MERCER | international

2020

PRESIDENT'S REPORT

DEAR FELLOW SHAREHOLDERS:

As I look back on 2020 the word “unprecedented” comes to mind although that doesn’t do it justice. As an organization, we maintain a rigorous enterprise risk management plan and while a global pandemic had been identified as a risk for years, like most, we were surprised nonetheless at the extent of the consequences of the outbreak of COVID-19. However, because this risk was identified, our crisis management team was able to respond quickly to the threat. Mercer was ahead of the curve in our ability to lock down our operations, including changing shifting structures, minimizing employee contact, implementing work safety measures, planning alternative supply chains, as well as moving as many people out of our offices to home workspaces as possible. I could not be more proud of how our people reacted to this unprecedented threat. Despite the challenges during 2020 our operations all ran efficiently, and we did not experience any operational downtime due to COVID-19.

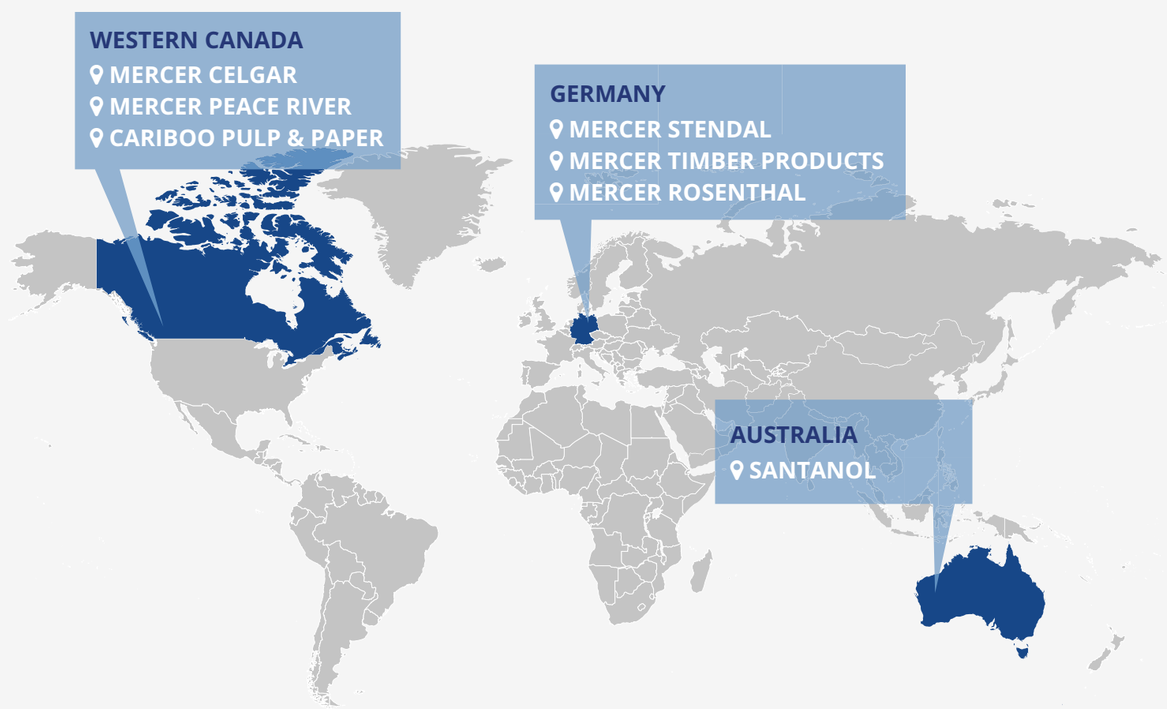
The impact of the pandemic on our business has been mixed. Pulp markets were weak heading into 2020 and the pandemic created strong demand for tissue, hygiene and packaging products but weaker demand for printing and writing products. On the lumber side, we saw prices for lumber fall early in the pandemic primarily due to uncertainty around home construction, but shortly thereafter we saw historic price increases during the summer and fall, as new home demand and do-it-yourself home projects fueled robust lumber demand. Although lumber prices came off somewhat late in 2020 we are currently seeing very strong lumber demand and pricing in early 2021.

