



2018

PRESIDENTS REPORT



MERCER 2018

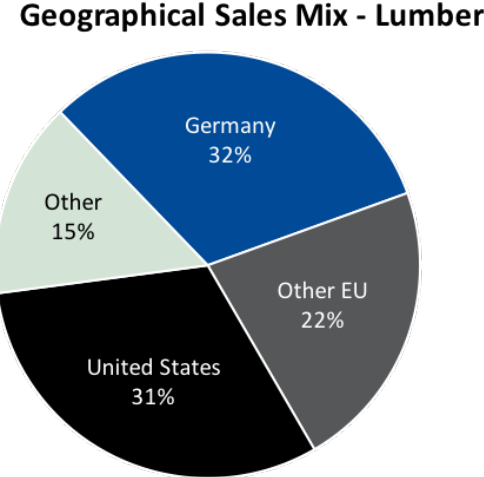
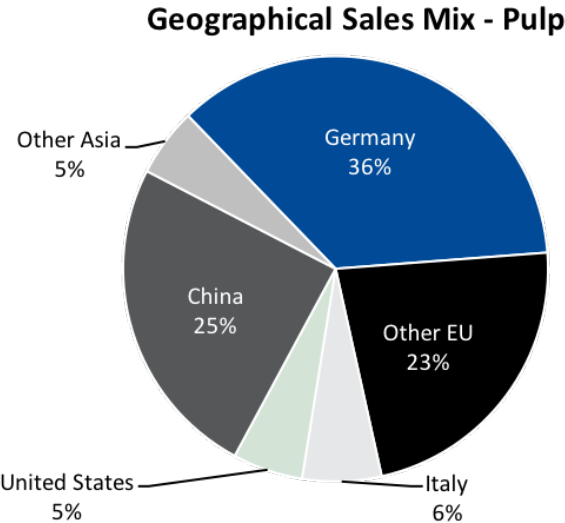
DEAR FELLOW SHAREHOLDERS;

We took considerable steps forward in 2018 executing on our value-add strategy. We achieved record earnings, completed an ambitious program of high return capital projects, and achieved the best safety performance in our history. I am very pleased with both of our recent strategic acquisitions: the purchase of Daishowa-Marubeni International Ltd. ("DMI") brought us the Peace River kraft pulp swing mill and a 50% interest in the Cariboo kraft softwood pulp mill in Western Canada and the Santanol sandalwood extraction business in Australia. Both transactions expand our product offerings in areas where we have strong core competencies. These additions also bring with them a wealth in human capital. We feel fortunate to be adding employees with vast experience and expertise that will allow us to share knowledge internally and continue to optimize our world class assets.

WE REMAIN COMMITTED TO MERCER'S FIVE-PILLAR STRATEGY:

- 1 Maintenance of world-class assets
- 2 Seizing of growth opportunities that leverage our core competencies
- 3 Diversification of our EBITDA
- 4 Prudent balance sheet management and commitment to the dividend
- 5 Maintaining the highest standard of environmental, social and governance practices





The growth pillar of our strategy was a highlight in 2018 and in the last two years we have grown our assets by about 30% and added three attractive products; lumber, hardwood pulp, and sandalwood oil.

