UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2023

OR

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

For the transition period from _______ to _______

Commission File No.: 000-51826

MERCER INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.00 per share	**MERC**	**NASDAQ Global Select Market**

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The Registrant had 66,524,866 shares of common stock outstanding as of August 2, 2023.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

(Unaudited)

MERCER INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands of U.S. dollars, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Revenues	$ 529,863	$ 572,326	$ 1,052,529	$ 1,165,067
Costs and expenses				
Cost of sales, excluding depreciation and amortization	566,200	403,671	1,027,538	819,766
Cost of sales depreciation and amortization	40,103	31,004	87,601	63,101
Selling, general and administrative expenses	32,392	23,620	66,343	45,818
Operating income (loss)	(108,832)	114,031	(128,953)	236,382
Other income (expenses)				
Interest expense	(20,091)	(17,332)	(39,138)	(34,796)
Other income	3,138	8,799	6,372	17,045
Total other expenses, net	(16,953)	(8,533)	(32,766)	(17,751)
Income (loss) before income taxes	(125,785)	105,498	(161,719)	218,631
Income tax recovery (provision)	27,479	(34,126)	32,835	(58,362)
Net income (loss)	$ (98,306)	$ 71,372	$ (128,884)	$ 160,269
Net income (loss) per common share				
Basic	$ (1.48)	$ 1.08	$ (1.94)	$ 2.43
Diluted	$ (1.48)	$ 1.07	$ (1.94)	$ 2.41
Dividends declared per common share	$ 0.075	$ 0.075	$ 0.150	$ 0.150

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands of U.S. dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Net income (loss)	$ (98,306)	$ 71,372	$ (128,884)	$ 160,269
Other comprehensive income (loss)				
Gain (loss) related to defined benefit pension plans	268	(119)	41	(235)
Income tax recovery	—	—	—	62
Gain (loss) related to defined benefit pension plans, net of tax	268	(119)	41	(173)
Foreign currency translation adjustments	12,236	(84,020)	30,886	(94,542)
Other comprehensive income (loss), net of taxes	12,504	(84,139)	30,927	(94,715)
Total comprehensive income (loss)	$ (85,802)	$ (12,767)	$ (97,957)	$ 65,554

See accompanying Notes to the Interim Consolidated Financial Statements.

MERCER INTERNATIONAL INC.
INTERIM CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands of U.S. dollars, except share and per share data)

	June 30, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 213,338	$ 354,032
Accounts receivable, net	335,402	351,993
Inventories	429,873	450,470
Prepaid expenses and other	20,732	21,680
Total current assets	999,345	1,178,175
Property, plant and equipment, net	1,431,017	1,341,322
Investment in joint ventures	49,223	45,635
Amortizable intangible assets, net	52,115	61,497
Goodwill	34,792	30,937
Operating lease right-of-use assets	17,794	15,049
Pension asset	3,832	4,397
Other long-term assets	45,251	48,025
Total assets	$ 2,633,369	$ 2,725,037
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and other	$ 369,851	$ 377,306
Pension and other post-retirement benefit obligations	613	755
Total current liabilities	370,464	378,061
Long-term debt	1,403,857	1,346,508
Pension and other post-retirement benefit obligations	11,222	12,178
Operating lease liabilities	11,670	9,475
Other long-term liabilities	14,431	14,072
Deferred income tax	88,256	125,959
Total liabilities	1,899,900	1,886,253
Shareholders' equity		
Common shares $1 par value; 200,000,000 authorized; 66,525,000 issued and outstanding (2022 – 66,167,000)	66,471	66,132
Additional paid-in capital	356,769	354,495
Retained earnings	459,264	598,119
Accumulated other comprehensive loss	(149,035)	(179,962)
Total shareholders' equity	733,469	838,784
Total liabilities and shareholders' equity	$ 2,633,369	$ 2,725,037
Commitments and contingencies (Note 15)		
Subsequent event (Note 9)		

See accompanying Notes to the Interim Consolidated Financial Statements.

MERCER INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands of U.S. dollars)

	Common shares					
	Number (thousands of shares)	Amount, at Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Three Months Ended June 30:						
Balance as of March 31, 2023	66,421	$ 66,386	$ 355,467	$ 562,559	$ (161,539)	$ 822,873
Shares issued on grants of restricted shares	54	35	(35)	—	—	—
Shares issued on grants of restricted share units	50	50	(50)	—	—	—
Stock compensation expense	—	—	1,387	—	—	1,387
Net loss	—	—	—	(98,306)	—	(98,306)
Dividends declared	—	—	—	(4,989)	—	(4,989)
Other comprehensive income	—	—	—	—	12,504	12,504
Balance as of June 30, 2023	66,525	$ 66,471	$ 356,769	$ 459,264	$ (149,035)	$ 733,469
Balance as of March 31, 2022	66,132	$ 66,083	$ 348,756	$ 454,864	$ (101,369)	$ 768,334
Shares issued on grants of restricted shares	35	49	(49)	—	—	—
Stock compensation expense	—	—	1,517	—	—	1,517
Net income	—	—	—	71,372	—	71,372
Dividends declared	—	—	—	(4,962)	—	(4,962)
Other comprehensive loss	—	—	—	—	(84,139)	(84,139)
Balance as of June 30, 2022	66,167	$ 66,132	$ 350,224	$ 521,274	$ (185,508)	$ 752,122
Six Months Ended June 30:						
Balance as of December 31, 2022	66,167	$ 66,132	$ 354,495	$ 598,119	$ (179,962)	$ 838,784
Shares issued on grants of restricted shares	54	35	(35)	—	—	—
Shares issued on grants of performance share units	254	254	(254)	—	—	—
Shares issued on grants of restricted share units	50	50	(50)	—	—	—
Stock compensation expense	—	—	2,613	—	—	2,613
Net loss	—	—	—	(128,884)	—	(128,884)
Dividends declared	—	—	—	(9,971)	—	(9,971)
Other comprehensive income	—	—	—	—	30,927	30,927
Balance as of June 30, 2023	66,525	$ 66,471	$ 356,769	$ 459,264	$ (149,035)	$ 733,469
Balance as of December 31, 2021	66,037	$ 65,988	$ 347,902	$ 370,927	$ (90,793)	$ 694,024
Shares issued on grants of restricted shares	35	49	(49)	—	—	—
Shares issued on grants of performance share units	95	95	(95)	—	—	—
Stock compensation expense	—	—	2,466	—	—	2,466
Net income	—	—	—	160,269	—	160,269
Dividends declared	—	—	—	(9,922)	—	(9,922)
Other comprehensive loss	—	—	—	—	(94,715)	(94,715)
Balance as of June 30, 2022	66,167	$ 66,132	$ 350,224	$ 521,274	$ (185,508)	$ 752,122

See accompanying Notes to the Interim Consolidated Financial Statements.