At its onset the pandemic caused us to pause and re-think some of our objectives for 2020; ultimately we did not change much. We continue to believe in our strategy of operating modern mills, our focus on operational excellence, our belief in the importance of renewable wood-based products and biomaterials produced sustainably through the full utilization of our fibre resources. Indeed, we believe the pandemic has highlighted our resilience and the importance of our products to society.

I believe we are well-positioned for 2021. As the global economy continues to gain confidence and strength on the back of successful COVID-19 vaccine programs, we believe the five pillars of our strategy will continue to serve us well.

THE FIVE PILLARS OF OUR STRATEGY ARE:

1. Operate world-class assets
2. Grow and diversify where we have core competencies
3. Manage the integrity of our balance sheet and liquidity
4. Ensure sustainable operations
5. Develop our talent



1

OPERATE WORLD-CLASS ASSETS

In 2020 we invested about $80 million in capital upgrades at our operations. The focus of these investments was on high-return capital projects.

At our Stendal and Rosenthal mills, we continue to invest in projects that will allow us to take advantage of the German government's wastewater fee reduction incentive: a program that provides wastewater fee waivers for companies that continue to advance their environmental performance through capital expenditures.

We also have completed the majority of the Friesau sawmill expansion. We expect the final element of this project, which is the lumber sorting equipment, to be fully installed in early 2021. The project when completed will make Friesau one of the largest, most modern and flexible mills in the world. It will be able to efficiently produce lumber products for every market in the world.

We have also begun the work to expand the Stendal mill's pulp capacity by 80,000 tonnes per year, taking its capacity to 740,000 tonnes. We expect this work to be completed in late 2021.

2

GROW AND DIVERSIFY WHERE WE HAVE CORE COMPETENCIES

Our growth ambitions were put on hold temporarily due to the uncertainty created by the global pandemic, but we remain committed to growing Mercer in areas where we have a leadership position or a strong competency. Our future growth will focus on:

Pulp
Wood Products
Wood Extractives
Green Energy

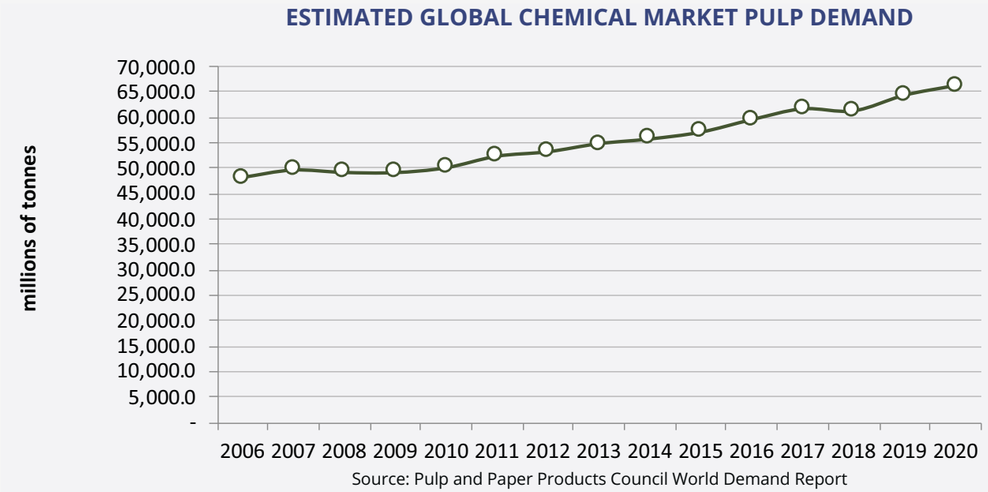
We remain pleased with our recent acquisitions. Our 2017 Friesau sawmill acquisition has diversified our product mix and given us significant synergistic benefits. As a result we continue to invest in this business and are open to further expansion, including the possibility of constructing a sawmill near our Stendal pulp mill.

Our Peace River mill, acquired in late 2018, has expanded our product mix even further and given us access to new markets. We are also benefiting from sales, logistic and purchasing synergies with our Celgar mill. This is a modern mill with access to its own fiber tenure, which we see as a significant benefit in a world where sustainable fiber is becoming a limited resource.