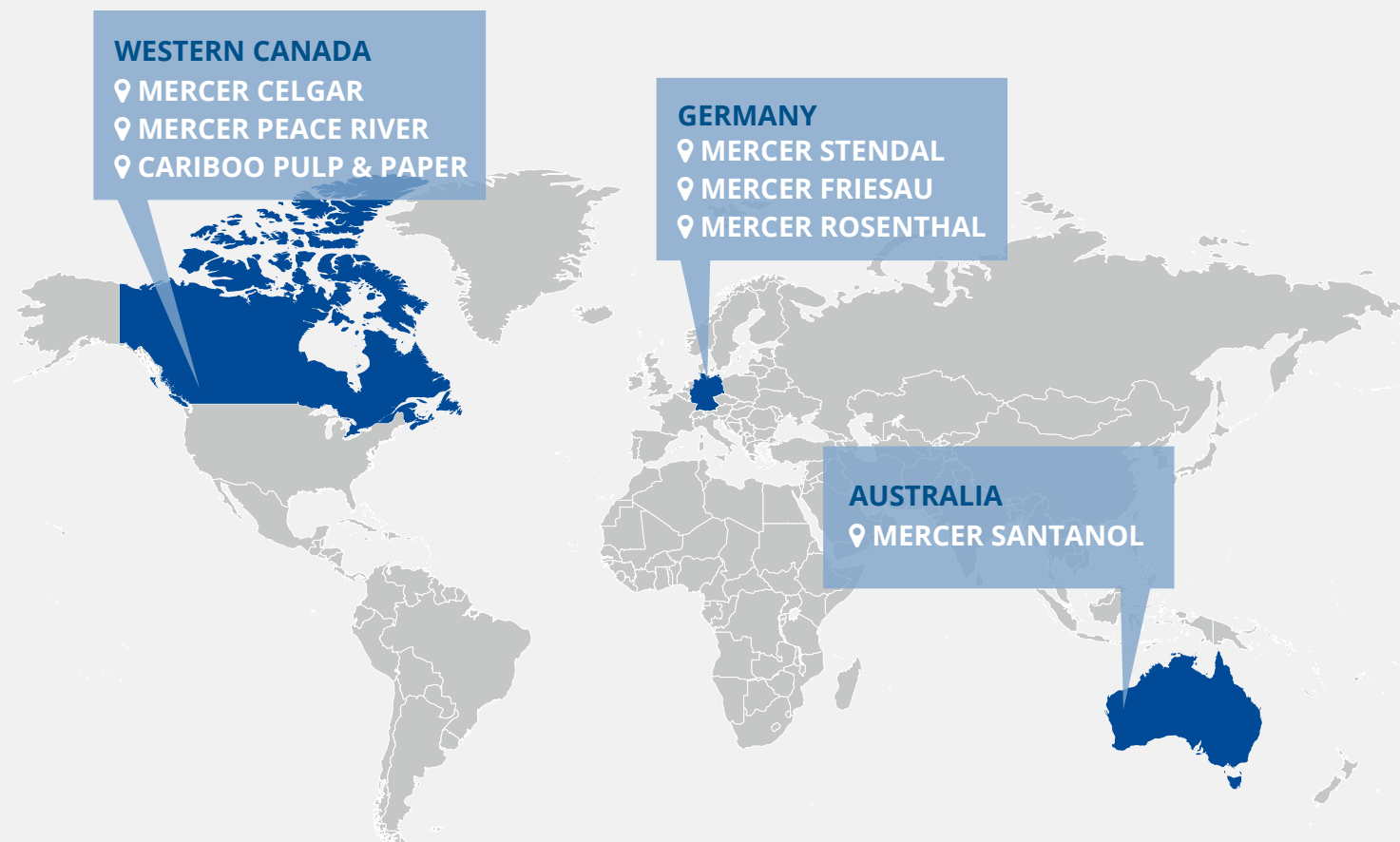
The growth is a consequence of our focus on expansion in the pulp business to take advantage of changing pulp and fibre markets, along with other businesses in which we can leverage a core competency such as lumber and extractives. As I write this letter, we are focused on integrating our new acquisitions, and working with our new community and business partners.



WORLD-CLASS ASSETS

2018 was a strong production year for our pulp and energy assets and we made significant maintenance and capital upgrade investments. At Rosenthal we completed construction of a new chip screening facility, an upgrade that will improve wood yield and capacity, important improvements that will moderate wood costs and improve reliability. We also made value added improvements to both Rosenthal's and Celgar's bleach plants, and to Stendal's water and effluent systems. Perhaps the most impactful project of the year in our pulp mills was at Celgar where we rebuilt a large section of the digester, an upgrade that was specifically designed to increase production and early indications are that this has been a very successful project. These projects have reduced our costs or made our operations more efficient. We completed the once-per-decade major overhauls of our two largest turbine generators at Stendal and Celgar during the year; taking almost 100 days of downtime for each turbine. This critical maintenance work sets each turbine up for another decade of uninterrupted operation.

In spite of the heavy downtime associated with this capital work, we produced almost 1.5 million tonnes of pulp and 1.7 gigawatt hours of power in 2018.



