereafter. The 2022 Senior Notes redemption prices are equal to 105.813% for the twelve month period beginning on December 1, 2017, 103.875% for the twelve month period beginning on December 1, 2018, 101.938% for the twelve month period beginning on December 1, 2019, and 100.000% beginning on December 1, 2020 and at any time thereafter.

(b) A 75.0 million revolving credit facility at the Stendal mill that matures in October 2019. Borrowings under the facility are collateralized by the mill s inventory and accounts receivable and bear interest at Euribor plus 3.50%. As at March 31, 2018, approximately 0.1 million ($161) of this facility was supporting bank guarantees leaving approximately 74.9 million ($92,246) available.

(c) A C$40.0 million revolving credit facility at the Celgar mill that matures in May 2019. Borrowings under the facility are collateralized by the mill s inventory and accounts receivable and are restricted by a borrowing base calculated on the mill s inventory and accounts receivable. Canadian dollar denominated amounts bear interest at bankers acceptance plus 1.50% or Canadian prime. U.S. dollar denominated amounts bear interest at LIBOR plus 1.50% or U.S. base. As at March 31, 2018, approximately C$1.7 million ($1,318) was supporting letters of credit and approximately C$38.3 million ($29,705) was 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 4. Debt (continued)

(d) A 70.0 million joint revolving credit facility that matures in April 2022. The Rosenthal mill has full access to the available amount under the facility and the Company s wholly owned subsidiary, Mercer Timber Products GmbH has access to a maximum of 45.0 million. Borrowings under the facility are collateralized by the borrowers inventory and accounts receivable and bear interest at Euribor plus 2.95% . As at March 31, 2018, approximately 23.0 million ($28,338) of this facility was drawn and accruing interest at a rate of 2.95% and approximately 11.6 million ($14,331) of this facility was supporting bank guarantees leaving approximately 35.4 million ($43,578) available.

(e) A 5.0 million revolving credit facility at the Rosenthal mill that matures in December 2018. Borrowings under this facility bear interest at the rate of the three-month Euribor plus 2.50% and are secured by certain land at the Rosenthal mill. As at March 31, 2018 approximately 2.6 million ($3,144) of this facility was supporting bank guarantees leaving approximately 2.4 million ($3,016) available.

(f) A 25.0 million revolving credit facility for the Company s wholly owned German subsidiary, Mercer Holz GmbH (Mercer Holz), that matures in February 2020. Borrowings under this facility bear interest at Euribor plus 3.30% and are secured by Mercer Holz s inventory and accounts receivable. As at March 31, 2018, approximately 14.4 million ($17,689) of this facility was drawn and accruing interest at a rate of 3.30% and approximately 0.9 million ($1,134) of this facility was supporting bank guarantees leaving approximately 9.7 million ($11,980) available.

Note 5. Pension and Other Post-Retirement Benefit Obligations

Defined Benefit Plans

Included in pension and other post-retirement benefit obligations are amounts related to the Company s Celgar and Rosenthal mills. The largest component of these obligations is with respect to the Celgar mill which maintains a defined benefit pension plan and other post-retirement benefit plans for certain employees (the Celgar Defined Benefit Plans).

Pension benefits are based on employees earnings and years of service. The Celgar Defined Benefit Plans are funded by contributions from the Company based on actuarial estimates and statutory requirements.

The components of the net benefit costs relating to the Celgar Defined Benefit Plans for the three month periods ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31,			
	2018		2017	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Service cost	$ 26	$ 120	$ 23	$ 143
Interest cost	323	182	328	232
Expected return on plan assets	(393)		(493)	
Amortization of unrecognized items	234	(53)	257	36
Net benefit costs	$ 190	$ 249	$ 115	$ 411

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

Defined Contribution Plan

Effective December 31, 2008, the Celgar Defined Benefit Plans were closed to new members. In addition, the defined benefit service accrual ceased on December 31, 2008, and members began to receive pension benefits, at a fixed contractual rate, under a new defined contribution plan effective January 1, 2009. During the three month period ended March 31, 2018, the Company made contributions of $218 (2017 $267), to this plan.

