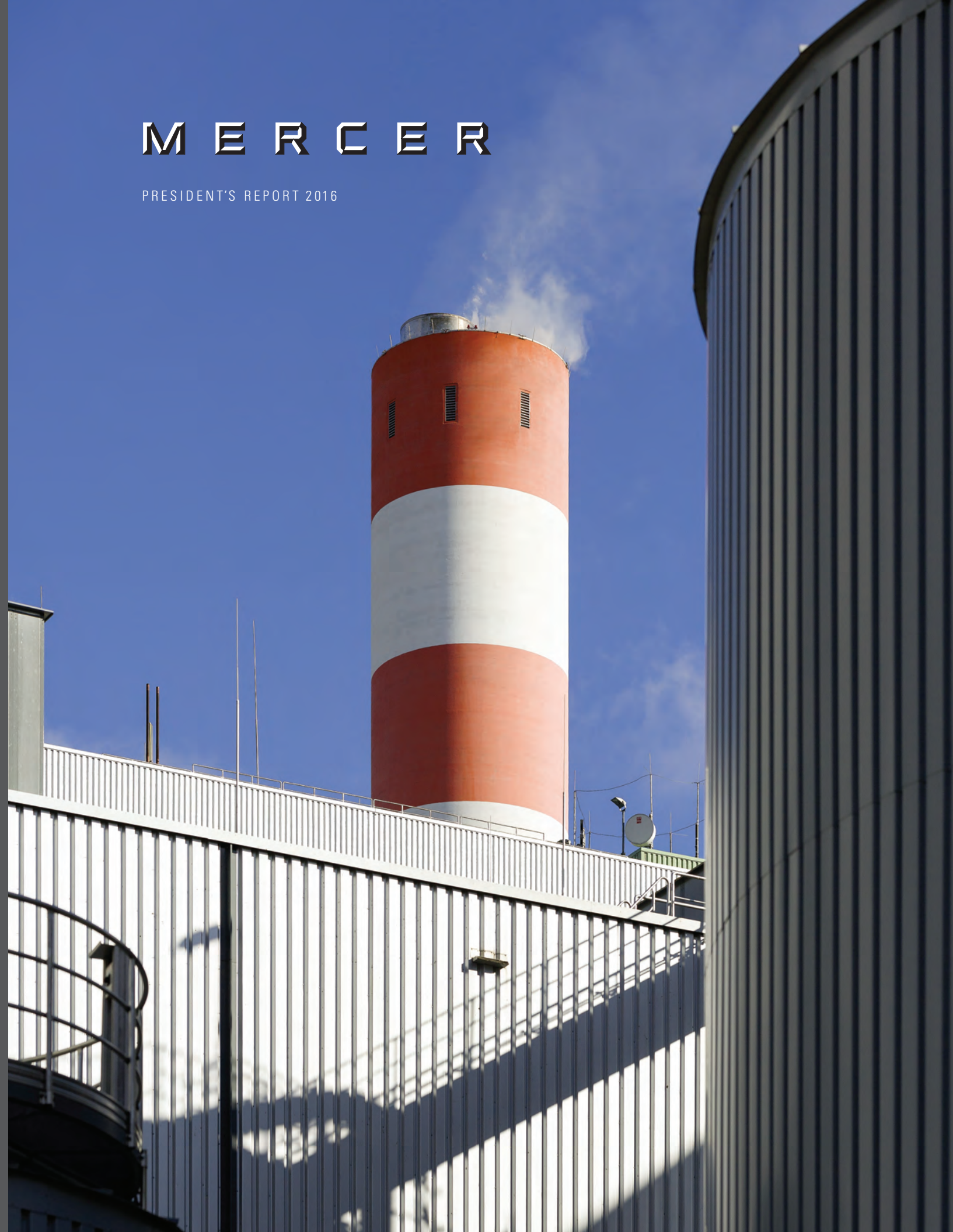


M E R C E R

PRESIDENT'S REPORT 2016





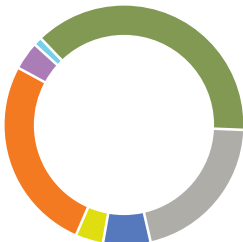
2016 was a successful year for Mercer, and I am very pleased with all that we have achieved. At the top of the list of accomplishments is our project to re-emphasize safety. We call it “Road to Zero”, and I am very excited about the potential to improve the health and safety performance at our mills. In terms of our operating performance, we generally performed well, but I currently believe we can do better in 2017, and we have earmarked resources to do so. We continue to see steady demand growth in NBSK, and as a result we are optimistic that this growing demand will alleviate some of the impact of the new NBSK supply scheduled to come online later this year and next.