MERCER INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands of U.S. dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cash flows from (used in) operating activities				
Net income (loss)	$ (98,306)	$ 71,372	$ (128,884)	$ 160,269
Adjustments to reconcile net income (loss) to cash flows from operating activities				
Depreciation and amortization	40,152	31,028	87,743	63,144
Deferred income tax provision (recovery)	(34,105)	6,624	(44,049)	15,007
Inventory impairment	51,400	—	66,600	—
Defined benefit pension plans and other post-retirement benefit plan expense	451	439	897	877
Stock compensation expense	1,387	1,517	2,613	2,466
Foreign exchange transaction losses (gains)	224	(9,591)	494	(13,419)
Other	(5,452)	30	(6,601)	(771)
Defined benefit pension plans and other post-retirement benefit plan contributions	(1,318)	(1,200)	(1,565)	(2,394)
Changes in working capital				
Accounts receivable	12,168	65,509	23,510	13,382
Inventories	58,880	(13,342)	(27,554)	(15,067)
Accounts payable and accrued expenses	(7,490)	3,813	(7,181)	3,246
Other	(3,293)	(1,658)	(975)	(3,389)
Net cash from (used in) operating activities	14,698	154,541	(34,952)	223,351
Cash flows from (used in) investing activities				
Purchase of property, plant and equipment	(39,482)	(47,028)	(72,911)	(80,321)
Acquisition (Note 2)	(82,100)	—	(82,100)	—
Property insurance proceeds	2,710	—	2,710	6,410
Purchase of term deposit	—	(75,000)	—	(75,000)
Other	1,120	474	1,925	567
Net cash from (used in) investing activities	(117,752)	(121,554)	(150,376)	(148,344)
Cash flows from (used in) financing activities				
Proceeds from (repayment of) revolving credit facilities, net	24,305	(13,066)	54,407	17,438
Dividend payments	(4,982)	(4,960)	(4,982)	(4,960)
Payment of debt issuance costs	—	—	—	(1,184)
Proceeds from government grants	—	—	—	1,067
Payment of finance lease obligations	(1,898)	(1,671)	(3,787)	(6,606)
Other	(115)	277	(229)	(566)
Net cash from (used in) financing activities	17,310	(19,420)	45,409	5,189
Effect of exchange rate changes on cash and cash equivalents	(1,478)	(4,411)	(775)	(5,945)
Net increase (decrease) in cash and cash equivalents	(87,222)	9,156	(140,694)	74,251
Cash and cash equivalents, beginning of period	300,560	410,705	354,032	345,610
Cash and cash equivalents, end of period	$ 213,338	$ 419,861	$ 213,338	$ 419,861
Supplemental cash flow disclosure:				
Cash paid for interest	$ 3,621	$ 1,164	$ 36,861	$ 33,237
Cash paid for income taxes	$ 1,461	$ 41,593	$ 3,234	$ 60,493

See accompanying Notes to the Interim Consolidated Financial Statements.

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"). Mercer Inc. owns 100% of its subsidiaries with the exception of the 50% joint venture interest in the Cariboo mill with West Fraser Mills Ltd., which is accounted for using the equity method. The Company's shares of common stock are quoted and listed for trading on the NASDAQ Global Select Market.

The Interim Consolidated Financial Statements have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). The consolidated balance sheet information as of December 31, 2022 was derived from the Company's audited Consolidated Financial Statements, but does not contain all of the footnote disclosures from the annual Consolidated 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, 2022. In the opinion of the Company, the unaudited Interim Consolidated Financial Statements contained herein have been prepared on a consistent basis 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, 2022 and 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.

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

Note 2. Acquisitions

2023 Asset Acquisition

Structurlam

On June 15, 2023, the Company acquired substantially all of the assets of Structurlam Mass Timber Corporation and its subsidiaries ("Structurlam"), including a mass timber production facility located in Conway, Arkansas (the "Conway Facility") and mass timber production facilities in British Columbia, Canada, for cash consideration of $82,100, net of a $2,400 break fee and expense reimbursement and including $1,000 of acquisition costs.

The transaction is accounted for as an acquisition of a group of assets as management determined it does not qualify as an acquisition of a business under GAAP. Substantially all of the fair value of the gross assets acquired was concentrated in a group of similar identifiable assets, being the land, building and production equipment at the Conway Facility.

2022 Business Acquisition

Torgau

On September 30, 2022, the Company acquired all of the issued and outstanding shares of Wood Holdco GmbH, which is the parent company of Holzindustrie Torgau KG ("Torgau") for consideration of €270.0 million ($263,196) cash. The acquisition results in 100% ownership of a timber processing and value-add pallet production facility in Torgau, Germany and a wood processing facility in Dahlen, Germany that produces garden products. The acquisition of Torgau expands the Company's solid wood business and further diversifies the Company's product offerings.

The Company's allocation of the purchase price to the fair value of the assets acquired and liabilities assumed on the acquisition date was finalized during the six month period ended June 30, 2023. The following table summarizes the purchase price allocation:

	Purchase Price Allocation
Cash	$ 6,592
Accounts receivable	13,202
Inventories	50,900
Other current assets	2,548
Property, plant and equipment	205,450
Amortizable intangible assets (a)	25,141
Goodwill (b)	31,213
Other long-term assets	3,934
Total assets acquired	338,980
Accounts payable and other current liabilities	(43,905)
Deferred income tax	(29,390)
Other long-term liabilities	(2,489)
Total liabilities assumed	(75,784)
Net assets acquired	$ 263,196

(a) Amortizable intangible assets include an order backlog, which has an estimated fair value of $15,243 and was amortized on a straight-line basis over six months and an energy sales agreement, which has an estimated fair value of $9,898 and is being amortized on a straight-line basis over 12 years.

(b) The goodwill is primarily for expected synergies from combining the operations of Torgau with the Company's existing German operations. The goodwill is not deductible for tax purposes.

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

Note 3. Business Interruption Insurance

In 2021, the Rosenthal mill turbine was taken down to complete extensive repair work. In June 2023, the Company settled the business interruption portion of the insurance claim for €15.2 million ($16,553).

In July 2022, a fire occurred in the woodyard of the Stendal mill. In September 2022, the Company received written confirmation from the insurance provider that the business interruption insurance claim related to the fire is covered. In the three and six month periods ended June 30, 2023, the insurance provider paid nonrefundable business interruption insurance payments of €2.5 million ($2,710) and €9.5 million ($10,221), respectively. The Company also received €2.5 million ($2,710) for property insurance related to the fire.

The business interruption and property insurance proceeds for the three and six month periods ended June 30, 2023 of €20.2 million ($21,973) and €27.2 million ($29,484), respectively, were recorded in “Cost of sales, excluding depreciation and amortization” in the Interim Consolidated Statements of Operations.

Note 4. Inventories

Inventories as of June 30, 2023 and December 31, 2022, were comprised of the following:

	June 30, 2023	December 31, 2022
Raw materials	$ 136,897	$ 160,442
Finished goods	149,117	158,082
Spare parts and other	143,859	131,946
	$ 429,873	$ 450,470

For the three and six month periods ended June 30, 2023, as a result of low pulp prices and high per unit fiber costs for the Canadian mills, the Company recorded inventory impairment charges of $51,400 and $66,600, respectively, (2022 – $nil) in "Cost of sales, excluding depreciation and amortization" in the Interim Consolidated Statements of Operations. As of June 30, 2023, $37,200 of the write-down was recorded against raw materials inventory and $14,200 was recorded against finished goods inventory. As of December 31, 2022, there were no inventory write-downs.

Note 5. Accounts Payable and Other

Accounts payable and other as of June 30, 2023 and December 31, 2022, were comprised of the following:

	June 30, 2023	December 31, 2022
Trade payables	$ 88,107	$ 92,848
Accrued expenses	99,261	96,979
Interest payable	26,856	26,756
Income tax payable	82,737	99,827
Payroll-related accruals	31,895	34,353
Deposits for mass timber sales contracts	8,797	—
Wastewater fee (a)	7,710	8,614
Finance lease liability	7,432	7,368
Operating lease liability	5,776	5,255
Other	11,280	5,306
	$ 369,851	$ 377,306

(a) The Company is required to pay certain fees based on wastewater emissions at its German mills. Accrued fees can be reduced upon the mills’ demonstration of reduced wastewater emissions.

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

Note 6. Debt

Debt as of June 30, 2023 and December 31, 2022, was comprised of the following:

	Maturity	June 30, 2023	December 31, 2022
Senior notes (a)			
5.500% senior notes	2026	$ 300,000	$ 300,000
5.125% senior notes	2029	875,000	875,000
Credit arrangements			
€300 million German joint revolving credit facility (b)	2027	127,132	109,326
C$160 million Canadian joint revolving credit facility (c)	2027	71,752	31,749
€2.6 million demand loan (d)		—	—
Finance lease liability		49,445	51,129
		1,423,329	1,367,204
Less: unamortized senior note issuance costs		(12,040)	(13,328)
Less: finance lease liability due within one year		(7,432)	(7,368)
		$ 1,403,857	$ 1,346,508

The maturities of the principal portion of the senior notes and credit arrangements as of June 30, 2023 were as follows:

	Senior Notes and Credit Arrangements
2023	$ —
2024	—
2025	—
2026	300,000
2027	198,884
Thereafter	875,000
	$ 1,373,884

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 of June 30, 2023, the Company was in compliance with the terms of its debt agreements.