Multiemployer Plan

The Company participates in a multiemployer plan for the hourly-paid employees at the Celgar mill. The contributions to the plan are determined based on a percentage of pensionable earnings pursuant to a collective bargaining agreement. The Company has no current or future contribution obligations in excess of the contractual contributions. During the three month period ended March 31, 2018, the Company made contributions of $487 (2017 $478), to this plan.

Note 6. Income Taxes

The income tax provision attributable to income before provision for income taxes in the Interim Consolidated Statement of Operations differs from the amounts computed by applying the U.S. Federal statutory income tax rate of 21% (2017 - 35%) for the three month periods ended March 31, 2018 and 2017 as a result of the following:

	Three Months Ended March 31, 2018	2017
U.S. Federal statutory rate	**21%**	**35%**
U.S. Federal statutory rate on income before provision for income taxes	$ (7,398)	$ (6,022)
Tax differential on foreign income	(4,589)	2,417
Effect of foreign earnings	(2,717)	
Change in undistributed earnings		(2,482)
Valuation allowance	18,245	(4,154)
Adjustment to uncertain tax position	(16,677)	
Tax benefit of partnership structure	897	1,216
Non-taxable foreign subsidies	756	559
True-up of prior year taxes	2,610	380

Foreign exchange on valuation allowance		(322)		237
Foreign exchange on settlement of debt				550
Other		(386)		(182)
	$	(9,581)	$	(7,481)
Comprised of:				
Current income tax provision	$	(4,769)	$	(3,272)
Deferred income tax provision		(4,812)		(4,209)
	$	(9,581)	$	(7,481)

As at March 31, 2018, the Company had approximately $60,600 of total gross unrecognized tax benefits, which if recognized would not impact the Company s effective tax rate. The liability related to the unrecognized tax benefit is fully offset by a reduction in the valuation allowance. The Company did not recognize any interest or penalties related to the unrecognized tax benefits.

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. Income Taxes (continued)

The Tax Cuts and Jobs Act (the Act) enacted on December 22, 2017 resulted in substantial changes including reducing the US federal corporate income tax rate from 35% to 21% and requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. The Company applied the guidance in Staff Accounting Bulletin No. 118 and at December 31, 2017 calculated its best estimate of the impact of the Act in its year end income tax provision.

During the three month period ended March 31, 2018, the Company did not record any measurement period adjustments to the provisional estimates recorded at December 31, 2017. Final accounting for these impacts is expected in the third quarter of 2018 subsequent to the Company s completion of the 2017 tax return.

Note 7. Net Income Per Common Share

	Three Months Ended March 31, 2018		2017	
Net income				
Basic and diluted	$	25,649	$	9,726
Net income per common share				
Basic and diluted	$	0.39	$	0.15
Weighted average number of common shares outstanding:				
Basic(1)		65,050,275		64,767,944
Effect of dilutive shares:				
Performance Share Units (PSUs)		492,031		491,046
Restricted shares		32,515		28,768
Diluted		65,574,821		65,287,758

(1) For the three month period ended March 31, 2018, the basic weighted average number of common shares outstanding excludes 43,635 restricted shares which have been issued, but have not vested as at March 31, 2018 (2017 38,000 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, 2018 and 2017.

Note 8. Shareholders Equity

Dividends

In February 2018, the Company s Board of Directors declared a quarterly dividend of $0.125 per common share. Payment of the dividend was made on April 4, 2018 to all shareholders of record on March 28, 2018.

In May 2018, the Company s Board of Directors declared a quarterly dividend of $0.125 per common share. Payment of the dividend will be made on July 6, 2018 to all shareholders of record on June 27, 2018. Future dividends are subject to approval by the Board of Directors and may be adjusted as business and industry conditions warrant.

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)

Stock Based Compensation

In June 2010, the Company adopted a stock incentive plan which provides for options, restricted stock rights, restricted shares, performance shares, PSUs and stock appreciation rights to be awarded to employees, consultants and non-employee directors. During the three month period ended March 31, 2018, there were no issued and outstanding options, restricted stock rights, performance shares or stock appreciation rights. As at March 31, 2018, after factoring in all allocated shares, there remain approximately 2.9 million common shares available for grant.