Dear Fellow Shareholders;

I am pleased to share with you, what I believe was solid financial performance in 2016. Our results have allowed us to reduce debt, return capital to shareholders, and continue to invest in our business by way of high return capital projects.

2016 Pulp Sales by Region



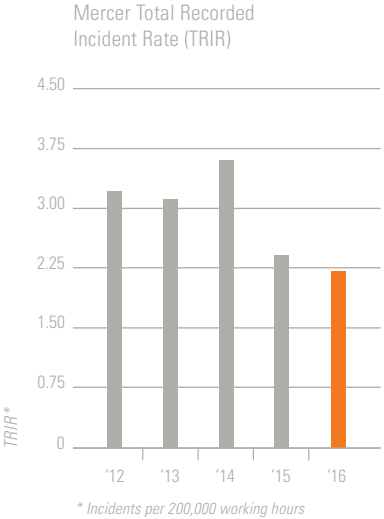
- Germany, 38%
- Other EU, 21%
- Italy, 6%
- N.A., 4%
- China, 26%
- Other Asia, 4%
- Other, 1%

Operationally, the mills generally performed well, with excellent cost discipline despite some mechanical issues midway through the year that resulted in lost tonnes. By way of example, Rosenthal achieved four of its best six production months in 2016, yet 2016 production in total mirrored 2015. I expect this to improve in 2017.

And we remain committed to growing the company. Whether it be through organic growth, new products or acquisitions, our focus is on increasing value for you, our shareholders.



Safety



When I was appointed CEO, one of my first goals was to improve our safety performance. I remain committed to the safety of our employees and contractors. While our safety record is in line with general industry standards, and has been steadily improving, it is not world class, and my objective is for Mercer to become a leader in industrial safety.

Our “Road to Zero” safety initiative has been underway since early 2016. This is a multi-year plan, but I am already seeing changes in how our people think about their own and their colleagues’ safety. I am heartened to see this beginning of the required culture change. These types of changes take time to fully take hold, but I am optimistic we will see our safety performance accelerate in the near future.

Although our people work in an industrial environment, our goal remains zero injuries, because we believe all injuries are preventable.



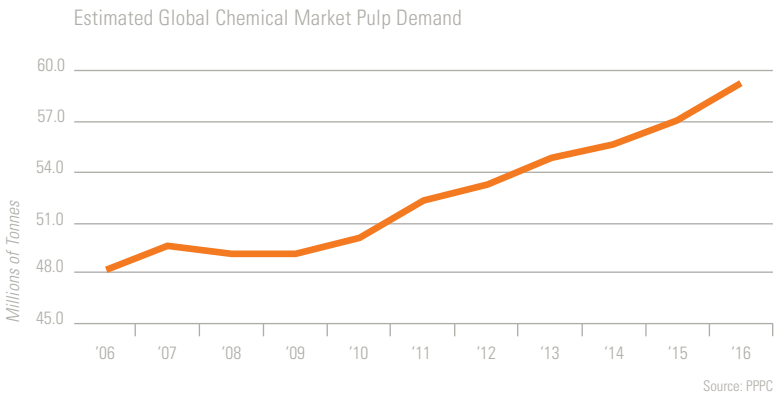


*Environmental Stewardship
and Sustainability*

We remain committed to environmental stewardship. I am pleased to say that all of our mills improved on their emission levels in 2016, and we plan to continue to invest capital in projects that further reduce our emissions.

We also recognize the importance of sustainability. We need our operations to be sustainable so that Mercer will be successful over the long-term, and we remain committed to that ultimate goal. Our commitment to sustainability includes active stakeholder engagement, measuring our performance, and constantly seeking improvement. While we believe that our mills are currently among the most modern and environmentally responsible in the industry, our commitment is to continuous improvement.