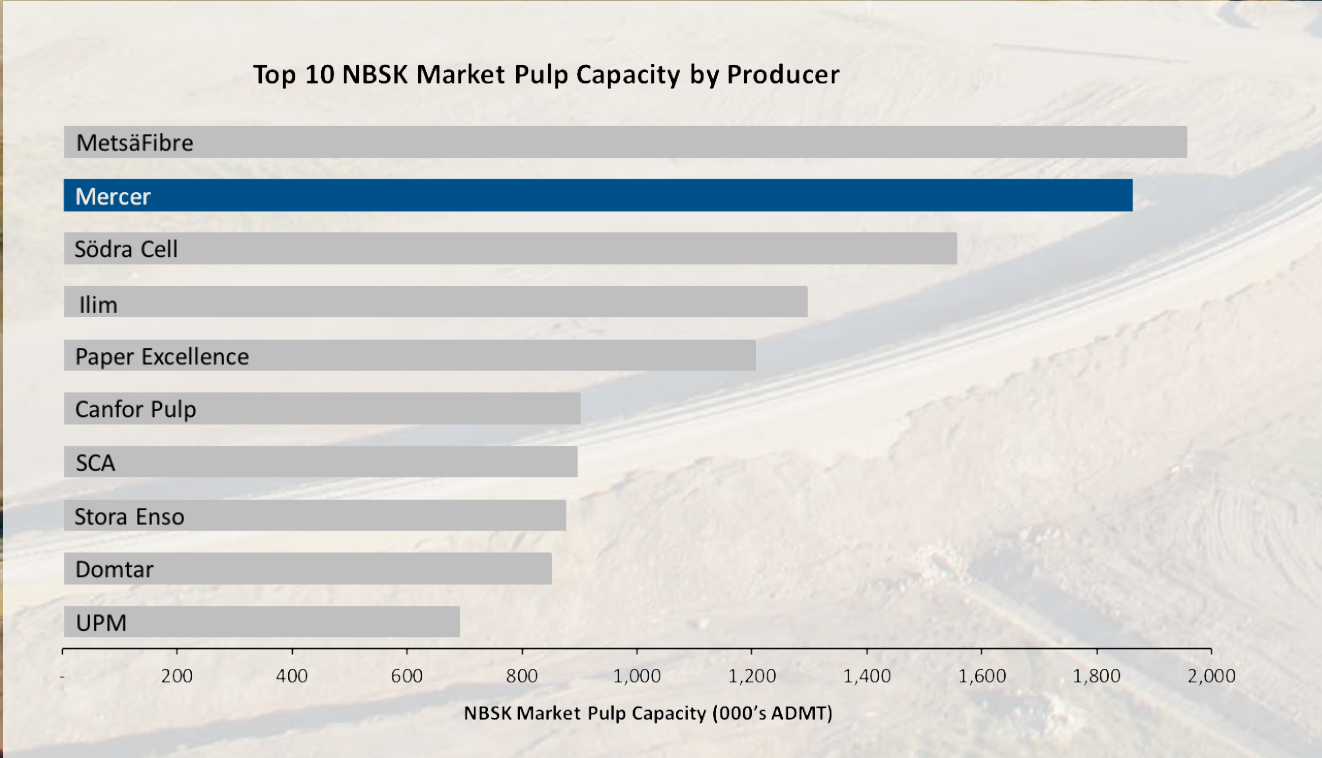
At our Friesau sawmill, we completed the phase one sawline upgrades of our two-phase project to expand the mill's production capacity and efficiency. Phase one of the project has increased the sawmill's capacity and yield, and introduced automated lumber grading to the mill, while phase two, which will be completed in 2020, includes the construction of a new planer mill and upgrades to the mill's lumber sorting capability. The completed two-phase expansion will increase lumber production capacity, improve product values and lower costs.

Overall we invested \$87 million in our operations in 2018, with the majority of that being high return capital projects.



I can't talk about our modern pulp mills without mentioning the Peace River mill that we acquired in December.

This mill is a modern swing kraft mill that can produce both NBSK and NBHK pulp, with a total capacity of 475,000 tonnes. We believe we can add value by bringing certain operating synergies to the operation and are excited to have such a solid mill added to the Mercer family.



2

SEIZING OF GROWTH OPPORTUNITIES THAT LEVERAGE OUR CORE COMPETENCIES

We believe that we have created a company that is a solid platform for growth and our growth will be strategic, targeted in the spaces where we have clear competence or a leadership position:

- Pulp
- Wood products
- Bio-energy
- Wood extractives and derivatives

This targeted approach has allowed us to close on three strategic acquisitions in less than two years. The acquisitions have solidified our position in global forest products markets and improved our income generation capability. We also grew organically in 2018 and we reinvested \$87 million in our production facilities during the year, the majority of which was in high return capital projects. We are planning to invest in even more high return capital projects in 2019.