(a) The senior notes which mature on February 1, 2029 (the "2029 Senior Notes") and the senior notes which mature on January 15, 2026 (the “2026 Senior Notes” and collectively with the 2029 Senior Notes, the “Senior Notes”) are general unsecured senior obligations of the Company. The Company may redeem all or a part of the Senior Notes upon not less than 10 days’ or more than 60 days’ notice at the redemption price plus accrued and unpaid interest to (but not including) the applicable redemption date. The 2026 Senior Notes redemption price is 100.000% of the principal amount. The following table presents the redemption prices (expressed as percentages of principal amount) and the redemption periods of the 2029 Senior Notes:

2029 Senior Notes

12 Month Period Beginning	Percentage
February 1, 2024	102.563%
February 1, 2025	101.281%
February 1, 2026 and thereafter	100.000%

Note 6. Debt (continued)

(b) A €300.0 million joint revolving credit facility for the German mills that matures in September 2027. Borrowings under the facility are unsecured and bear interest at Euribor plus a variable margin ranging from 1.30% to 2.25% dependent on conditions including but not limited to a prescribed leverage ratio. The facility is sustainability linked whereby the interest rate margin is subject to upward or downward adjustments of up to 0.05% per annum if the Company achieves, or fails to achieve, certain specified sustainability targets. As of June 30, 2023, approximately €117.0 million ($127,132) of this facility was drawn and accruing interest at a rate of 4.556%, approximately €13.5 million ($14,682) was supporting bank guarantees and approximately €169.5 million ($184,166) was available.

(c) A C$160.0 million joint revolving credit facility for the Celgar mill, Peace River mill and certain other Canadian subsidiaries that matures in January 2027. The facility is available by way of: (i) Canadian denominated advances, which bear interest at a designated prime rate per annum; (ii) banker's acceptance equivalent loans, which bear interest at the applicable Canadian dollar banker's acceptance plus 1.20% to 1.45% per annum; (iii) dollar denominated base rate advances at the greater of the federal funds rate plus 0.50%, an Adjusted Term SOFR for a one month tenor plus 1.00% and the bank's applicable reference rate for U.S. dollar loans; and (iv) dollar SOFR advances, which bear interest at Adjusted Term SOFR plus 1.20% to 1.45% per annum. As of June 30, 2023, approximately C$95.0 million ($71,752) of this facility was drawn and accruing interest at a rate of 6.548%, approximately C$1.3 million ($953) was supporting letters of credit and approximately C$63.7 million ($48,140) was available.

(d) A €2.6 million demand loan for Rosenthal that does not have a maturity date. Borrowings under this facility are unsecured and bear interest at the rate of the three-month Euribor plus 2.50%. As of June 30, 2023, approximately €2.6 million ($2,773) of this facility was supporting bank guarantees and approximately $nil was available.

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

Note 7. Pension and Other Post-Retirement Benefit Obligations

Defined Benefit Plans

Pension benefits are based on employees' earnings and years of service. The defined benefit plans are funded by contributions from the Company based on actuarial estimates and statutory requirements. The components of the net benefit costs for the Celgar and Peace River defined benefit plans, in aggregate for the three and six month periods ended June 30, 2023 and 2022 were as follows:

	Three Months Ended June 30,			
	2023		2022	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Service cost	$ 602	$ 30	$ 905	$ 49
Interest cost	1,174	125	957	105
Expected return on plan assets	(1,634)	—	(1,458)	—
Amortization of unrecognized items	396	(242)	57	(176)
Net benefit costs (gains)	$ 538	$ (87)	$ 461	$ (22)

	Six Months Ended June 30,			
	2023		2022	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Service cost	$ 1,200	$ 59	$ 1,818	$ 98
Interest cost	2,340	248	1,922	210
Expected return on plan assets	(2,991)	—	(2,936)	—
Amortization of unrecognized items	524	(483)	119	(354)
Net benefit costs (gains)	$ 1,073	$ (176)	$ 923	$ (46)

The components of the net benefit costs other than service cost are recorded in "Other income" in the Interim Consolidated Statements of Operations. The amortization of unrecognized items relates to actuarial losses (gains) and prior service costs.

Defined Contribution Plan

Effective December 31, 2008, the defined benefit plans at the Celgar mill were closed to new members and the service accrual ceased. Effective January 1, 2009, the members began to receive pension benefits, at a fixed contractual rate, under a new defined contribution plan. During the three and six month periods ended June 30, 2023, the Company made contributions of $81 and $333, respectively, to this plan (2022 – $395 and $661).

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 and six month periods ended June 30, 2023, the Company made contributions of $391 and $914, respectively, to this plan (2022 – $1,091 and $1,649).

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

Note 8. Income Taxes

Differences between the U.S. Federal statutory and the Company's effective tax rates for the three and six month periods ended June 30, 2023 and 2022, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
U.S. Federal statutory rate	21%	21%	21%	21%
Income tax recovery (provision) using U.S. Federal statutory rate on income (loss) before income taxes	$ 26,413	$ (22,155)	$ 33,959	$ (45,915)
Tax differential on foreign income (loss)	4,957	(10,271)	6,275	(20,050)
Effect of foreign earnings (a)	525	(1,107)	—	(2,103)
Valuation allowance (b)	(9,556)	(5,741)	(14,119)	448
Foreign exchange on settlement of debt	—	(77)	—	3,024
Tax benefit of partnership structure	783	783	1,566	1,566
Non-taxable foreign subsidies	1,350	663	2,044	1,361
True-up of prior year taxes	(409)	(68)	4,477	1,594
Annual effective tax rate adjustment	5,000	5,000	(4,000)	5,000
Other, net	(1,584)	(1,153)	2,633	(3,287)
Income tax recovery (provision)	$ 27,479	$ (34,126)	$ 32,835	$ (58,362)
Comprised of:				
Current income tax provision	$ (6,626)	$ (27,502)	$ (11,214)	$ (43,355)
Deferred income tax recovery (provision)	34,105	(6,624)	44,049	(15,007)
Income tax recovery (provision)	$ 27,479	$ (34,126)	$ 32,835	$ (58,362)

(a) Primarily relates to the impact of the global intangible low-taxed income provision in the Tax Cuts and Jobs Act of 2017.

(b) Primarily relates to taxable losses and denied interest expense.

Note 9. Shareholders' Equity

Dividends

During the six month period ended June 30, 2023, the Company's board of directors declared the following quarterly dividends:

Date Declared	Dividend Per Common Share	Amount
February 16, 2023	$ 0.075	$ 4,982
May 4, 2023	0.075	4,989
	$ 0.150	$ 9,971

On August 3, 2023, the Company's board of directors declared a quarterly dividend of $0.075 per common share. Payment of the dividend will be made on October 4, 2023 to all shareholders of record on September 27, 2023. Future dividends are subject to approval by the board of directors and may be adjusted as business and industry conditions warrant.

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

Note 9. Shareholders' Equity (continued)

Stock Based Compensation

The Company has a stock incentive plan which provides for stock options, restricted stock units ("RSUs"), deferred stock units ("DSUs"), restricted shares, performance shares, performance share units ("PSUs"), and stock appreciation rights to be awarded to employees, consultants and non-employee directors. During the three and six month periods ended June 30, 2023, there were no issued and outstanding stock options, performance shares or stock appreciation rights. As of June 30, 2023, after factoring in all allocated shares, there remain approximately 2.1 million common shares available for grant.

In May 2023, the board of directors adopted the 2023 Non-Employee Director Compensation Plan (the "Director's Plan") which allows non-employee directors to elect on an annual basis to receive, in lieu of cash fees, either restricted stock or DSUs. The board of directors receive equity compensation of restricted stock unless they elect to receive DSUs. The non-employee directors may elect on an annual basis to receive DSUs which settle in cash ("Cash Only DSUs"). The DSUs are redeemable by the non-employee director at their option following their separation from the board of directors. The value of the Cash Only DSUs redeemed is the fair market value on the redemption date.