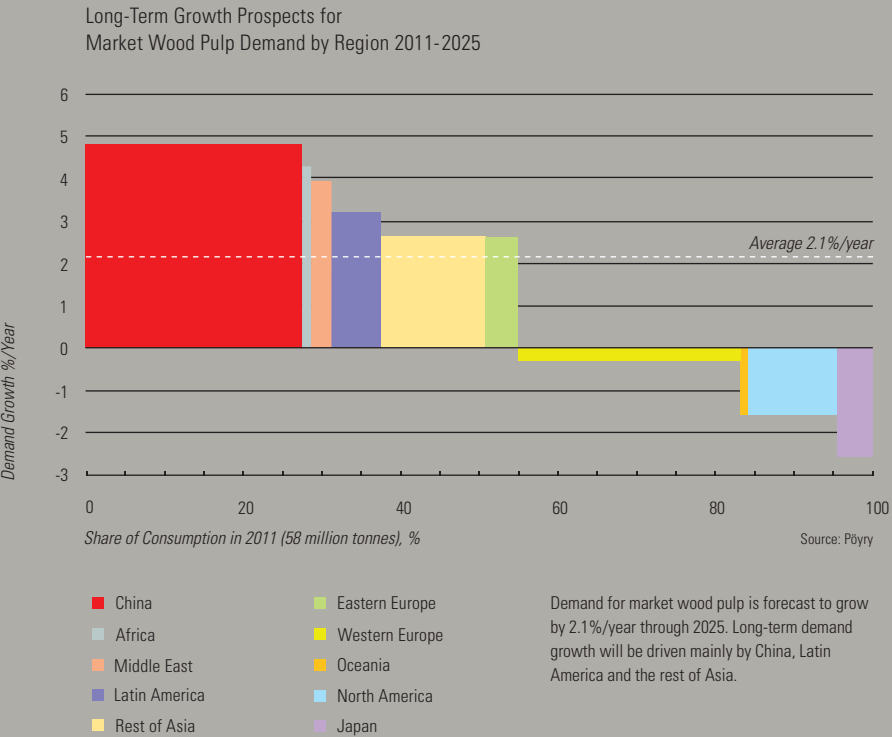
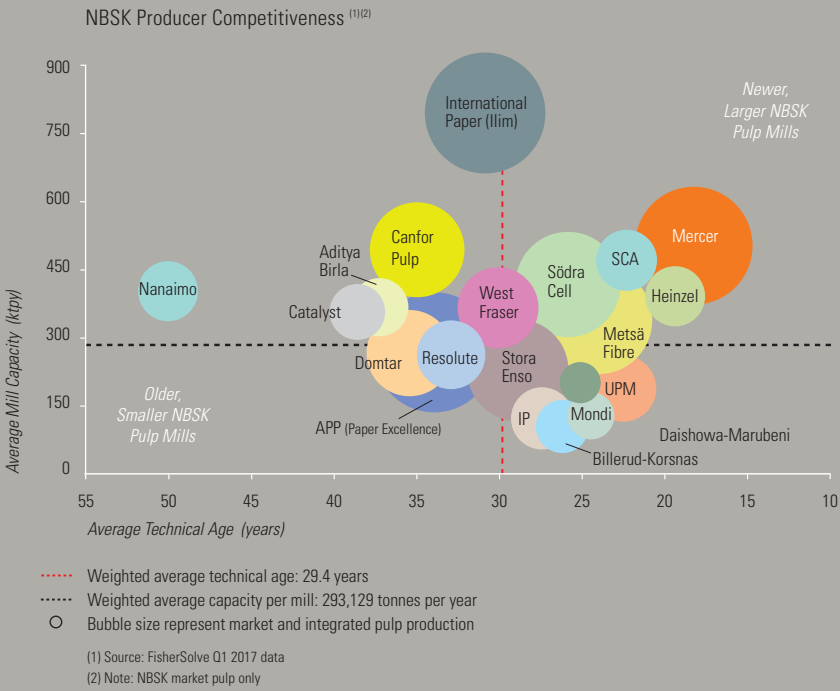
Market Overview



As we enter 2017 the tone in the market for chemical pulp is currently quite positive. Despite new capacity coming online, demand growth continues to support positive pricing pressure. We currently see late 2017 and 2018 as a period when new softwood pulp supply may negatively impact prices, but we are not overly concerned by this development. Overall we expect strong demand growth and declining recovered paper availability, combined with closures of agricultural based pulp and paper in China, to alleviate much of the oversupply condition rather quickly. We are also generally optimistic due to our belief that there may be several old, high cost mills that will struggle to stay running during a period of depressed prices.