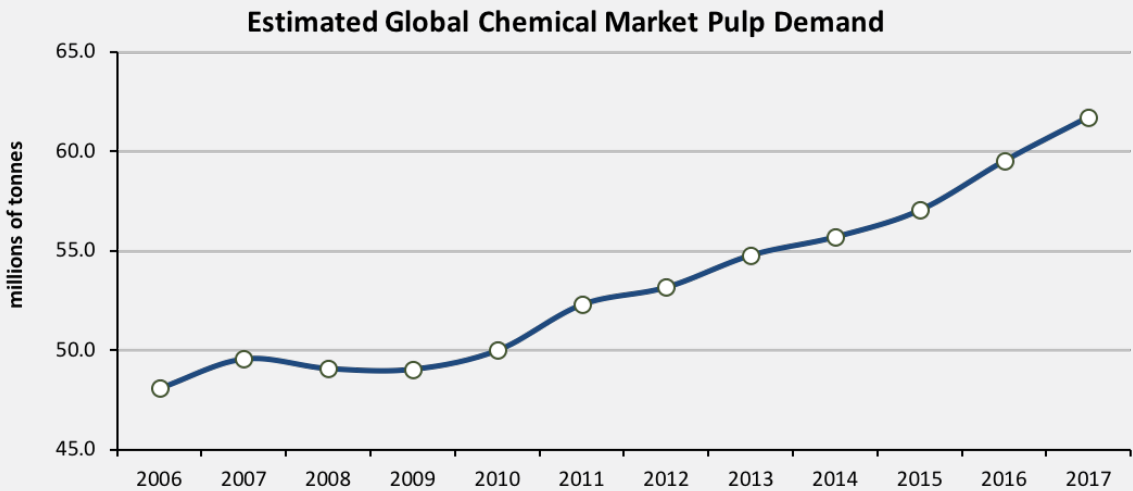
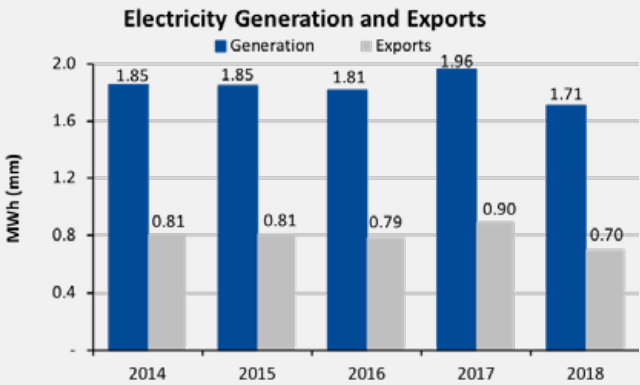
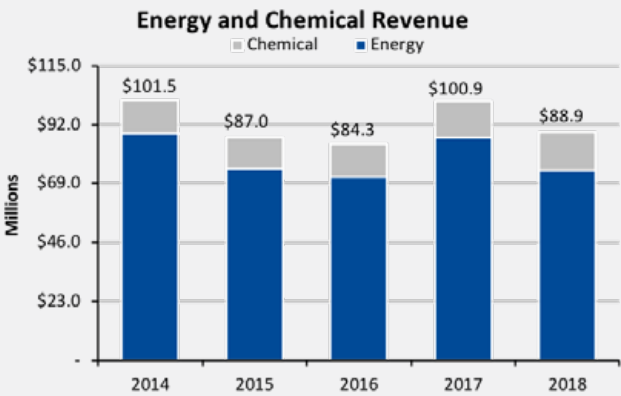


DIVERSIFYING OPERATING EBITDA

2018 saw record NBSK pricing which was supported by strong demand through most of the year.

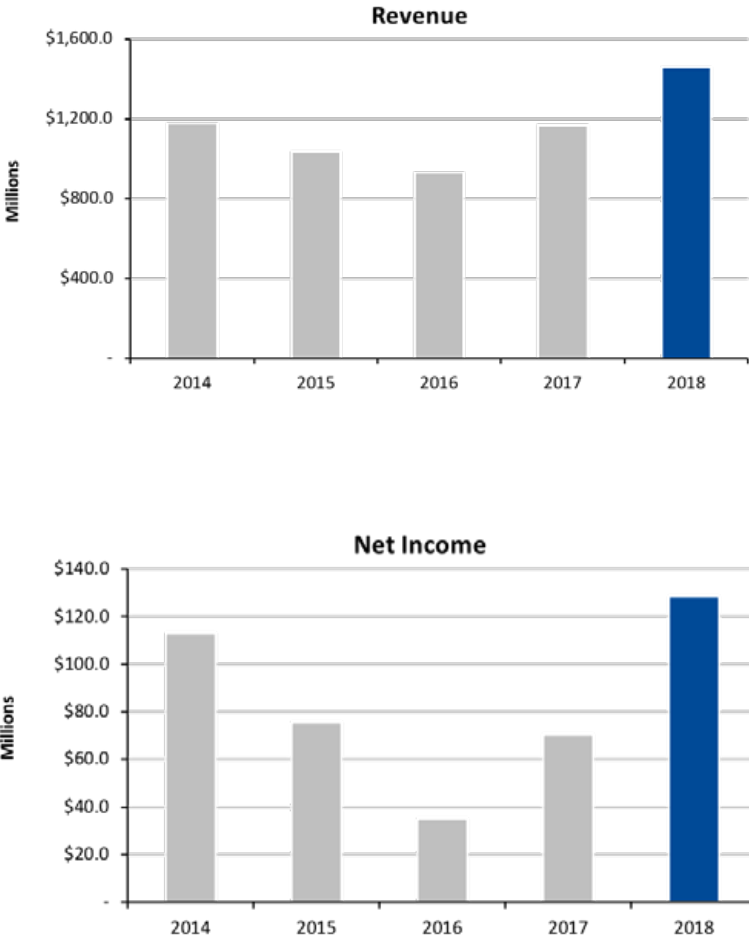
2018 generally saw record NBSK pricing which was supported by strong demand through most of the year but slipped late in the year, particularly in China, due to global trade concerns. Lumber markets also experienced record prices in the U.S. before falling due to strong supply in a market that was beginning to show signs of seasonal weakness.

In early 2019 we have seen the pulp markets stabilize on steady demand, although with higher than normal inventory levels. Similarly, we are seeing lumber pricing begin to strengthen in the U.S. while European pricing has been generally stable.