The Cash Only DSUs are accounted for as a liability and the other equity awards are accounted for as equity.

The following table summarizes PSU activity during the period:

	Number of PSUs
Outstanding as of January 1, 2023	3,484,154
Granted	1,562,632
Vested and issued	(253,508)
Forfeited	(1,013,972)
Outstanding as of June 30, 2023	3,779,306

The following table summarizes restricted share, RSU and DSU activity during the period:

	Equity Based Awards			Liability Based Awards
	Number of Restricted Shares	Number of RSUs	Number of DSUs	Number of DSUs
Outstanding as of January 1, 2023	34,699	50,000	11,554	—
Granted	54,227	—	27,815	90,864
Vested	(34,699)	(50,000)	(11,778)	(31,187)
Outstanding as of June 30, 2023	54,227	—	27,591	59,677

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

Note 10. Net Income (Loss) Per Common Share

The reconciliation of basic and diluted net income (loss) per common share for the three and six month periods ended June 30, 2023 and 2022 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income (loss)				
Basic and diluted	$ (98,306)	$ 71,372	$ (128,884)	$ 160,269
Net income (loss) per common share				
Basic	$ (1.48)	$ 1.08	$ (1.94)	$ 2.43
Diluted	$ (1.48)	$ 1.07	$ (1.94)	$ 2.41
Weighted average number of common shares outstanding:				
Basic (a)	66,425,479	66,098,975	66,342,807	66,067,051
Effect of dilutive instruments:				
PSUs	—	457,599	—	407,656
Restricted shares	—	21,149	—	26,906
RSUs	—	11,209	—	5,605
Diluted	66,425,479	66,588,932	66,342,807	66,507,218

(a) For the three and six month periods ended June 30, 2023, the weighted average number of common shares outstanding excludes 54,227 restricted shares which have been granted, but have not vested as of June 30, 2023 (2022 – 34,699 restricted shares).

The calculation of diluted net income (loss) per common share does not assume the exercise of any instruments that would have an anti-dilutive effect on net income (loss) per common share. Instruments excluded from the calculation of net income (loss) per common share because they were anti-dilutive for the three and six month periods ended June 30, 2023 and 2022 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
PSUs	3,779,306	—	3,779,306	—
Restricted shares	54,227	—	54,227	—
DSUs	39,369	—	39,369	—

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

Note 11. Accumulated Other Comprehensive Loss

The change in the accumulated other comprehensive loss by component (net of tax) for the three and six month periods ended June 30, 2023 and 2022 was as follows:

	Foreign Currency Translation Adjustments	Defined Benefit Pension and Other Post-Retirement Benefit Items	Total
Three months Ended June 30:			
Balance as of March 31, 2023	$ (176,435)	$ 14,896	$ (161,539)
Other comprehensive income before reclassifications	12,236	114	12,350
Amounts reclassified	—	154	154
Other comprehensive income	12,236	268	12,504
Balance as of June 30, 2023	$ (164,199)	$ 15,164	$ (149,035)
Balance as of March 31, 2022	$ (108,039)	$ 6,670	$ (101,369)
Other comprehensive loss before reclassifications	(84,020)	—	(84,020)
Amounts reclassified	—	(119)	(119)
Other comprehensive loss	(84,020)	(119)	(84,139)
Balance as of June 30, 2022	$ (192,059)	$ 6,551	$ (185,508)
Six months Ended June 30:			
Balance as of December 31, 2022	$ (195,085)	$ 15,123	$ (179,962)
Other comprehensive income before reclassifications	30,886	—	30,886
Amounts reclassified	—	41	41
Other comprehensive income	30,886	41	30,927
Balance as of June 30, 2023	$ (164,199)	$ 15,164	$ (149,035)
Balance as of December 31, 2021	$ (97,517)	$ 6,724	$ (90,793)
Other comprehensive income (loss) before reclassifications	(94,542)	62	(94,480)
Amounts reclassified	—	(235)	(235)
Other comprehensive loss	(94,542)	(173)	(94,715)
Balance as of June 30, 2022	$ (192,059)	$ 6,551	$ (185,508)

Note 12. Related Party Transactions

The Company enters into related party transactions with its joint ventures. For the three and six month periods ended June 30, 2023, pulp purchases from the Company's 50% owned Cariboo mill, which are transacted at the Cariboo mill's cost, were $22,598 and $49,395, respectively, (2022 – $30,616 and $51,267) and as of June 30, 2023, the Company had a payable balance to the Cariboo mill of $5,599 (December 31, 2022 – payable of $4,409). For the three and six month periods ended June 30, 2023, services from the Company's 50% owned logging and chipping operation, which are transacted at arm's length negotiated prices, were $4,423 and $8,439, respectively, (2022 – $2,596 and $7,256) and as of June 30, 2023, the Company had a receivable balance from the operation of $2,851 (December 31, 2022 – receivable of $522).

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

Note 13. Segment Information

The Company is managed based on the primary products it manufactures: pulp and solid wood. Accordingly, the Company's four pulp mills and its 50% interest in the Cariboo pulp mill are aggregated into the pulp segment. The Friesau sawmill, the Torgau facility and the mass timber facilities are aggregated into the solid wood segment. Commencing in the third quarter of 2022, after our acquisition of the Torgau facility, the Company reorganized its operating and management structure which included having the chief operating decision maker review the mass timber results with the results of the Friesau sawmill and Torgau facility. This classification of the mass timber results within the solid wood segment has been reflected retrospectively. Previously they were included in our corporate and other segment. The Company's sandalwood business is included in corporate and other as it does not meet the criteria to be reported as a separate reportable segment.

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

Information about certain segment data for the three and six month periods ended June 30, 2023 and 2022, was as follows:

Three Months Ended June 30, 2023	**Pulp**	**Solid Wood**	**Corporate and Other**	**Consolidated**
Revenues from external customers	$ 402,694	$ 126,050	$ 1,119	$ 529,863
Operating loss	$ (83,459)	$ (22,493)	$ (2,880)	$ (108,832)
Depreciation and amortization	$ 27,783	$ 12,126	$ 243	$ 40,152
Revenues by major products				
Pulp	$ 374,175	$ —	$ —	$ 374,175
Lumber	—	59,264	—	59,264
Energy and chemicals	28,519	5,360	1,119	34,998
Manufactured products (a)	—	15,989	—	15,989
Pallets	—	32,675	—	32,675
Biofuels (b)	—	10,242	—	10,242
Wood residuals	—	2,520	—	2,520
Total revenues	$ 402,694	$ 126,050	$ 1,119	$ 529,863
Revenues by geographical markets (c)				
U.S.	$ 29,087	$ 48,164	$ 292	$ 77,543
Foreign countries				
Germany	80,696	58,676	12	139,384
China	164,070	790	—	164,860
Other countries	128,841	18,420	815	148,076
	373,607	77,886	827	452,320
Total revenues	$ 402,694	$ 126,050	$ 1,119	$ 529,863

(a) Manufactured products primarily includes cross-laminated timber and finger joint lumber.

(b) Biofuels includes pellets and briquettes.

(c) Sales are attributed to countries based on the ship-to location provided by the customer.

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

Note 13. Segment Information (continued)

Three Months Ended June 30, 2022	**Pulp**	**Solid Wood**	**Corporate and Other**	**Consolidated**
Revenues from external customers	$ 460,304	$ 110,985	$ 1,037	$ 572,326
Operating income (loss)	$ 75,471	$ 43,726	$ (5,166)	$ 114,031
Depreciation and amortization	$ 27,001	$ 3,792	$ 235	$ 31,028
Revenues by major products				
Pulp	$ 418,579	$ —	$ —	$ 418,579
Lumber	—	96,268	—	96,268
Energy and chemicals	41,725	5,055	1,037	47,817
Manufactured products (a)	—	6,295	—	6,295
Wood residuals	—	3,367	—	3,367
Total revenues	$ 460,304	$ 110,985	$ 1,037	$ 572,326
Revenues by geographical markets (b)				
U.S.	$ 58,953	$ 62,603	$ 218	$ 121,774
Foreign countries				
Germany	146,608	24,711	—	171,319
China	94,357	170	—	94,527
Other countries	160,386	23,501	819	184,706
	401,351	48,382	819	450,552
Total revenues	$ 460,304	$ 110,985	$ 1,037	$ 572,326

(a) Manufactured products primarily includes finger joint lumber.