Consistent with the steady demand experienced in 2016, NBSK prices were stable throughout most of the year, and we are seeing upward pricing pressure early in 2017. The price fluctuations experienced in early 2016 were primarily the result of the strong U.S. dollar. NBSK is priced in U.S. dollars; therefore when the U.S. dollar appreciates against other currencies, it makes pulp more expensive for the majority of our customers. However at the same time it has the effect of lowering our Canadian dollar or euro based costs. Provided the NBSK price and the currencies move in tandem, our net realization will be unchanged.

We do not plan to change our marketing strategy in 2017. We will continue to focus on partnering with customers who operate modern facilities, and produce high quality products. We will also continue to seek out potential customers in industries and regions that are not Mercer's traditional markets, to optimize realizations and profitability.





Operational Overview

Mill production was down in 2016 due for the most part to a number of unrelated equipment issues. We experienced disruptions at all three mills during the year, and my expectation is that we will do better in 2017. Celgar in particular, has considerable opportunity for improvement in reliability and cost structure. We have completed a comprehensive analysis to identify the initiatives that are required to advance the mill towards what we believe to be its ultimate capacity. These are important tonnes for us as each incremental tonne comes with a high margin. I was encouraged that our Q4 production was at a solid level for most of the quarter.

Outside a few operational upsets, our German mills performed very well running at near record levels for most of the year, and we expect more of the same in 2017.



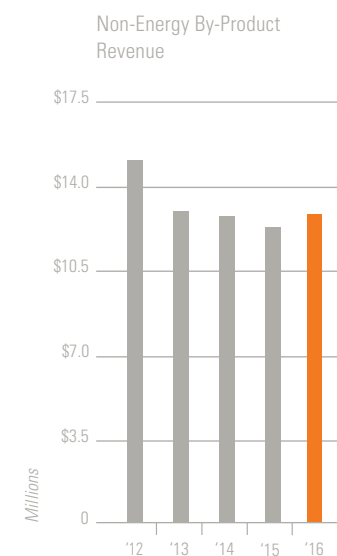
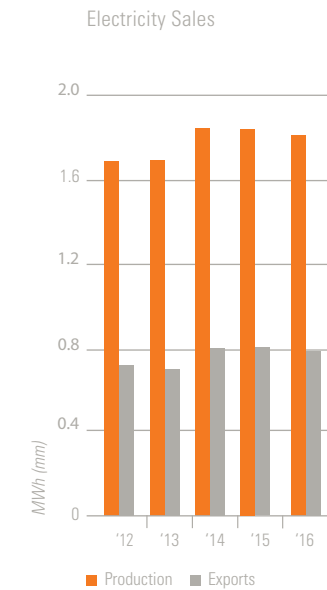


Top 10 NBSK Market Pulp Capacity By Producer (000's ADMT)



(1) MetsäFibre does not include Metsä Board (the Husum Mill); its capacity does not include the Äänekoski expansion
(2) West Fraser capacity reflects its 50% ownership in the Cariboo joint venture

Note: Based on Hawkins Wright December 2016 Outlook Report



We sold approximately 786,000 MWh of green electricity to the grid in 2016; enough electricity to power about 73,000 North American homes for one year. These sales yielded approximately \$71.5 million of revenue, which is down about 4%, primarily due to slightly lower sales volume relative to record sales in 2015.

Our chemical sales volume was up approximately 13%, compared to 2015 with revenues approaching \$12.8 million in 2016. The increased volume and revenues were primarily due to higher tall oil yields in 2016.

We also completed a number of value adding capital projects in 2016. Our German mills both completed evaporator plant upgrade projects. These projects reduced our emission levels, thereby qualifying us for a waiver of roughly \$21 million of wastewater fees. They also remove bottlenecks in our production processes. This year we applied considerable effort into reducing our wood and logistics costs, and have developed some innovative projects to do this. At Celgar, we have designed and purchased custom equipment that allows us to harvest waste wood that traditionally would not be available to us. This is a work in progress, but we are very excited about the potential of this project to change how wood is harvested in British Columbia. Celgar has also invested in a new pulp reload facility, allowing us to be more opportunistic with our overland pulp logistics. In Germany, we designed and constructed new high capacity log railcars. Our new railcar fleet is 50% more efficient than our old traditional log railcars, and as a result will reduce our wood costs and allow us to increase our wood buying range. In Germany we entered into a wood buying joint venture with another major wood buyer, which is designed to allow us to be more efficient by purchasing in more freight logical locations for all of our mills.