We continue to develop our sandalwood business in Australia. We remain excited about this business as the plantations draw nearer to maturing. Though the pandemic has impacted some of our customers who focus on the luxury fragrance and essential oils markets, we expect this to be temporary and we are already seeing indications that this portion of the sandalwood market is opening up again. We see a strong future for this product after seeing the pandemic create more awareness around natural and sustainable health and wellness products.

We will continue to take a disciplined approach in seeking potential acquisitions whether they be highly aligned with our existing assets or other businesses that would also create additional shareholder value.

At the same time we remain committed to organic growth opportunities, and projects that improve our overall efficiencies such as the leasing of another 150 dedicated log handling railcars in Germany, which we did this year. We are in a strong financial position to take advantage of these kinds of organic growth and continuous improvement opportunities.



3

MANAGE THE INTEGRITY OF OUR BALANCE SHEET AND LIQUIDITY

The uncertainty around the pandemic required us to consider our balance sheet position.

Despite our strong liquidity position we took the conservative approach of re-affirming our cost control culture and reducing discretionary spending, as well as a more conservative management of our working capital.

We enter 2021 on a solid financial footing. In fact our financial strength has allowed us to opportunistically issue $875 million of new 5.125% Senior Notes maturing in 2029. The issue allowed us to replace the outstanding $250 million of 6.5% Senior Notes due in 2024, and $550 million of 7.375% Senior Notes due in 2025. Not only will this save us roughly $12 million per year in interest costs, but we have pushed our earliest debt maturity out to 2026 to further strengthen our overall financial position.

In 2020, our total revenues were $1.4 billion, down $0.2 billion from 2019; the decrease primarily the result of weaker pulp markets.

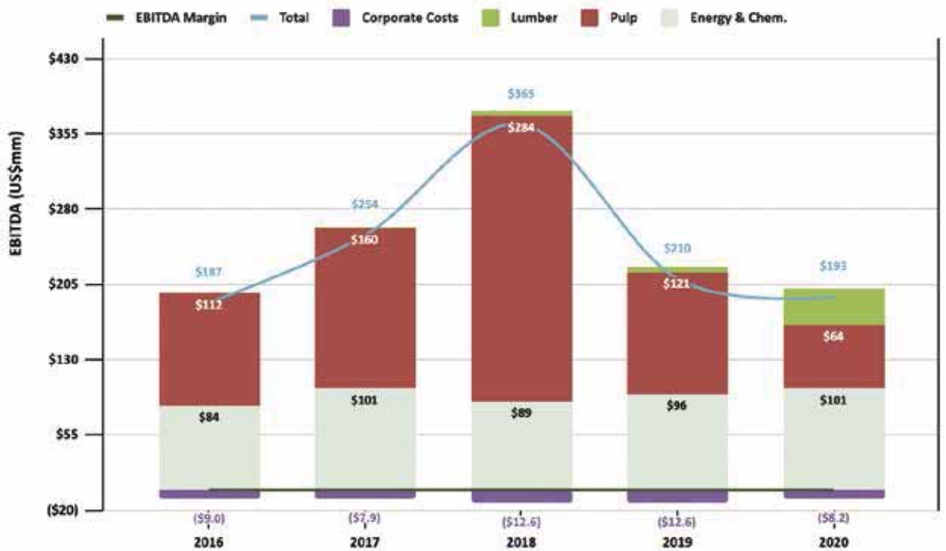
Operating EBITDA totalled approximately $192 million, down $18 million from 2019, again reflecting lower pulp pricing in the year. A reconciliation of operating EBITDA to net loss is provided below.

	YEAR ENDED DECEMBER 31		
	2020	2019	2018
		(in thousands)	
Net Income (loss)	**($17,235)**	(9,639)	$128,589
Provision for income taxes	**6,096**	19,226	48,681
Interest expense	**80,746**	75,750	51,464
Loss on settlement of debt	—	4,750	21,515
Legal cost award	—	—	6,951
Acquisition commitment fee	—	—	5,250
Other expenses (income)	**(5,878)**	(6,084)	5,417
Operating income	**63,729**	84,003	267,867
Add: Depreciation and amortization	**128,921**	126,394	96,729
Operating EBITDA	**$192,650**	$210,397	$364,596

Our net loss in 2020 was approximately $17 million, or $0.26 per basic share, compared to a net loss of $10 million or $0.15 per basic share in 2019.

[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.