As part of our disciplined growth strategy, we recognize the benefits of the diversification of our EBITDA sources. As a consequence we have been active in both the lumber and wood extractives markets. To date these investments have been relatively small. We like lumber for its strong future demand profile and for the synergies with our pulp business. Similarly, we feel our sandalwood business gives us a strong platform for future expansion in a sector that is growing and has a solid future as more and more

people realize the environmental and health benefits of sustainably harvested wood extractives. We believe pulp and lumber markets will slowly strengthen over the course of the year. In addition, we believe the long-term outlook of these markets is very bright as the global growth of the middle class continues to increase demand for our products, and future fiber supply limitations constrain future capacity increases.



PRUDENT BALANCE SHEET MANAGEMENT AND COMMITMENT TO THE DIVIDEND

We have placed the company in a position to benefit from future global economic expansion, while maintaining a prudent balance sheet to protect ourselves on the downside.

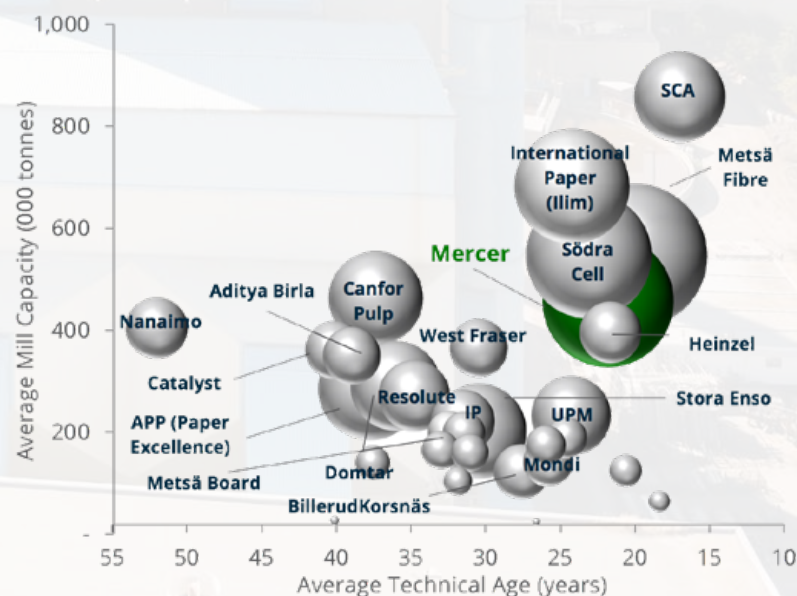
A key part of our strategy is sustainable and disciplined growth. Consequently, we put a lot of consideration into how we grow, how we finance that growth, and the impact it will have on our balance sheet.

We are always monitoring our financial position for opportunities to make our balance sheet more efficient. Early in 2018 we saw a chance to significantly reduce our debt carrying costs, and we opportunistically refinanced \$300 million of our 7.75% 2022 Senior Notes, exchanging them for \$300 million of 5.5% 2026 Senior Notes, saving almost \$7 million annually in lower debt carrying costs.

In December this year we issued \$350 million of 7.38% Senior Notes, which we used to finance our Peace River and Cariboo pulp mill acquisition. While the transaction increased our total debt level we expect our enhanced operating EBITDA to comfortably support this debt, our dividend commitment, and our future capital investment plans.

In 2018 our total revenues were almost \$1.5 billion, which is up almost \$0.3 billion from 2017. Part of the increase was due to having our Friesau sawmill for a full year in 2018, but the majority was the result of strong pulp pricing throughout the year.

NBSK Producer Competitiveness (1)(2)



¹Source: FisherSolve Q4 2018. Mercer includes Peace River, excludes 50% interest in Cariboo. SCA, Metsä Fibre reflect completion of ramp-up of Östrand and Äänekoski
²NBSK market pulp only



Operating EBITDA¹ totaled a record of approximately \$365 million, up \$111 million from last year. A reconciliation of operating EBITDA to net income is provided below. The following table provides a reconciliation of net income to operating income and operating EBITDA for the year indicated:

	YEAR ENDED DECEMBER 31,		
	2018	2017	2016
	(in thousands)		
Net Income	\$128,589	\$70,483	\$34,943
Provision for income taxes	\$48,681	\$33,452	\$24,521
Interest Expense	\$51,464	\$54,796	\$51,575
Loss on settlement of debt.....	\$21,515	\$10,696	\$454
Legal cost award	\$6,951	-	-
Acquisition commitment fee	\$5,250	-	-
Other expenses (income)	\$5,417	(\$873)	\$3,631
Operating income	\$267,867	\$168,554	\$115,124
Add: Depreciation and amortization	\$96,729	\$85,294	\$71,984
Operating EBITDA	\$364,596	\$253,848	\$187,108

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

Net income in 2018 was approximately \$129 million, or \$1.97 per basic share, compared to net income of \$70 million, or \$1.09 per basic share in 2017.

Our financial strength has allowed us to maintain and stay committed to our quarterly dividend; currently at \$0.125 per share.