Financial Performance

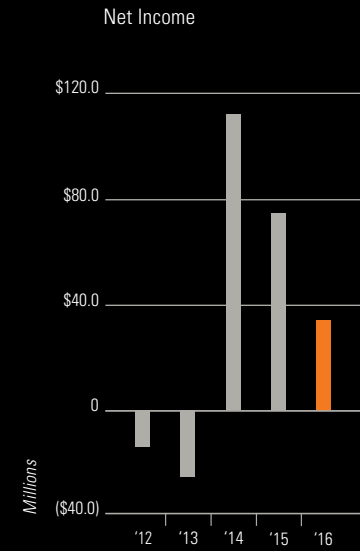
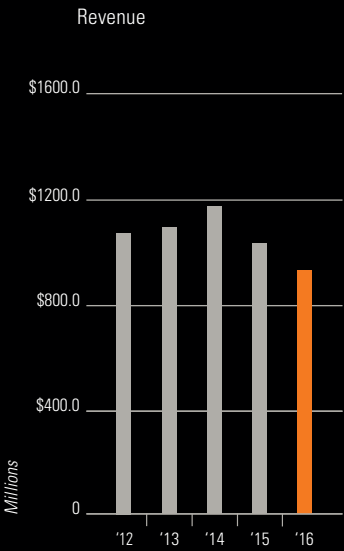
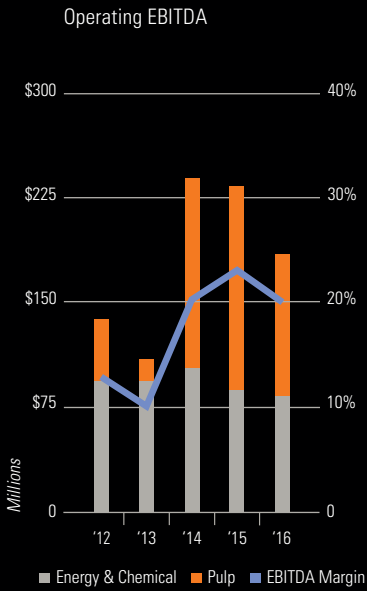
In 2016, our pulp revenues were approximately \$847.3 million, which was down 10% from 2015, primarily due to lower U.S. dollar denominated prices and lower sales volumes. Our by-product revenues were down slightly, primarily due to lower sales volumes as a result of our lower pulp production.

Operating EBITDA* totaled approximately \$185.7 million, down 21% from 2015. EBITDA was down relative to 2015, due to the positive impact of lower fiber costs and a reversal of accruals for wastewater fees at our German mills being more than offset by weaker pulp prices and lower sales volume. A reconciliation to net income is provided below.

The following table provides a reconciliation of net income attributable to common shareholders to operating income and operating EBITDA for the year indicated:

Year Ended December 31, 2016 (in thousands)	
Net income attributable to common shareholders	\$ 34,943
Income tax provision	24,521
Interest expense	51,575
Loss on derivative instruments	241
Foreign exchange loss on intercompany debt	1,140
Other expense	1,323
Operating income	113,743
Add: Depreciation and amortization	71,984
Operating EBITDA*	<u>\$ 185,727</u>

* 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.



Our increased financial flexibility, due in part to our more stable EBITDA generation, allowed us to opportunistically buy back \$23 million of our 2019 Senior Notes in 2016, and then refinance the remainder of the notes in February 2017. We will continue to look for opportunities to improve our capital structure in 2017.

I was also pleased that the credit rating agencies rewarded our improved financial position by upgrading our corporate credit ratings one level late in 2016. Standard and Poor's upgraded both its corporate and Senior Notes ratings from B+ to BB-, maintaining its outlook as "stable". Moody's upgraded its corporate rating from B1 to Ba3 and its Senior Notes rating from B2 to B1. Despite my belief that our debt metrics are even better than our ratings reflect, it was satisfying that our efforts to improve Mercer's financial position have been recognized.