(b) Sales are attributed to countries based on the ship-to location provided by the customer.

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

Note 13. Segment Information (continued)

Six Months Ended June 30, 2023	**Pulp**	**Solid Wood**	**Corporate and Other**	**Consolidated**
Revenues from external customers	$ 803,095	$ 247,064	$ 2,370	$ 1,052,529
Operating loss	$ (70,688)	$ (49,562)	$ (8,703)	$ (128,953)
Depreciation and amortization	$ 55,182	$ 32,024	$ 537	$ 87,743
Total assets (a)	$ 1,726,689	$ 679,497	$ 227,183	$ 2,633,369
Revenues by major products				
Pulp	$ 743,831	$ —	$ —	$ 743,831
Lumber	—	119,303	—	119,303
Energy and chemicals	59,264	11,055	2,370	72,689
Manufactured products (b)	—	21,793	—	21,793
Pallets	—	68,850	—	68,850
Biofuels (c)	—	18,377	—	18,377
Wood residuals	—	7,686	—	7,686
Total revenues	$ 803,095	$ 247,064	$ 2,370	$ 1,052,529
Revenues by geographical markets (d)				
U.S.	$ 72,642	$ 83,220	$ 574	$ 156,436
Foreign countries				
Germany	183,689	124,284	230	308,203
China	271,192	2,004	—	273,196
Other countries	275,572	37,556	1,566	314,694
	730,453	163,844	1,796	896,093
Total revenues	$ 803,095	$ 247,064	$ 2,370	$ 1,052,529

(a) Total assets for the pulp segment includes the Company's $49,223 investment in joint ventures, primarily for the Cariboo mill. Total assets for the solid wood segment includes $34,792 of goodwill from the acquisition of Torgau.

(b) Manufactured products primarily includes cross-laminated timber and finger joint lumber.

(c) Biofuels includes pellets and briquettes.

(d) Sales are attributed to countries based on the ship-to location provided by the customer.

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

Note 13. Segment Information (continued)

Six Months Ended June 30, 2022	**Pulp**	**Solid Wood**	**Corporate and Other**	**Consolidated**
Revenues from external customers	$ 946,235	$ 215,782	$ 3,050	$ 1,165,067
Operating income (loss)	$ 161,707	$ 82,027	$ (7,352)	$ 236,382
Depreciation and amortization	$ 54,685	$ 7,986	$ 473	$ 63,144
Revenues by major products				
Pulp	$ 865,490	$ —	$ —	$ 865,490
Lumber	—	188,634	—	188,634
Energy and chemicals	80,745	10,232	3,050	94,027
Manufactured products (a)	—	10,059	—	10,059
Wood residuals	—	6,857	—	6,857
Total revenues	$ 946,235	$ 215,782	$ 3,050	$ 1,165,067
Revenues by geographical markets (b)				
U.S.	$ 107,115	$ 120,467	$ 446	$ 228,028
Foreign countries				
Germany	286,662	46,419	—	333,081
China	240,355	352	—	240,707
Other countries	312,103	48,544	2,604	363,251
	839,120	95,315	2,604	937,039
Total revenues	$ 946,235	$ 215,782	$ 3,050	$ 1,165,067

(a) Manufactured products primarily includes finger joint lumber.

(b) Sales are attributed to countries based on the ship-to location provided by the customer.

As of December 31, 2022, the Company had total assets of $1,768,628 in the pulp segment, $613,171 in the solid wood segment and $343,238 in corporate and other. Total assets for the pulp segment includes the Company's $45,635 investment in joint ventures, primarily for the Cariboo mill. Total assets for the solid wood segment includes $30,937 of goodwill from the acquisition of Torgau.

Revenues between segments are accounted for at prices that approximate fair value. These include revenues from the sale of residual fiber from the solid wood segment to the pulp segment for use in pulp production and from the sale of residual fuel from the pulp segment to the solid wood segment for use in energy production. For the three and six month periods ended June 30, 2023, the pulp segment sold $170 and $544, respectively, of residual fuel to the solid wood segment (2022 – $nil) and the solid wood segment sold $10,986 and $22,141, respectively, of residual fiber to the pulp segment (2022 – $6,530 and $13,381).

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

Note 14. Financial Instruments and Fair Value Measurement

Due to their short-term maturity, the carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable and other approximates their fair value. The estimated fair values of the Company's outstanding debt under the fair value hierarchy as of June 30, 2023 and December 31, 2022 were as follows:

	Fair value measurements as of June 30, 2023 using:			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Revolving credit facilities	$ —	$ 198,884	$ —	$ 198,884
Senior Notes	—	961,785	—	961,785
	$ —	$ 1,160,669	$ —	$ 1,160,669

	Fair value measurements as of December 31, 2022 using:			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Revolving credit facilities	$ —	$ 141,075	$ —	$ 141,075
Senior Notes	—	1,015,633	—	1,015,633
	$ —	$ 1,156,708	$ —	$ 1,156,708

The carrying value of the revolving credit facilities classified as Level 2 approximates the fair value as the variable interest rates reflect current interest rates for financial instruments with similar characteristics and maturities.

The fair value of the Senior Notes classified as Level 2 was determined using quoted prices in a dealer market, or using recent market transactions. The Company's Senior Notes are not carried at fair value in the Interim Consolidated Balance Sheets as of June 30, 2023 or December 31, 2022. However, fair value disclosure is required. The carrying value of the Company's Senior Notes, net of unamortized note issuance costs, was $1,162,960 as of June 30, 2023 (December 31, 2022 – $1,161,672).

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 its sales 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. The Company reviews new customers’ credit history before granting credit and conducts regular reviews of existing customers’ credit performance. Concentrations of credit risk are with customers and agents based primarily in Germany, China and the U.S.

The Company’s exposure to credit losses may increase if its customers' production and other costs are adversely affected by inflation. Although the Company has historically not experienced significant credit losses, it is possible that there could be a material adverse impact from potential adjustments of the carrying amount of trade receivables if the cash flows of the Company’s customers are adversely impacted by inflation. As of June 30, 2023, the Company has not had significant credit losses.

As of June 30, 2023, the carrying amount of cash and cash equivalents of $213,338 and accounts receivable of $335,402 recorded in the Interim Consolidated Balance Sheet, net of any allowances for losses, represent the Company’s maximum exposure to credit risk.

Note 15. 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) On June 15, 2023, the European Commission announced that it has closed its two-year cartel investigation into the wood pulp sector in Europe after it concluded that there was insufficient ground to further pursue the investigation. The investigation was started in 2021 to investigate if there was an infringement of European Union competition law.

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 (loss) 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 operating income (loss) as a measure of performance, or as an alternative to net cash from (used in) operating activities as a measure of liquidity. Operating EBITDA is an internal measure and therefore may not be comparable to other companies.

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

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

In this document: (i) unless the context otherwise requires, references to "we", "our", "us", the "Company" or "Mercer" mean Mercer International Inc. and its subsidiaries; (ii) references to "Mercer Inc." mean the Company excluding its subsidiaries; (iii) information is provided as of June 30, 2023, 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 tonnes; (vi) "m^3" means cubic meters; (vii) "NBSK" refers to northern bleached softwood kraft; (viii) "NBHK" refers to northern bleached hardwood kraft; (ix) "MW" refers to megawatts and "MWh" refers to megawatt hours; (x) "Mfbm" refers to thousand board feet of lumber and "MMfbm" mean million board feet of lumber; and (xi) our lumber metrics are converted from cubic meters to Mfbm using a conversion ratio of 1.6 cubic meters to one Mfbm, which is the ratio commonly used in the industry.

Due to rounding, numbers presented throughout this report may not add up precisely to totals we provide and percentages may not precisely reflect the absolute figure.