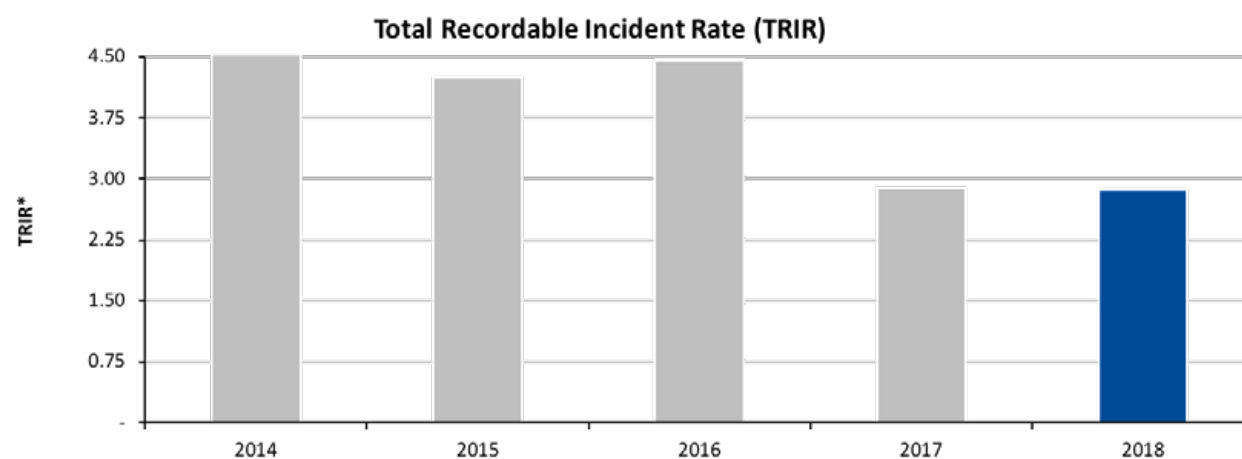


MAINTAINING THE HIGHEST STANDARD OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES

Our growth builds on our social licence which requires we operate in a way that respects people and the environment. Our values inspire us to continually earn that licence while our strategy highlights the value this creates for stakeholders. Our best practices leadership in the areas of environmental, social and corporate governance advances the interests of all of our stakeholders.

We are committed to our people: our employees and their families. This means fair and transparent dealings and intense focus on their health and safety. I am proud to report that we have achieved our best safety record ever in 2018. We have committed fully to our “Road to Zero” health and safety program, and we are seeing the benefits as our safety culture becomes more ingrained in our day to day activities.

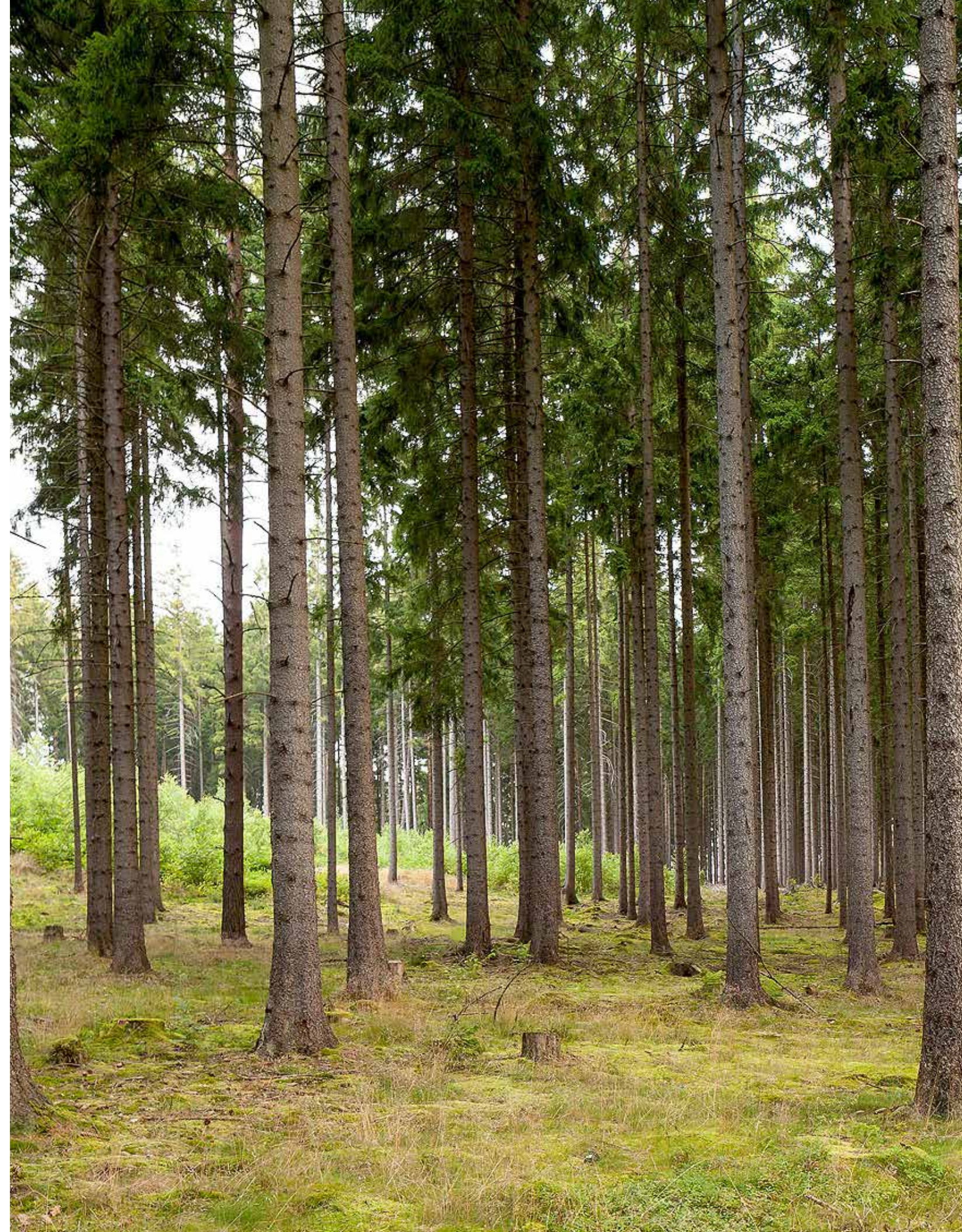
I am very pleased with our record safety result in 2018, but zero injuries remains our objective in 2019 and beyond.