Looking Forward to 2017

In early 2017 we refinanced our 2019 Senior Notes, and extended them to 2024 with an improved interest rate. This was an opportunistic transaction, as we took advantage of our improved credit rating and a strong debt market. The transaction pushes our earliest expiring debt to December 2022.

We are expecting a decision regarding our North American Free Trade Agreement claim in 2017. We remain optimistic that the tribunal will see that we have been disadvantaged relative to other British Columbia pulp mills in our ability to sell electricity to the grid.

Celgar is an opportunity that we hope to capitalize on over the next couple of years, and we will continue our efforts to increase the mill's reliability. In addition, we have targeted high value capital projects at both Rosenthal and Stendal.

In 2016 we increased our commitment to innovation. We have expanded the number of employees who are researching and analyzing potential new innovative business ideas, as well as new products that can be generated from our production process. This process takes time, but I am excited about the potential of some of the ideas we are currently studying. We will continue on this path in 2017.

We believe that Mercer is well positioned to add value through growth. We continue to look for organic growth opportunities, as well as new technologies and potential acquisitions. We believe pulp has a strong future, but we are not limiting our growth opportunities to pulp. We will capitalize on our expertise in wood procurement, logistics, green electricity and biochemicals to add value.

We achieved one step on our growth path in April when we concluded the acquisition of one of the largest sawmills in Germany along with an adjacent biomass power plant. This business will benefit from our wood procurement and logistics expertise, combined with our deep experience in green energy generation. We are excited about the acquisition for the opportunities we see to realize synergies and ultimately add value for our shareholders.

Finally, I would like to thank our Board of Directors for their continuing support, and I would also like to especially thank all our dedicated and creative employees for all their efforts, and in particular for working safely.

Mercer International Inc.

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

Dear Fellow Shareholders;

During 2016, your Board provided support, independent guidance, and oversight to Mercer’s senior management team, including specific insights into strategic initiatives.

The Audit Committee provided regulatory oversight, financial stewardship and attention to contemporary risk topics such as cyber security.

The Environmental, Health and Safety Committee reinforced the Board’s commitment to a healthy environment and a safe workplace, including support for the Company’s Road to Zero initiative.

The Governance Committee, assisted by the Executive Chairman and CEO, continued to advance a core element of its mandate to continuously refresh the Board with skill sets designed to meet the future challenges of the Company.

Supported by clear objectives and our executive compensation programs, the Board continues to encourage management to develop new business opportunities designed to enhance shareholder value.

On behalf of the Board,



Jimmy Lee
Executive Chairman of the Board

We are pleased with our progress in this area. In April, we closed on the purchase of a German sawmill and biomass power plant; an acquisition that leverages several of our core competencies and provides a number of valuable synergies with our existing operations.

The refinancing of our 2019 Senior Notes, completed in January 2017, including the \$25 million “tack on” transaction completed in March 2017, provides the Company with greater financial flexibility by extending the debt at a lower carrying cost.

Graeme Witts, who has served with distinction since 2003, will be retiring from the Board in 2017. On behalf of the Board, we thank Graeme for his professional and dedicated service. In retirement, Graeme will continue an active life on the Isle of Jersey and enjoy many more years of skiing in France and Switzerland.

We extend the Board’s appreciation to our CEO, David Gandossi, for his leadership along with a very special thanks to all Mercer employees for their outstanding contributions during a successful 2016.



Eric Lauritzen,
Lead Director and Deputy Chairman

Shareholder Information

Market Information

Our shares are listed and quoted for trading on the NASDAQ Global Market under the symbol “MERC” and on the Toronto Stock Exchange under the symbol “MERC.U”. 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, 2016, and for the period ended March 31, 2017:

Fiscal Quarter Ended	High	Low
2015		
March 31	\$ 15.50	\$ 11.87
June 30	\$ 15.95	\$ 13.00
September 30	\$ 14.21	\$ 8.28
December 31	\$ 11.68	\$ 8.80
2016		
March 31	\$ 9.54	\$ 5.95
June 30	\$ 10.42	\$ 7.13
September 30	\$ 8.94	\$ 7.03
December 31	\$ 10.75	\$ 7.60
2017		
March 31	\$ 12.00	\$ 11.65

Annual Meeting

The Annual Shareholders’ Meeting will be held on May 31, 2017.