The following discussion and analysis of our results of operations and financial condition for the three and six month periods ended June 30, 2023 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, 2022 filed with the Securities and Exchange Commission, referred to as the "SEC".

Results of Operations

General

On June 15, 2023, we acquired substantially all of the assets of Structurlam Mass Timber Corporation and its subsidiaries ("Structurlam"), including a mass timber production facility located in Conway, Arkansas and mass timber production facilities in British Columbia, Canada, for cash consideration of $82.1 million.

We have two reportable operating segments:

- **Pulp** – consists of the manufacture, sale and distribution of pulp, electricity and chemicals at our pulp mills.

- **Solid Wood** – consists of the manufacture, sale and distribution of lumber, manufactured products (including cross-laminated timber, referred to as "CLT", glulam and finger joint lumber), wood pallets, electricity, biofuels and wood residuals at our sawmills and other facilities in Germany and our mass timber facilities in North America which include the recently acquired U.S. and Canadian facilities from the Structurlam group of companies.

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

Commencing in the third quarter of 2022 and after our acquisition of the Torgau facility, we have included the mass timber results within our solid wood segment, which has been reflected retroactively. Previously they were included in our corporate and other segment.

Current Market Environment

In the second quarter of 2023, overall both pulp and lumber markets were generally weak. In the current quarter of 2023, our pulp sales realizations decreased in all of our key markets compared to the first quarter of 2023 primarily due to inflationary pressures negatively impacting paper demand. Our lumber sales realization modestly increased compared to the prior quarter of 2023 due to some recovery of prices in both the U.S. and European markets as customer demand increased because of comparatively low prices.

As we move into the third quarter, we currently expect overall stable prices for pulp as a result of reaching floor pricing and the easing of inflationary pressures permitting some modest price recovery in the later part of the quarter.

As of June 30, 2023, third party industry quoted NBSK list prices in Europe and North America were approximately $1,200 per ADMT and $1,420 per ADMT, respectively and NBSK net prices in China were approximately $648 per ADMT. Prices for China are net of discounts, allowances and rebates.

In our solid wood segment, we currently expect lumber prices to modestly increase in the third quarter due to higher demand from the U.S. market caused by stable residential construction and low customer inventory levels. In addition, we currently expect to see continued strong growth in our mass timber operations.

Per unit fiber costs for the pulp segment modestly decreased in the second quarter of 2023 compared to the first quarter of 2023 as lower per unit fiber costs for our German mills due to stable supply were mostly offset by higher per unit fiber costs for our Canadian mills as a result of strong fiber demand and reduced wood chip availability caused by sawmill curtailments. Per unit fiber costs for our solid wood segment modestly increased as a result of strong fiber demand. For the third quarter of 2023, we currently expect lower per unit fiber costs for our pulp mills due to stable supply and increased wood chip availability as a result of stronger sawmill production. In our solid wood segment, we currently expect stable per unit fiber costs.

Summary Financial Highlights

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(in thousands, other than per share amounts)			
Statement of Operations Data				
Pulp segment revenues	$ 402,694	$ 460,304	$ 803,095	$ 946,235
Solid wood segment revenues	126,050	110,985	247,064	215,782
Corporate and other revenues	1,119	1,037	2,370	3,050
Total revenues	$ 529,863	$ 572,326	$ 1,052,529	$ 1,165,067
Pulp segment operating income (loss)	$ (83,459)	$ 75,471	$ (70,688)	$ 161,707
Solid wood segment operating income (loss)	(22,493)	43,726	(49,562)	82,027
Corporate and other operating loss	(2,880)	(5,166)	(8,703)	(7,352)
Total operating income (loss)	$ (108,832)	$ 114,031	$ (128,953)	$ 236,382
Pulp segment depreciation and amortization	$ 27,783	$ 27,001	$ 55,182	$ 54,685
Solid wood segment depreciation and amortization	12,126	3,792	32,024	7,986
Corporate and other depreciation and amortization	243	235	537	473
Total depreciation and amortization	$ 40,152	$ 31,028	$ 87,743	$ 63,144
Operating EBITDA (1)	$ (68,680)	$ 145,059	$ (41,210)	$ 299,526
Income tax recovery (provision)	$ 27,479	$ (34,126)	$ 32,835	$ (58,362)
Net income (loss)	$ (98,306)	$ 71,372	$ (128,884)	$ 160,269
Net income (loss) per common share				
Basic	$ (1.48)	$ 1.08	$ (1.94)	$ 2.43
Diluted	$ (1.48)	$ 1.07	$ (1.94)	$ 2.41
Common shares outstanding at period end	66,525	66,167	66,525	66,167

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(in thousands)			
Net income (loss)	$ (98,306)	$ 71,372	$ (128,884)	$ 160,269
Income tax provision (recovery)	(27,479)	34,126	(32,835)	58,362
Interest expense	20,091	17,332	39,138	34,796
Other income	(3,138)	(8,799)	(6,372)	(17,045)
Operating income (loss)	(108,832)	114,031	(128,953)	236,382
Add: Depreciation and amortization	40,152	31,028	87,743	63,144
Operating EBITDA	$ (68,680)	$ 145,059	$ (41,210)	$ 299,526

Selected Production, Sales and Other Data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Pulp Segment				
Pulp production ('000 ADMTs)				
NBSK	450.7	418.3	880.7	853.8
NBHK	24.9	51.6	97.3	108.4
Annual maintenance downtime ('000 ADMTs)	24.5	54.2	38.0	54.2
Annual maintenance downtime (days)	25	43	35	43
Pulp sales ('000 ADMTs)				
NBSK	473.6	405.7	852.1	910.8
NBHK	63.3	65.8	120.7	115.8
Average NBSK pulp prices ($/ADMT)(1)				
Europe	1,247	1,437	1,312	1,383
China	668	1,008	780	954
North America	1,510	1,743	1,593	1,635
Average NBHK pulp prices ($/ADMT)(1)				
China	483	815	597	742
North America	1,277	1,517	1,400	1,414
Average pulp sales realizations ($/ADMT)(2)				
NBSK	706	890	769	847
NBHK	602	843	700	780
Energy production ('000 MWh)(3)	538.3	496.6	1,073.0	1,028.1
Energy sales ('000 MWh)(3)	207.7	199.3	404.6	394.0
Average energy sales realizations ($/MWh)(3)	101	186	114	186
Solid Wood Segment				
Lumber				
Production (MMfbm)	122.3	112.2	256.3	227.8
Sales (MMfbm)	133.9	111.0	273.7	220.9
Average sales realizations ($/Mfbm)	443	867	436	854
Energy				
Production and sales ('000 MWh)	41.9	25.5	82.4	50.0
Average sales realizations ($/MWh)	128	198	134	205
Manufactured products(4)				
Production ('000 m^3)	3.2	7.5	4.0	13.0
Sales ('000 m^3)	6.1	6.6	10.4	12.2
Average sales realizations ($/$m^3$)	2,243	954	1,587	824
Pallets				
Production ('000 units)	2,747.2	—	5,627.4	—
Sales ('000 units)	2,882.7	—	5,825.2	—
Average sales realizations ($/unit)	11	—	12	—
Biofuels(5)				
Production ('000 tonnes)	43.6	—	76.2	—
Sales ('000 tonnes)	40.4	—	66.2	—
Average realizations ($/tonne)	254	—	277	—
Average Spot Currency Exchange Rates				
$ / €(6)	1.0888	1.0646	1.0810	1.0929
$ / C$(6)	0.7447	0.7836	0.7420	0.7866

(1) Source: RISI pricing report. Europe and North America are list prices. China are net prices which include discounts, allowances and rebates.
(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) Does not include our 50% joint venture interest in the Cariboo mill, which is accounted for using the equity method.
(4) Manufactured products primarily includes CLT and finger joint lumber.
(5) Biofuels includes pellets and briquettes.
(6) Average Federal Reserve Bank of New York Noon Buying Rates over the reporting period.

Consolidated – Three Months Ended June 30, 2023 Compared to Three Months Ended June 30, 2022

Total revenues in the second quarter of 2023 decreased by approximately 7% to $529.9 million from $572.3 million in the same quarter of 2022 primarily due to lower pulp, lumber and energy sales realizations partially offset by higher sales volumes and the inclusion of Torgau.