ANNUAL CONSOLIDATED OPERATING EBITDA



4

ENSURE SUSTAINABLE OPERATIONS

We have long recognized the importance of maintaining sustainable operations and it remains a core value for our organization. In 2020, despite the pandemic, we took steps to advance our sustainability performance even further, and we continue to work towards longer term objectives as well.

In 2020 we published our Sustainability Objectives and Targets. This document is available on our website and it serves two key purposes. First, it defines how we think of sustainability at Mercer by defining our priorities into six distinct categories. Second, it sets out how we are targeting these values to create actions at each of our operations.

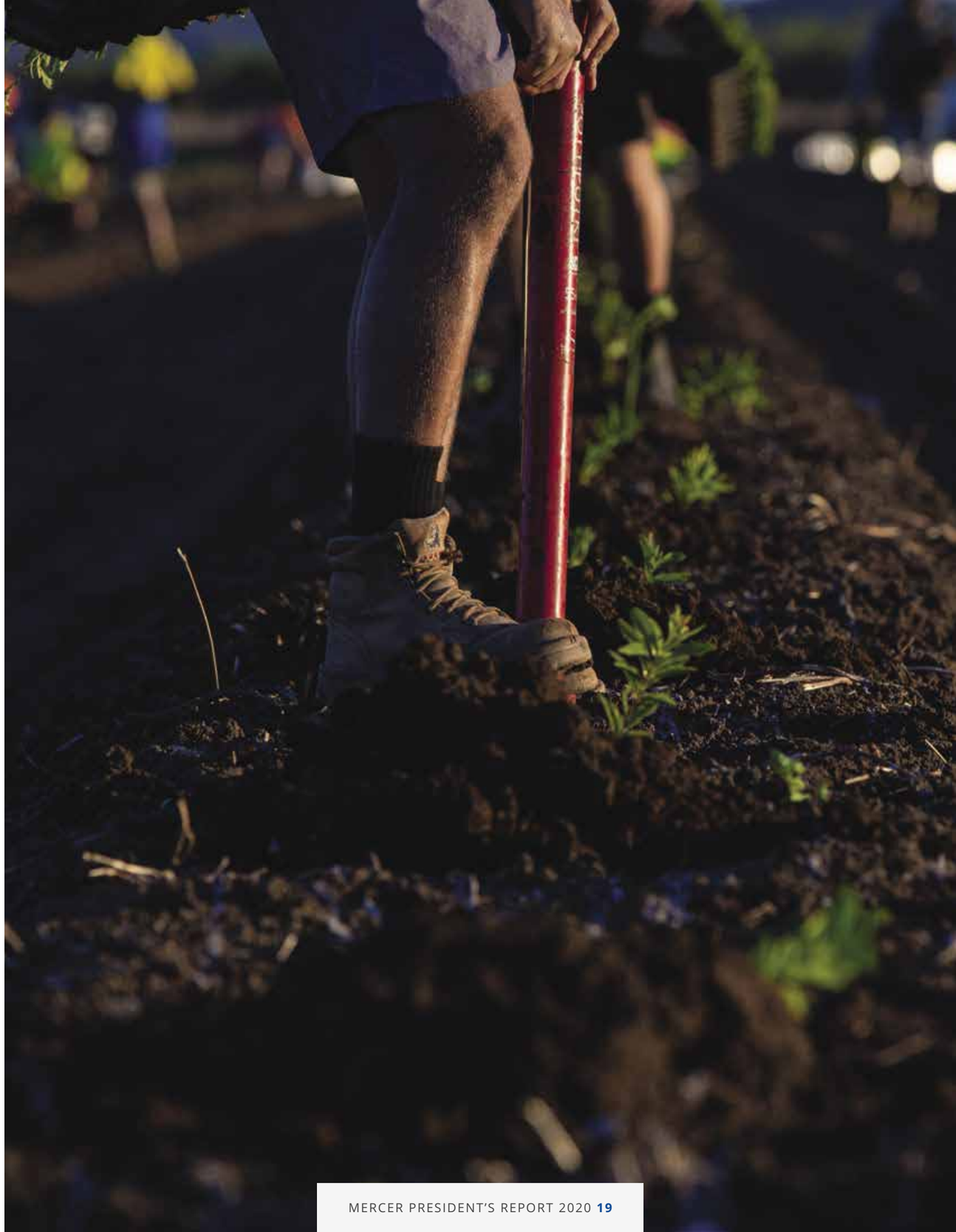
OUR SIX CATEGORIES ARE:

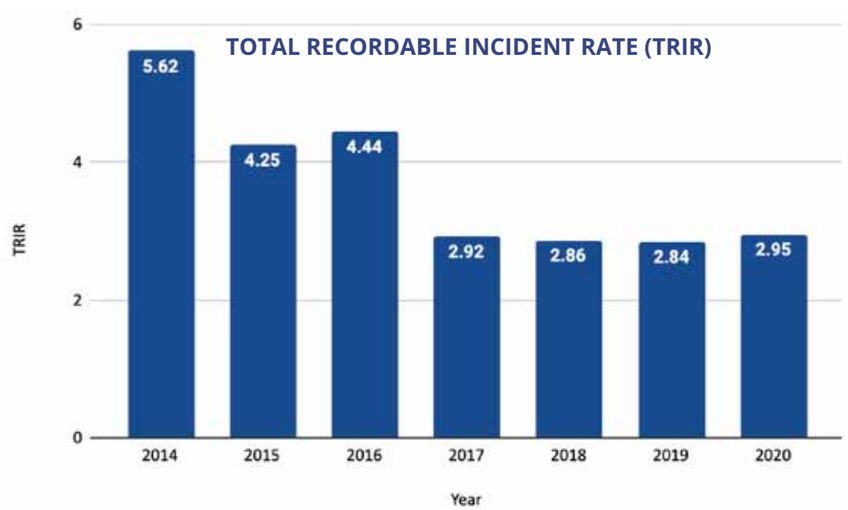
1. Continuous improvement in environmental performance
2. Mitigating climate change
3. Continuous improvement in resource efficiency
4. Sustainable forest management
5. Embracing social responsibility
6. Stakeholder engagement

The Sustainability Objectives and Targets cover a broad spectrum of environmental performance initiatives, carbon emission reduction projects, social ambitions, community engagement activities, and governance initiatives that serve as a baseline to the journey to our 2030 sustainability aspirations. The 2020 performance for each of our sustainability targets are presented on the website to support our continuous improvement ambitions along with our 2021 Sustainability Objectives and Targets.

Mercer is committed to providing our customers with low carbon products from sustainably managed forests. In addition to establishing 2020 GHG emission reduction targets for each of our manufacturing operations, we also completed a detailed assessment of our Scope 3 GHG emissions to better understand our climate-change mitigation opportunities in our supply chain and look forward to working with our customers and suppliers to further reduce our impact.

In 2020 we continued our commitment to stakeholder engagement through a number of local initiatives including ongoing discussions with Indigenous groups in Alberta, as well as community outreach efforts at all our mills.





5

DEVELOP OUR TALENT

Health and Safety remains our most revered value at Mercer. We are committed to the health and safety of our employees.

In addition to the many workplace processes we are continuously improving, we have taken many additional steps this year to minimize the risk of our employees and their families contracting COVID-19 at all of our operations.

While I am proud of our overall safety effort this year and the ongoing development of our safety culture, our safety metrics took a small step backwards. Our stated goal is zero injuries, and while we have kept COVID-19 out of our mills, we continue to have too many injuries. We will redouble our efforts in 2021 to ensure we can return to the steadily improving trend that we have experienced up until 2020.

We also focused our engagement efforts internally. In 2020, we completed an employee engagement survey to better understand the needs and perspectives of our employees and improve employee engagement. We have launched our efforts to champion diversity and inclusion initiatives through the establishment of Diversity, Equity and Inclusion working groups in each of our operations. We are committed to improving our recruiting process, including supporting trade school enrollment, to remove any barriers that may exist to developing a workforce that fully reflects the communities in which we operate. Our goal is to be an employer of choice for the most talented people.