PSUs

PSUs comprise rights to receive common shares at a future date that are contingent on the Company and the grantee achieving certain performance objectives. The performance objective period is generally three years. For the three month period ended March 31, 2018, the Company recognized an expense of $64 related to PSUs (2017 income of $249).

The following table summarizes PSU activity during the period:

	Number of PSUs
Outstanding as at January 1, 2018	1,867,158
Granted	652,548
Vested and issued	(153,243)
Forfeited	(330,455)
Outstanding as at March 31, 2018	2,036,008

Restricted Shares

Restricted shares generally vest at the end of one year. Expense recognized for the three month period ended March 31, 2018 was $129 (2017 $88). As at March 31, 2018, the total remaining unrecognized compensation cost related to restricted shares amounted to approximately $86 which will be amortized over the remaining vesting periods.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are 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, 2018	$ (50,083)	$ (8,900)	$ (18)	$ (59,001)
Other comprehensive income (loss) before reclassifications	16,285	(335)	1	15,951
Amounts reclassified from accumulated other comprehensive loss		181		181
Other comprehensive income (loss)	16,285	(154)	1	16,132
Balance as at March 31, 2018	$ (33,798)	$ (9,054)	$ (17)	$ (42,869)

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 9. Business Segment Information

The Company is managed based on the primary products it manufactures: pulp and wood products. Accordingly, the Company s three pulp mills are aggregated into the pulp business segment, and the Friesau Facility is a separate reportable business segment, wood products.

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

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, 2017 there was only one reportable business segment, pulp, as the Friesau Facility was acquired on April 12, 2017. The following tables shows information by reportable business segments for the three month periods ended March 31, 2018 and March 31, 2017.

Three Months Ended March 31, 2018	**Pulp**	**Wood Products**	**Corporate and Other**	**Elimination Adjustment**	**Consolidated**
Revenues from external customers	$ 314,235	$ 53,668	$	$	$ 367,903
Revenues from other segments	$ 354	$ 4,949	$	$ (5,303)	$
Operating income (loss)	$ 74,054	$ 2,982	$ (988)	$	$ 76,048
Depreciation and amortization	$ 21,523	$ 1,686	$ 110	$	$ 23,319
Purchase of property, plant and equipment	$ 12,473	$ 3,676	$ 35	$	$ 16,184
Total assets	$ 1,360,395	$ 126,593	$ 20,192	$	$ 1,507,180
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

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 9. Business Segment Information (continued)

Three Months Ended March 31, 2017	**Pulp**	**Wood Products**	**Corporate and Other**	**Elimination Adjustment**	**Consolidated**
Revenues from external customers	$ 242,784	$	$	$	$ 242,784
Operating income (loss)	$ 42,360	$	$ (1,014)	$	$ 41,346
Depreciation and amortization	$ 19,116	$	$ 105	$	$ 19,221
Purchase of property, plant and equipment	$ 8,164	$	$	$	$ 8,164
Revenues by major products					
Pulp	$ 220,812	$	$	$	$ 220,812
Energy and chemicals	21,972				21,972
Total revenues	$ 242,784	$	$	$	$ 242,784
Revenues by geographical markets					
U.S.	$ 4,424	$	$	$	$ 4,424
Germany	98,025				98,025
China	58,897				58,897
Other countries	81,438				81,438
Total revenues	$ 242,784	$	$	$	$ 242,784

As at December 31, 2017, the Company had total assets of $1,253,545 in the pulp segment, $116,320 in the wood products segment and $354,845 in corporate and other.

Note 10. Financial Instruments and Fair Value Measurement

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

The fair value of the senior notes classified as Level 2 was determined using quoted prices in a dealer market, or using recent market transactions.