*Incidents per 200,000 working hours

Sustainability for us also means a deep connection and transparent engagement with our communities and our neighbors - those who are next door, across the river or on the farm beside us. Our vehicles drive down the same streets on which our children walk to school and woodlands activities are in some traditional hunting grounds. Our objective is not just to be tolerated in our communities, but to be good neighbors who welcome engagement with community leaders. If we hear that one of our yard lights is too bright or if a piece of equipment is too noisy or if our woodland plans are too close to a trap line we actively work with the community to find solutions. We work with community leaders to ensure our communities grow and thrive. Through our donation programs, we support youth in sports and education; environmental initiatives, arts and culture, health and safety programs, and we continue to look for opportunities to give back in time and other forms of assistance.

Supporting and maintaining healthy communities is critical for our success and will always be a core objective of ours.





We are also committed to best-in-class environmental performance.

Our mills are some of the most modern in our industry, and we have state-of-the-art environmental protections and best practices built into them. We are proud to be part of the “30 by 30” Climate Change Challenge by the Forest Products Association of Canada (FPAC), making the forest sector the first to voluntarily contribute to Canada’s climate goals. The Canadian forest industry is pledging to remove 30 million tonnes of CO₂ a year by 2030 – more than 13% of the Canada’s emissions target.

But to us, this is part of our DNA as we continuously strive to improve. We are focused on reducing our environmental impact and will invest considerable resources to achieve these objectives. In 2018, we spent approximately \$21 million of capital on environmental upgrades to our water and air systems – systems that further reduce our water usage and improve our emission quality.

With the acquisition of our Peace River mill, we also became stewards of approximately 2.7 million hectares of Boreal forest in northwestern Alberta. These Forest Management Areas are managed sustainably in perpetuity by our own professional foresters. This management involves coordinating input from Indigenous communities, as well as the general public through an advisory committee. We not only sustainably manage forests, but also provide, help preserve, and enhance habitat for wildlife, including species at risk. We use the latest research and science to guide our ecological-based forest management approach that results in more natural outcomes, such as maintaining greater variability across the landscapes.



2019 - BUILDING ON SUCCESS

As we move through 2019, we will continue to advance our value creation strategy, with a relentless focus on continuous improvement across all aspects of our business. We have developed our core competencies over the long-term, keenly aware they can continue to be steadily improved. We look forward to reporting our progress against our strategy and goals in the year ahead, and to active dialogue with investors, analysts and other Mercer stakeholders.

Finally, I would like to thank our Board of Directors for their guidance and support. Most of all, I would like to thank our employees for the innovative spirit they bring to work each day to propel us to the safe, sustainable and growing company we strive to be for all of our stakeholders.

Mercer International Inc.

Handwritten signature of David M. Gandossi.

David M. Gandossi, FCPA, FCA
Chief Executive Officer and President

A MESSAGE FROM THE BOARD

Dear Fellow Shareholders;

In 2018 your Board continued to provide thoughtful independent guidance and oversight, and ensured that we adhered to Mercer's strong governance practices.

We were pleased with Mercer's 2018 results. A number of operating and financial records were achieved, which highlights the effectiveness of Mercer's employees and management team. Equally as satisfying to us was the successful execution of Mercer's growth strategy, and we are happy with the latest additions to the Mercer family. The new pulp assets will bring operational synergies, and our diversified product mix will make us more appealing to customers. Our new sandalwood extraction business is an innovative business that will provide a solid platform to grow in the extractives space. We continue to have growth aspirations in areas where we have strong core competencies.