Form 10–K

A copy of our Annual Report on Form 10–K for the year ended December 31, 2016 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, 2017, there were a total of 64,973,653 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

Executive Officers, Senior Management
and Board of Directors

David M. Gandossi President, CEO and Director	Adolf Koppensteiner Managing Director, Stendal	Jimmy S.H. Lee**** Executive Chairman of the Board Director/Trustee since 1985	R. Keith Purchase** **** Retired Businessman Director since 2012
David K. Ure Senior Vice President, Finance, CFO and Secretary	André Listemann Managing Director, Stendal	Eric Lauritzen** Independent Consultant Director/Trustee since 2004 Lead Director since 2012	James Shepherd*** **** Director, Buckman Laboratories International Inc. Director since 2011
Eric Heine VP Sales, Marketing & Logistics, North America & Asia	Brian Merwin VP Strategic Initiatives	William D. McCartney* ** Pemcorp Management Corp. Director/Trustee since 2003	Graeme A. Witts* **** Retired Businessman Director/Trustee since 2003
David Cooper VP Sales & Marketing, Europe	Richard Short VP Controller	Nancy Orr* *** Independent Consultant Director since 2013	
Kevin Anderson Managing Director, Celgar	Genevieve Stannus Treasurer	Bernard J. Picchi**** Managing Director, Palisade Capital Management, LLC Director since 2011	* Member of Audit Committee ** Member of Governance and Nominating Committee *** Member of Compensation Committee **** Member of Environmental, Health and Safety Committee
Leonhard Nossol Controller, European Operations Managing Director, Rosenthal			

Offices

Canadian Office Suite 1120 - 700 West Pender Street Vancouver, BC Canada V6C 1G8 Telephone: (1) 604 684 1099 Facsimile: (1) 604 684 1094 e-mail: info@mercerint.com	German Office c/o Stendal Pulp Holdings Charlottenstraße 59 10117 Berlin, Germany Telephone: (49) 30 30 64 710 Facsimile: (49) 30 30 64 7199	US Office 14900 Interurban Avenue South Suite 282 Seattle, Washington USA 98168
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Pulp Operations

Zellstoff-und Papierfabrik Rosenthal GmbH Hauptstraße 16 D 07366 Blankenstein (Saale) Germany Telephone: (49) 36642 82166 Facsimile: (49) 36642 82000 e-mail: info@zpr.de	Zellstoff Stendal GmbH Goldbecker Straße 1 D 39596 Arneburg Germany Telephone: (49) 39321 550 Facsimile: (49) 39321 55108 e-mail: info@zellstoff-stendal.de	Zellstoff Celgar Limited Partnership PO Box 1000, Castlegar, BC Canada V1N 3H9 Telephone: (1) 250 365 7211 Facsimile: (1) 250 365 4211 e-mail: info@celgar.com
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Investor Relations and
Media Contacts

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President , CEO and Director

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

Mercer International Inc.
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Facsimile: (1) 604 684 1094
e-mail: info@mercerint.com

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250 Howe Street, Suite 700
Vancouver, BC Canada V6C 3S7

Legal

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Barristers and Solicitors
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925 West Georgia Street
Vancouver, BC Canada V6C 3L2

Transfer Agents

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Providence, RI 02940 - 3006

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250 Royal Street
Canton, MA 02021

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

Shareholder website
www.computershare.com/investor

Shareholder online inquiries
www-us.computershare.com/investor/Contact

Stock Listings

NASDAQ Global Market
Trading Symbol: MERC

Toronto Stock Exchange
Trading Symbol: MERC.U

Incorporation

Washington State, USA

Website

mercerint.com



Mercer International is one of the world’s largest publicly traded producers of Northern Bleached Softwood Kraft (NBSK) market pulp, serving customers primarily in Europe, Asia and North America. Mercer operates two large-scale modern pulp mills in Germany: the Stendal mill near the town of Stendal, and the Rosenthal mill near Blankenstein. These mills are the only NBSK pulp mills in Germany, Europe’s largest market for NBSK pulp. Mercer also owns and operates the Celgar NBSK pulp mill near Castlegar, British Columbia, Canada, one of the largest and most modern kraft pulp mills in North America. Mercer’s shares trade on the NASDAQ Global Market (symbol: MERC) and on the Toronto Stock Exchange (symbol: MERC.U).