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

	Fair value measurements as at March 31, 2018 using:						
Description	**Level 1**		**Level 2**		**Level 3**		**Total**
Revolving credit facilities	$	$	46,027	$		$	46,027
Senior notes			665,875				665,875
	$	$	711,902	$		$	711,902

	Fair value measurements as at December 31, 2017 using:						
Description	**Level 1**		**Level 2**		**Level 3**		**Total**
Revolving credit facilities	$	$	25,185	$		$	25,185
Senior notes			989,125				989,125
	$	$	1,014,310	$		$	1,014,310

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. Financial Instruments and Fair Value Measurement (continued)

Credit Risk

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

The carrying amount of cash and cash equivalents of $213,566 and accounts receivable of $212,845 recorded in the Interim Consolidated Balance Sheet, net of any allowances for losses, represents the Company s maximum exposure to credit risk.

Note 11. 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.

(c) In March 2018, the Company announced it had received the decision of the tribunal in respect of its previously initiated claim in January 2012 against the Government of Canada under the North American Free Trade Agreement (NAFTA). The basis of the claim was that the Celgar mill had received discriminatory treatment regarding its ability to purchase and sell energy compared to other pulp mills and entities that generate and sell electricity within the Province of British Columbia. The tribunal ruled that there was no violation of NAFTA and as is customary in these matters, the tribunal awarded costs to the Government of Canada of approximately $6,951.

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 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, 2018, 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) MW refers to megawatts and MWh refers to megawatt hours; (vii) Mfbm refers to thousand board feet of lumbe and MMfbm mean million board feet of lumber; and (viii) our lumber metrics are converted from cubic meters to Mfbm using a conversion ratio of 1.6 cubic meters to 1 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, 2018 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, 2017 filed with the Securities and Exchange Commission, referred to as the SEC .

Results of Operations

General

We have two reportable operating segments, being the pulp business and, since the April 2017 acquisition of one of Germany s largest sawmills and a bio-mass power plant, referred to as the Friesau Facility , the wood products business.

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

Current Market Environment

In the first quarter of 2018, pulp prices in Europe, China and North America increased compared to fourth quarter of 2017 due to continued steady demand, producer downtime, low paper producer inventories and lower levels of recycled fiber availability in China due to recent import restrictions.

Overall, our average pulp sales realizations were approximately 9% higher in the first quarter of 2018 compared to the fourth quarter of 2017.

At the end of the current quarter, list prices in Europe, China and North America were approximately $1,130, $910 and $1,260 per ADMT, respectively.

Currently, the NBSK pulp market is generally balanced with world producer inventories at about 31 days supply. Looking forward, we believe the new pulp production capacity that has or is coming online will not materially adversely impact the market in the near term as a result of continued steady demand growth, producer downtime and declining recovered or waste paper availability in China.

In the second quarter of 2018, we have an aggregate of 26 days of scheduled maintenance downtime (which will reduce production by approximately 40,800 ADMTs) at our pulp mills of which 12 days are at our Stendal mill and 14 days are at our Celgar mill. Additionally, one of the two turbines at our Stendal mill will be offline for service for approximately three months commencing in the second quarter and into the third quarter of 2018.

In the first quarter of 2018, European and U.S. lumber markets continued to be strong with prices near multi-year highs and are expected to remain steady in the near term.

Summary Financial Highlights

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	(in thousands, other than per share amounts)			
Statement of Operations Data				
Pulp segment revenues	$	314,235	$	242,784
Wood products segment revenues		53,668		
Total revenues	$	367,903	$	242,784
Pulp segment operating income	$	74,054	$	42,360[1]
Wood products segment operating income		2,982		
Corporate and other operating loss		(988)		(1,014)
Total operating income	$	76,048	$	41,346
Pulp segment depreciation and amortization	$	21,523	$	19,116
Wood products segment depreciation and amortization		1,686		
Corporate and other depreciation and amortization		110		105
Total depreciation and amortization	$	23,319	$	19,221
Operating EBITDA[2]	$	99,367	$	60,567[1]
Loss on settlement of debt	$	21,515[3]	$	10,696[4]
Legal cost award	$	6,951	$	-
Provision for income taxes	$	9,581	$	7,481
Net income	$	25,649	$	9,726
Net income per common share				
Basic and diluted	$	0.39	$	0.15
Common shares outstanding at period end		65,171		64,974

(1) Adjusted as a result of our adoption of Accounting Standards Update 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost*, in the current year. See Note 1 to our Interim Consolidated Financial Statements.