We are also pleased with the steady progress of our health and safety program, and Mercer's commitment to sustainable operations. Your Board is focused on sustainability, and as a result Mercer will continue to invest in our communities and initiatives that reduce our emissions and improve safety. We are also committed to ensuring management continues its outreach program of engaging with all stakeholders.

The Board would also like to thank our CEO, David Gandossi and the entire Mercer team for their efforts and commitment in what has been an excellent year for the company.



Jimmy Lee
Executive Chairman of the Board

SHAREHOLDER INFORMATION

MARKET INFORMATION

Our shares are listed and quoted for trading on the NASDAQ Global Market under the symbol "MERC". The following table sets forth the high and low sale prices of our shares on the NASDAQ Global Market for each quarter in the two-year period ended December 31, 2018, and for the period ended March 31, 2019.

FISCAL QUARTER ENDED		
2017		
	High	Low
March 31	\$12.98.....	\$10.35
June 30.....	\$12.70.....	\$10.95
September 30	\$12.45.....	\$10.45
December 31	\$15.00.....	\$11.70
2018		
	High	Low
March 31	\$14.90.....	\$12.05
June 30.....	\$17.75.....	\$12.20
September 30	\$18.75.....	\$15.45
December 31	\$19.14.....	\$9.36
2019		
	High	Low
March 31	\$15.78.....	\$10.12

ANNUAL MEETING

The Annual Shareholders' Meeting will be held on May 31, 2019.

FORM 10-K

A copy of our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission is enclosed with and forms a part of this President's Report. The Form 10-K provides important information about the Company, including business, financial and other information and should be read in conjunction with this report.

SHAREHOLDER INFORMATION

As at March 31, 2019, there were a total of 65,651,056 shares outstanding.

FORWARD-LOOKING STATEMENTS

The preceding includes forward-looking statements which involve known and unknown risks and uncertainties which may cause the Company's actual results in future periods to differ materially from forecasted results. Among those factors which could cause actual results to differ materially are the following: market conditions, competition and other risk factors listed from time to time in the Company's SEC reports.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Jimmy S.H. Lee****

Executive Chairman of the Board

David M. Gandossi****

President and CEO

R. Keith Purchase ******

Retired Businessman

William D. McCartney***

Pemcorp Management Corp.

Bernard J. Picchi***

Managing Director, Palisade
Capital Management, LLC

James Shepherd* ******

Director, Buckman Laboratories
International Inc.

Martha A.M. Morfitt****

President and CEO, River Rock
Partners

Alan C. Wallace****

CEO of Peloton Advisors Inc.

Linda J. Welty ******

Director, Huber Engineered
Materials; President and CEO of
Welty Strategic Consulting, LLC

* Member of Audit Committee

** Member of Governance and Nominating Committee

*** Member of Compensation Committee

**** Member of Environmental, Health and Safety Committee

EXECUTIVE OFFICERS, SENIOR MANAGEMENT

David M. Gandossi

President, CEO and Director

David K. Ure

Senior Vice President, Finance, CFO
and Secretary

Adolf Koppensteiner

COO and Managing Director, Stendal

Wolfram Ridder

VP Business Development and
Managing Director Stendal Pulp
Holding

Brian Merwin

VP Corporate Development

Leonhard Nossol

Controller, European Operations
and Managing Director, Rosenthal

André Listemann

Managing Director, Stendal

Kenneth William MacPherson

Managing Director, Celgar

Shawn Elliott

Mill Manager, Peace River

Carsten Merforth

Managing Director, Friesau

Richard Short

VP Controller

Genevieve Stannus

Treasurer

SALES AND MARKETING LEADERSHIP

NBSK

Eric Heine

VP Sales, Marketing and Logistics, North America & Asia

Uwe Bentlage

Managing Director Mercer Pulp Sales and VP Sales and
Marketing, Europe

Nils Hegerding

VP Sales and Marketing, Europe

Wood products

Frank Turnbull

Director of U.S. Sales

Johannes Mörth

Sales Director

Bob Iwami

Director of Asia Sales

OFFICES

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info@zellstoff-stendal.de

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info@mercertimber.com

INVESTOR RELATIONS AND MEDIA CONTACTS

David M. Gandossi

President, CEO and Director

David K. Ure

Senior Vice President, Finance, CFO
and Secretary

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e-mail: info@mercerint.com

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LEGAL

**Sangra Moller LLP Barristers and
Solicitors**

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Vancouver, BC Canada V6C 3L2

INCORPORATION

Washington State, USA

WEBSITE

mercerint.com

STOCK LISTINGS

NASDAQ Global Market

Trading Symbol: MERC

TRANSFER AGENTS

Computershare Investor Services

P.O. BOX 505000
Louisville, KY 40233-5000

OR

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Toll Free# 800-522-6645
Foreign Shareholders: 201-680-6578

SHAREHOLDER WEBSITE

www.computershare.com/investor