VARIABLE MARKET CONDITIONS

Pulp markets began 2020 in a weak position but there were early signs of improvement. Globally there was a surplus of hardwood pulp inventories that were being worked through, which was keeping both hardwood and softwood prices down, but we could see the markets beginning to slowly strengthen. On the lumber side the markets were improving on positive signs from the U.S. housing market. However, the onset of COVID-19 created significant economic uncertainty as most governments globally moved to lock their economies down to avoid the spread of the COVID-19 virus. As expected this created a significant drop in global GDP. On the pulp side, in our operating jurisdictions our mills were considered "essential" due to the need for our pulp in certain tissue and hygiene products thereby ensuring our mills would continue to run. While on the lumber side demand fell sharply initially as most construction was put on hold.

In the spring we saw demand for pulp from the tissue industry grow but not quite enough to offset the decline in demand from the printing and writing segment, as demand for these grades fell sharply due to most office workers working from home, students were moved to remote learning and global travel came to a standstill. This all combined to keep pulp prices low through most of 2020 and our results reflect this. Late in 2020 we have seen demand for our pulp products grow on increasing economic activity, and this combined with less supply due to pulp producers delaying maintenance shuts as a result of the pandemic has seen numerous pulp price increase announcements of both softwood and hardwood grades. Looking forward we believe pulp markets will continue to improve as economic activity grows with the rollout of COVID-19 vaccines globally.

On the lumber side, we saw demand go from a low point during the spring as economies locked down but fairly quickly moved to record U.S. market pricing in the summer on the back of very strong U.S. housing market demand and demand from do-it-yourself home projects, both of which were a result of the pandemic. The lumber markets globally remain strong and we expect this to remain the case through 2021.

LOOKING FORWARD TO 2021

I continue to believe the five pillars of our strategy will serve us well. Your management team will continue to pursue value-creation initiatives, while remaining focused on our continuous improvement culture, including our many ESG related initiatives. We look forward to reporting our progress against our strategy in the year ahead, and to dialogue with employees, customers, shareholders, other investors, analysts and other Mercer stakeholders.

I would like to thank our Board of Directors for their insightful guidance and support, and I also want to thank our dedicated team members for the extraordinary dedication they bring to Mercer everyday.

Mercer International Inc.

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

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, 2020, and for the period ended March 31, 2021.

FISCAL QUARTER ENDED		
2019		
	High	**Low**
March 31	$15.78	$10.12
June 30	$17.74	$13.58
September 30	$15.84	$10.58
December 31	$13.21	$10.57
2020		
	High	**Low**
March 31	$13.44	$6.42
June 30	$10.43	$6.76
September 30	$8.76	$6.06
December 31	$10.76	$5.77
2021		
	High	**Low**
March 31	$16.70	$14.39

ANNUAL MEETING

The Annual Shareholders' Meeting will be held on May 28, 2021.

FORM 10-K

Our Annual Report on Form 10-K for the year ended December 31, 2020 was filed with the Securities and Exchange Commission and is posted in the "Investors" section on the Company's web site (https://mercerint.com/investors/reports-filings/). 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 of March 31, 2021, there were a total of 65,988,357 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

R. Keith Purchase[** ****]
Retired Businessman

Linda J. Welty[** ****]
Director, GCP Applied Technologies and Huber Engineered Materials; President and CEO of Welty Strategic Consulting, LLC

Alan C. Wallace[* ***]
CEO of Peloton Advisors Inc.

William D. McCartney[* **]
Pemcorp Management Corp.

James Shepherd[* *** ****]
Retired Businessman

Alice Laberge
Director, Nutrien Ltd. and Russel Metals Inc.

Rainer Rettig[*** ****]
Retired Businessman

Janine North
Director, Conifex Timber Inc., Imperial Metals Corporation, BC Ferry Services Corp. and Fraser Basin Council

David M. Gandossi[****]
President and CEO

** 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

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

Christian Sörgel
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
VP Treasurer

SALES AND MARKETING LEADERSHIP

Pulp Products

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, Europe

Bob Iwami
Director of Asia Sales

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President, CEO and Director

David K. Ure
Senior Vice President, Finance, CFO and Secretary

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INCORPORATION

Washington State, USA

WEBSITE

mercerint.com

STOCK LISTINGS

NASDAQ Global Market
Trading Symbol: MERC

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Louisville, KY 40233-5000

OR

Computershare Investor Services
462 South 4th Street, Suite 1600
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Toll Free# 800-522-6645
Foreign Shareholders: 201-680-6578

SHAREHOLDER WEBSITE

www.computershare.com/investor

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