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

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	(in thousands)			
Net income	$	25,649	$	9,726
Provision for income taxes		9,581		7,481

Interest expense		12,115		13,879
Loss on settlement of debt		21,515		10,696
Legal cost award		6,951		-
Other (income) expenses		237		(436)
Operating income		76,048		41,346
Add: Depreciation and amortization		23,319		19,221
Operating EBITDA	$	99,367	$	60,567

(3) Redemption of 7.75% senior notes due 2022, referred to as the 2022 Senior Notes .
(4) Redemption of 7.00% senior notes due 2019, referred to as the 2019 Senior Notes .

Selected Production, Sales and Other Data

	Three Months Ended March 31,	
	2018	**2017**
Pulp Segment		
Pulp production (000 ADMTs)	364.5	373.8
Annual maintenance downtime (000 ADMTs)	-	-
Annual maintenance downtime (days)	-	-
Pulp sales (000 ADMTs)	367.1	375.1
Average NBSK pulp list prices in Europe ($/ADMT)(1)	1,097	823
Average NBSK pulp list prices in China ($/ADMT)(1)	910	645
Average NBSK pulp list prices in North America ($/ADMT)(1)	1,233	1,033
Average pulp sales realizations ($/ADMT)(2)	783	584
Energy production (000 MWh)	438.0	472.2
Surplus energy sales (000 MWh)	175.7	202.7
Average energy sales realizations ($/MWh)	107	91
Wood Products Segment		
Lumber production (MMfbm)	102.7	
Lumber sales (MMfbm)	115.1	
Average lumber sales realizations ($/Mfbm)	418	
Energy production (000 MWh)	20.6	
Surplus energy sales (000 MWh)	20.6	
Average energy sales realizations ($/MWh)	135	
Average Spot Currency Exchange Rates		
$ / (3)	1.2289	1.0661
$ / C$(3)	0.7904	0.7555

(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) Average Federal Reserve Bank of New York Noon Buying Rates over the reporting period.

Consolidated - Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Total revenues for the three months ended March 31, 2018 increased by approximately 52% to $367.9 million from $242.8 million in the same quarter of 2017 primarily due to a 34% increase in pulp sales realizations and the inclusion of $53.7 million of wood products segment revenues.

Costs and expenses in the current quarter increased by approximately 45% to $291.9 million from $201.4 million in the first quarter of 2017 primarily due to the inclusion of costs and expenses from our wood products segment, the negative impact of a weaker dollar on our euro denominated costs and expenses and higher per unit fiber costs.

In the first quarter of 2018, operating depreciation and amortization increased to $23.2 million from $19.1 million in the same quarter of 2017 due to the negative impact of a weaker dollar on our euro denominated depreciation expense and the acquisition of the Friesau Facility.

Selling, general and administrative expenses increased to $14.4 million in the first quarter of 2018 from $9.7 million in the same quarter of 2017 primarily due to the inclusion of the wood products segment.

In the first quarter of 2018, our operating income increased by approximately 84% to $76.0 million from $41.3 million in the same quarter of 2017 primarily due to higher pulp sales realizations and the inclusion of the wood products segment partially offset by the negative impact of a weaker dollar on our euro denominated costs and expenses and higher per unit fiber costs.

In December 2017, we issued $300.0 million of 5.50% senior notes due 2026, referred to as the 2026 Senior Notes and, on January 5, 2018, we utilized the proceeds, together with cash on hand, to redeem $300.0 million of our 7.75% senior notes due 2022 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 decreased to $12.1 million from $13.9 million in the same quarter of 2017 primarily as a result of a lower interest rate on our outstanding senior notes.

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 made by the tribunal in our claim against the Government of Canada under the North American Free Trade Agreement, referred to as NAFTA .