Costs and expenses in the second quarter of 2023 increased by approximately 39% to $638.7 million from $458.3 million in the second quarter of 2022 primarily due to the inclusion of Torgau, a non-cash inventory impairment of $51.4 million or $0.77 per share at our Canadian pulp mills, higher sales volumes and higher per unit fiber costs. The impairment charges were primarily caused by lower pulp sales realizations and higher per unit fiber costs. In the second quarter of 2023, we received an aggregate of $22.0 million of insurance proceeds relating to the 2021 turbine downtime at our Rosenthal mill and the July 2022 fire at our Stendal mill.

In the second quarter of 2023, cost of sales depreciation and amortization increased by approximately 29% to $40.1 million from $31.0 million in the same quarter of 2022 primarily caused by the inclusion of Torgau.

Selling, general and administrative expenses increased by approximately 37% to $32.4 million in the second quarter of 2023 from $23.6 million in the same quarter of 2022 primarily because of the inclusion of Torgau and higher employee compensation.

In the second quarter of 2023, operating loss was $108.8 million compared to operating income of $114.0 million in the same quarter of 2022 primarily due to lower pulp, lumber and energy sales realizations, higher per unit fiber costs and the non-cash inventory impairment at our Canadian pulp mills partially offset by higher sales volumes and the receipt of insurance proceeds.

Interest expense in the second quarter of 2023 increased to $20.1 million from $17.3 million in the same quarter of 2022 caused by higher borrowings on our revolving credit facilities and higher interest rates.

In the second quarter of 2023, other income was $3.1 million compared to $8.8 million in the same quarter of 2022. Other income in the second quarter of 2023 primarily consisted of interest earned on cash and in the second quarter of 2022 other income primarily consisted of foreign exchange gains on dollar denominated cash held at our operations, as the dollar strengthened in the quarter.

During the second quarter of 2023, we had an income tax recovery of $27.5 million or an effective tax rate of 22% as we do not recognize a tax recovery for certain entities for which we do not currently expect to realize a tax benefit. In the comparative quarter of 2022, we had an income tax provision of $34.1 million or an effective tax rate of 32%.

For the second quarter of 2023, net loss was $98.3 million, or $1.48 per share, compared to net income of $71.4 million, or $1.08 per basic share and $1.07 per diluted share in the same quarter of the prior year.

In the second quarter of 2023, Operating EBITDA decreased to negative $68.7 million from positive $145.1 million in the same quarter of 2022 primarily due to lower pulp, lumber and energy sales realizations, higher per unit fiber costs and the non-cash inventory impairment at our Canadian mills partially offset by higher sales volumes and insurance proceeds.

Operating Results by Business Segment

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

Pulp Segment – Three Months Ended June 30, 2023 Compared to Three Months Ended June 30, 2022

Selected Financial Information

	Three Months Ended June 30,	
	2023	2022
	(in thousands)	
Pulp revenues	$ 374,175	$ 418,579
Energy and chemical revenues	$ 28,519	$ 41,725
Depreciation and amortization	$ 27,783	$ 27,001
Operating income (loss)	$ (83,459)	$ 75,471

Our pulp segment revenues declined approximately 13% to $402.7 million from $460.3 million in the same quarter of 2022 primarily because of generally weak pulp markets and lower energy revenues.

Pulp revenues in the second quarter of 2023 decreased by approximately 11% to $374.2 million from $418.6 million in the same quarter of 2022 due to lower sales realizations only partially offset by higher sales volumes.

Energy and chemical revenues decreased by approximately 32% to $28.5 million in the second quarter of 2023 from $41.7 million in the same quarter of 2022 as a result of lower energy sales realizations.

Total pulp production modestly increased to 475,615 ADMTs in the second quarter of 2023 from 469,845 ADMTs in the same quarter of 2022 primarily due to overall stable production at all of our mills.

In the second quarter of 2023, our pulp mills had 60 days of downtime (approximately 59,000 ADMTs) which included 25 days for annual maintenance downtime and 35 days for market curtailment at the Peace River and Cariboo mills. In the comparative quarter of 2022, our pulp mills had 49 days of downtime (62,600 ADMTs) comprised of 43 days of annual maintenance downtime and an additional six days at our Celgar mill due a slower than planned start up.

In the third quarter of 2023, at our pulp mills we currently expect a total of 44 days of downtime (54,800 ADMTs) comprised of 14 days of annual maintenance downtime and an aggregate of approximately 30 days downtime because of a lack of availability of railcars for our Celgar mill and market weakness.

We estimate that annual maintenance downtime in the second quarter of 2023 adversely impacted our operating loss by approximately $21.7 million, comprised of approximately $20.8 million in direct out-of-pocket expenses and the balance in reduced production.

Total pulp sales volumes increased by approximately 14% to 536,878 ADMTs in the second quarter of 2023 from 471,537 ADMTs in the same quarter of 2022 primarily because of stronger customer demand resulting from lower prices.

In the second quarter of 2023, third party industry quoted average list prices for NBSK pulp decreased in Europe, North America and China from the same quarter of 2022. Average third party industry quoted list prices for NBSK pulp in Europe and North America were approximately $1,247 per ADMT and $1,510 per ADMT, respectively, in the second quarter of 2023 compared to approximately $1,437 per ADMT and $1,743 per ADMT, respectively, in the same quarter of 2022. Average third party industry quoted NBSK net prices in China were approximately $668 per ADMT in the second quarter of 2023 compared to approximately $1,008 per ADMT in the same quarter of 2022. Prices quoted for China are net of discounts, allowances and rebates whereas quoted prices for Europe and North America are before applicable discounts, allowances and rebates.

Our average NBSK pulp sales realizations decreased by approximately 21% to $706 per ADMT in the second quarter of 2023 from approximately $890 per ADMT in the same quarter of 2022. In the current quarter, our average NBHK pulp sales realizations decreased by approximately 29% compared to the same quarter of 2022.

In the second quarter of 2023 compared to the same quarter of 2022, we had a positive impact of approximately $2.5 million in operating loss due to foreign exchange.

In the second quarter of 2023, as a result of lower pulp sales realizations and higher per unit fiber costs, we recorded non-cash inventory impairment charges at our Canadian mills of $51.4 million of which $26.3 million related to hardwood fiber inventory and pulp at our Mercer Peace River mill. In the current quarter, on average, hardwood pulp prices in China declined by over $225 per tonne or approximately 32%. Additionally, our Peace River mill had materially built up its hardwood fiber inventory in connection with the start-up of its new woodroom which commenced operations in the recent quarter.

Costs and expenses in the second quarter of 2023 increased by approximately 26% to $486.3 million from $384.8 million in the second quarter of 2022 primarily due to inventory impairment charges at our Canadian mills, higher pulp sales volumes and higher per unit fiber costs partially offset by the receipt of insurance proceeds in 2023.

In the second quarter of 2023 per unit fiber costs increased by approximately 22% from the same quarter of 2022 due to higher per unit fiber costs for all of our mills. Our German mills had higher per unit fiber costs as a result of strong demand from other wood consumers such as heating pellet manufacturers. For our Canadian mills, per unit fiber costs increased due to strong demand in the mills' fiber baskets and for our Celgar mill a decrease in the availability of wood chips because of regional sawmill curtailments. We currently expect per unit fiber costs to decrease in the third quarter of 2023 because of a more stable supply and increased wood chip availability as a result of stronger sawmill production.

Transportation costs increased by approximately 12% to $48.3 million in the second quarter of 2023 from $43.2 million in the same quarter of 2022 primarily caused by higher pulp sales volumes.

In the second quarter of 2023, depreciation and amortization modestly increased to $27.8 million from $27.0 million in the same quarter of 2022 as a result of completing capital projects.

In the second quarter of 2023, pulp segment operating loss was $83.5 million compared to operating income of $75.5 million in the same quarter of 2022 primarily as a result of lower pulp and energy sales realizations, the non-cash inventory impairment at our Canadian pulp mills and higher per unit fiber costs partially offset by the receipt of insurance proceeds of $22.0 million and higher pulp sales volumes.