During the first quarter of 2018, income tax expense increased to $9.6 million from $7.5 million in the same quarter of 2017 due to higher taxable income for our German mills.

For the first quarter of 2018, after giving effect to costs of $28.5 million, or $0.44 per basic and $0.43 per diluted share, for the redemption of senior notes and the NAFTA legal cost awards, our net income increased to $25.6 million, or $0.39 per share, from $9.7 million, or $0.15 per share, after giving effect to costs of $10.7 million for the redemption of senior notes in the same quarter of 2017.

In the first quarter of 2018, Operating EBITDA increased by approximately 64% to $99.4 million from $60.6 million in the same quarter of 2017 primarily due to higher pulp sales realizations partially offset by the negative impact of a weaker dollar relative to the euro and higher per unit fiber costs.

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, 2018 Compared to Three Months Ended March 31, 2017

Selected Financial Information

	Three Months Ended March 31,			
	2018		2017	
	(in thousands)			
Pulp revenues	$	290,551	$	220,812
Energy and chemical revenues	$	23,684	$	21,972
Depreciation and amortization	$	21,523	$	19,116
Operating income	$	74,054	$	42,360

Pulp revenues in the first quarter of 2018 increased by approximately 32% to $290.6 million from $220.8 million in the same quarter of 2017 due to higher sales realizations partially offset by lower sales volumes.

Energy and chemical revenues increased by approximately 8% to $23.7 million in the first quarter of 2018 from $22.0 million in the same quarter of 2017 due to the positive impact of a weaker dollar on our euro denominated revenues partially offset by lower energy sales volumes.

Pulp production decreased by approximately 2% to 364,486 ADMTs in the current quarter from 373,765 ADMTs in the same quarter of 2017 due to minor maintenance activities at the Stendal mill. We did not have any scheduled maintenance downtime in either the first quarter of 2018 or 2017.

Pulp sales volumes decreased by approximately 2% to 367,074 ADMTs in the current quarter from 375,104 ADMTs in the same quarter of 2017 primarily due to slightly lower production.

In the current quarter of 2018, list prices for NBSK pulp in Europe and China increased from the same quarter of 2017, largely as a result of overall steady demand. Average list prices for NBSK pulp in Europe were approximately $1,097 per ADMT in the first quarter of 2018 compared to approximately $823 per ADMT in the same quarter of 2017. Average list prices for NBSK pulp in China and North America were approximately $910 per ADMT and $1,233 per ADMT, respectively, in the current quarter compared to approximately $645 per ADMT and $1,033 per ADMT, respectively, in the same quarter of 2017. NBSK pulp prices are cyclical and are at or near record highs.

Average pulp sales realizations increased by approximately 34% to $783 per ADMT in the first quarter of 2018 from approximately $584 per ADMT in the same quarter of 2017 primarily due to higher list prices.

Compared to the same quarter of the prior year the dollar was weaker against the euro and Canadian dollar which increased the dollar cost of our euro and Canadian dollar costs and expenses and contributed to a negative foreign exchange impact on operating income of approximately $20.7 million when compared to the same quarter of the prior year.

Costs and expenses for our pulp segment in the current quarter increased by approximately 20% to $240.5 million from $200.4 million in the first quarter of 2017 primarily due to the negative

impact of a weaker dollar on our euro denominated costs and expenses and higher per unit fiber costs.

In the first quarter of 2018, pulp segment operating depreciation and amortization increased to $21.5 million from $19.1 million in the same quarter of 2017 primarily due the negative impact of a weaker dollar on our euro denominated depreciation expense.

On average, in the current quarter overall per unit fiber costs increased by approximately 28% from the same quarter of 2017 primarily as a result of the negative impact of a weaker dollar on our euro and Canadian dollar denominated fiber costs, weather related increased demand from Scandinavian pulp mills and lower harvesting activities in our mills fiber supply areas. Harvesting activities in Germany and British Columbia were impacted by short interruptions resulting from unseasonably wet winter conditions. Additionally, there was reduced pulp log availability in British Columbia as sawmills focused harvesting activities on rebuilding sawlog inventories that were impacted by the summer wild fires. We expect a moderate decline in per unit fiber costs in the second quarter of 2018 as a result of improved harvesting conditions.

Transportation costs for our pulp segment increased by approximately 14% to $19.9 million in the current quarter from $17.4 million in the same quarter of 2017 primarily due to the negative impact of a weaker dollar on our euro and Canadian dollar denominated transportation costs.

In the first quarter of 2018, pulp segment operating income increased by approximately 75% to $74.1 million from $42.4 million in the same quarter of 2017 primarily due to higher pulp sales realizations partially offset by the negative impact of a weaker dollar relative to the euro and higher per unit fiber costs.

Wood Products Segment - Three Months Ended March 31, 2018

Selected Financial Information

		Three Months Ended March 31, 2018 (in thousands)
Lumber revenues	$	48,168
Energy revenues	$	2,781
Wood residual revenues	$	2,719
Depreciation and amortization	$	1,686
Operating income	$	2,982

In the first quarter of 2018, lumber revenues were $48.2 million, of which approximately 27% of sales volumes were in the U.S. market and substantially all remaining sales were in Europe. European and U.S. lumber markets were generally strong with prices steady and near multi-year highs.

We produced 102.7 million board feet of lumber in the first quarter of 2018. Lumber sales volumes were 115.1 million board feet.

Average lumber sales realizations in the first quarter of 2018 were $418 per Mfbm.

In the first quarter of 2018, energy and other by-product revenues were approximately $5.5 million.

Our fiber costs were approximately 80% of our cash production costs. Unseasonably wet winter weather conditions in Germany resulted in lower harvesting activities and high fiber costs in the current quarter. As harvesting activities increase we expect modestly lower fiber costs in the second quarter of 2018.

In the first quarter of 2018, operating depreciation and amortization for our wood products segment was $1.7 million.

In the first quarter of 2018, our wood products segment operating income was approximately $3.0 million.

Liquidity and Capital Resources

Summary of Cash Flows

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Net cash from operating activities	$ 76,377	$ 53,385
Net cash used in investing activities	(16,351)	(8,404)
Net cash from (used in) financing activities	(307,733)[(1)]	1,570
Effect of exchange rate changes on cash, cash equivalents and restricted cash	535	518
Net increase (decrease) in cash, cash equivalents and restricted cash	$ (247,172)	$ 47,069

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

Cash Flows from Operating Activities. 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 provided by operating activities was $76.4 million in the three months ended March 31, 2018 and $53.4 million in the comparative period of 2017. An increase in accounts payable and accrued expenses provided cash of $18.0 million, including the legal cost award in our NAFTA claim, in the first quarter of 2018 compared to $6.9 million in the same period of 2017. An overall increase in inventories used cash of $6.8 million in the three months ended March 31, 2018 compared to a decrease in inventories providing cash of $9.4 million in the same period of 2017. An increase in accounts receivable used cash of $5.1 million in the three months ended March 31, 2018 compared to $6.3 million in the same period of 2017.

Cash Flows from Investing Activities. Investing activities in the three months ended March 31, 2018 used cash of $16.4 million primarily related to capital expenditures of $16.2 million. In the three months ended March 31, 2018, capital expenditures 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 Facility and various other smaller projects. In the same period of 2017, investing activities used cash of $8.4 million, primarily related to capital expenditures of $8.2 million comprised of a number of projects at our mills.

Cash Flows from Financing Activities. In the three months ended March 31, 2018, financing activities used cash of $307.7 million primarily in connection with the redemption of 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, paid a dividend of $8.1 million and paid $1.4 million of debt issuance costs primarily for the 2026 Senior Notes. In the same period of 2017, financing activities provided cash of $1.6 million, including an aggregate of $250.0 million from the issuance of our 6.50% senior notes due 2024, referred to as the 2024 Senior Notes , which was primarily used to redeem our 2019 Senior Notes at a cost of $234.9 million. In the first quarter of 2017, debt issuance costs for the 2024 Senior Notes used cash of $5.1 million and a dividend payment used cash of $7.4 million.

Balance Sheet Data

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

	March 31, 2018	December 31, 2017
	(in thousands)	
Financial Position		
Cash and cash equivalents	$ 213,566	$ 143,299[(1)]
Working capital	$ 476,151	$ 421,873
Total assets	$ 1,507,180	$ 1,407,271[(1)]
Long-term liabilities	$ 771,195	$ 743,578
Total equity	$ 584,494	$ 550,666

(1) Excludes restricted cash of $317.4 million held to redeem $300.0 million of 2022 Senior Notes on January 5, 2018. As a result of the weakening of the dollar versus the euro as at March 31, 2018, we recorded a net non-cash increase in the carrying value of our net assets, consisting primarily of our fixed assets denominated in euros. This non-cash increase of approximately $16.3 million does not affect our net income, Operating EBITDA or cash flows but is reflected in our other comprehensive income and as an increase to our total equity.

Sources and Uses of Funds

Our principal sources of funds are cash flows from operations and cash and cash equivalents on hand. Our principal 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, 2018	Three Months Ended March 31, 2017
	(in thousands)	
Capital expenditures	$ 16,184	$ 8,164
Cash paid for interest expense(1)	$ 3,147	$ 4,456
Interest expense(2)	$ 12,115	$ 13,879

(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. In January 2018, we redeemed $300.0 million of our 2022 Senior Notes. Interest on our 2024 Senior Notes is paid semi-annually in February and August of each year and interest on our 2026 Senior Notes is paid semi-annually in January and July of each year, commencing July 2018.

In the first quarter of 2018, we expended $8.1 million to pay a quarterly dividend of $0.125 per common share.

As at March 31, 2018, our cash and cash equivalents increased to $213.6 million from $143.3 million at the end of 2017. As at March 31, 2018, we had approximately $180.5 million available under our revolving credit facilities.

As at March 31, 2018, we had no material commitments to acquire assets or operating businesses.

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, 2017.

As at March 31, 2018, we were in full compliance with all of the covenants of our indebtedness.

Off-Balance Sheet Arrangements

At March 31, 2018, 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, 2018.

Foreign Currency

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

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

As a result of the weakening of the dollar versus the euro as at March 31, 2018, we recorded a net non-cash increase of $16.3 million in the carrying value of our net assets, consisting primarily of our fixed assets denominated in euros. As a result, our accumulated other comprehensive loss decreased to $42.9 million.

Based upon the exchange rate as at March 31, 2018, the dollar has weakened by approximately 3% against the euro and strengthened by approximately 3% against the Canadian dollar since December 31, 2017. 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, 2017. 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, 2017.

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;
- 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 the Friesau Facility and other future acquisitions may result in additional risks and uncertainties in our business;

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 Friesau Facility;

our Friesau Facility s 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 rely on government grants and 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 has caused 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, 2017. 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. NBSK pulp prices have been and are likely to continue to be volatile and can fluctuate widely over time. Between 2008 and 2018, European list prices for NBSK pulp have fluctuated between a low of approximately $575 per ADMT in 2009 to a high of $1,130 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 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 Celgar mill 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, 2017.

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, 2017. We do not believe that the outcome of such litigation will have a material adverse effect on our business or financial condition.

In March 2018, we received the decision of the tribunal in respect of our previously announced claim against the Government of Canada under NAFTA. In a split-decision, the tribunal ruled that it lacked jurisdiction to decide certain of our claims under NAFTA and, with respect to our other NAFTA claims, that they were highly complex and technical and that it would be inappropriate for the tribunal to re-determine matters calling for specialist judgment and, as a result, there was no violation of NAFTA. As is customary in these matters, the tribunal awarded costs to Canada and we recognized an expense of $7.0 million in the first quarter of 2018 in relation to such legal cost award.

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, 2017.

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, 2018, formatted in XBRL: (i) Interim Consolidated Statements of Operations; (ii) Interim Consolidated Statements of Comprehensive Income; (iii) Interim Consolidated Balance Sheets; (iv) Interim Consolidated Statements of Cash Flows; and (v) Notes to 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 3, 2018