Solid Wood Segment – Three Months Ended June 30, 2023 Compared to Three Months Ended June 30, 2022

Selected Financial Information

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022
	(in thousands)	
Lumber revenues	$ 59,264	$ 96,268
Energy revenues	$ 5,360	$ 5,055
Manufactured products revenues(1)	$ 15,989	$ 6,295
Pallet revenues	$ 32,675	$ —
Biofuel revenues(2)	$ 10,242	$ —
Wood residuals revenues	$ 2,520	$ 3,367
Depreciation and amortization	$ 12,126	$ 3,792
Operating income (loss)	$ (22,493)	$ 43,726

(1) Manufactured products primarily includes CLT and finger joint lumber.

(2) Biofuels includes pellets and briquettes.

In the second quarter of 2023, solid wood segment revenues increased by approximately 14% to $126.1 million from $111.0 million in the same quarter of 2022 primarily as a result of the inclusion of Torgau and the ramping up of our mass timber operations partially offset by lower lumber revenues.

In the second quarter of 2023, lumber revenues decreased by approximately 38% to $59.3 million from $96.3 million in the same quarter of 2022 due to lower sales realizations partially offset by higher sales volumes. In the second quarter of 2023, both U.S. and European realized lumber prices were lower because of decreased demand as a result of higher interest rates and an uncertain economic outlook compared to the same quarter of 2022. The U.S. market accounted for approximately 58% of our lumber revenues and approximately 54% of our lumber sales volumes in the second quarter of 2023. The majority of the balance of our lumber sales were to Europe.

In the second quarter of 2023, our mass timber facility continued its ramp up of operations and increased its revenues to $16.0 million from $6.3 million in the comparative quarter of 2022 as a result of both higher CLT sales volumes and realizations.

Energy and wood residuals revenues in the second quarter of 2023 decreased by approximately 6% to $7.9 million from $8.4 million in the same quarter of 2022 primarily caused by lower sales realizations.

Pallet revenues of $32.7 million and biofuel revenues of $10.2 million in the second quarter of 2023 are from the inclusion of Torgau.

In the second quarter of 2023, lumber production increased by approximately 9% to 122.3 MMfbm from 112.2 MMfbm in the same quarter of 2022 as a result of the inclusion of Torgau and modestly higher production at our Friesau mill.

Lumber sales volumes increased by approximately 21% to 133.9 MMfbm in the second quarter of 2023 from 111.0 MMfbm in the same quarter of 2022 primarily due to higher production and increased customer demand caused by lower prices.

Average lumber sales realizations decreased by approximately 49% to $443 per Mfbm in the second quarter of 2023 from approximately $867 per Mfbm in the same quarter of 2022 as a result of lower demand in both the U.S. and European markets.

Manufactured products sales realizations increased to $2,243 per m^3 in the second quarter of 2023 from $954 per m^3 in the second quarter of 2022 as a result of higher CLT sales volumes.

Fiber costs were approximately 80% of our lumber cash production costs in the second quarter of 2023. In the second quarter of 2023, per unit fiber costs for lumber production increased by approximately 7% compared to the same quarter of 2022. Higher per unit fiber costs were due to strong fiber demand in Germany. We currently expect stable per unit fiber costs in the third quarter of 2023.

In the second quarter of 2023, depreciation and amortization increased to $12.1 million compared to $3.8 million in the same quarter of 2022 caused by the inclusion of Torgau and the completion of capital projects.

Transportation costs in the second quarter of 2023 increased by approximately 30% to $16.4 million from $12.6 million in the same quarter of 2022 primarily as a result of the inclusion of Torgau.

In the second quarter of 2023, operating loss was $22.5 million compared to operating income of $43.7 million in the same quarter of 2022 primarily due to lower sales realizations.

Consolidated - Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

Total revenues for the first half of 2023 decreased by approximately 10% to $1,052.5 million from $1,165.1 million in the first half of 2022 primarily due to lower lumber, pulp and energy sales realizations and lower pulp sales volumes partially offset by the inclusion of Torgau and higher lumber sales volumes.

Costs and expenses in the first half of 2023 increased by approximately 27% to $1,181.5 million from $928.7 million in the first half of 2022 primarily caused by the inclusion of Torgau, higher per unit fiber and chemical costs and inventory impairment charges at our Canadian pulp mills of $66.6 million which were primarily non-cash. The impairment charges were primarily the result of lower pulp sales realizations and higher per unit fiber costs. These increases were partially offset by lower pulp sales volumes, the receipt of $29.5 million of insurance proceeds and the net positive impact of a stronger dollar on our Canadian dollar denominated costs and expenses.

In the first half of 2023, cost of sales depreciation and amortization increased to $87.6 million from $63.1 million in the same period of 2022 due to the inclusion of Torgau.

Selling, general and administrative expenses increased by approximately 45% to $66.3 million in the first half of 2023 from $45.8 million in the first half of 2022 primarily because of the inclusion of Torgau and higher employee compensation.

In the first half of 2023, our operating loss was $129.0 million compared to operating income of $236.4 million in the same period of 2022 primarily due to lower lumber, pulp and energy sales realizations, higher per unit fiber and chemical costs and the inventory impairment charges at our Canadian mills partially offset by insurance proceeds received in the first half of 2023 and the net positive impact of a stronger dollar on our Canadian dollar denominated expenses.

Interest expense in the first half of 2023 increased to $39.1 million from $34.8 million in the same period of 2022 primarily caused by higher borrowings on our revolving credit facilities and higher interest rates.

In the first half of 2023, other income decreased to $6.4 million from $17.0 million in the same period of 2022. Other income in the first half of 2023 primarily consisted of interest earned on cash and in the first half of 2022 primarily consisted of foreign exchange gains on dollar denominated cash held at our operations, as the dollar strengthened in 2022.

During the first half of 2023, we had an income tax recovery of $32.8 million or an effective tax rate of 20% as we do not recognize a tax recovery for certain entities for which we do not currently expect to realize a tax recovery. In the same period of 2022, the provision for income taxes was $58.4 million or an effective tax rate of 27%.

In the first half of 2023, Operating EBITDA was negative $41.2 million compared to a positive $299.5 million in the same period of 2022 primarily due to lower lumber, pulp and energy sales realizations, higher per unit fiber and chemical costs and the non-cash inventory impairment at our Canadian pulp mills partially offset by insurance proceeds received in the first half of 2023 and the net positive impact of a stronger dollar on our Canadian dollar denominated expenses.

Operating Results by Business Segment

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

Pulp Segment - Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

Selected Financial Information

	Six Months Ended June 30,	
	2023	2022
	(in thousands)	
Pulp revenues	$ 743,831	$ 865,490
Energy and chemical revenues	$ 59,264	$ 80,745
Depreciation and amortization	$ 55,182	$ 54,685
Operating income (loss)	$ (70,688)	$ 161,707

In the first half of 2023, pulp segment revenues declined approximately 15% to $803.1 million from $946.2 million reflecting overall weaker pulp markets and lower energy revenues.

Pulp revenues in the first half of 2023 decreased by approximately 14% to $743.8 million from $865.5 million in the same period of 2022 due to lower sales realizations and lower sales volumes.

Energy and chemical revenues decreased by approximately 27% to $59.3 million in the first half of 2023 from $80.7 million in the same period of 2022 as a result of lower energy sales realizations.

Pulp production modestly increased to 977,987 ADMTs in the first half of 2023 from 962,133 ADMTs in the same period of 2022 primarily due to stable production. In the first half of 2023, our pulp mills had 70 days of downtime (approximately 72,500 ADMTs) which included a total of 35 days of annual maintenance downtime and 35 days for market curtailment at the Peace River and Cariboo mills. In the first half of 2022, our pulp mills had 49 days of downtime (62,600 ADMTs) comprised of 43 days of annual maintenance downtime and an additional six days at our Celgar mill caused by slower than planned start up.

We estimate that annual maintenance downtime in the first half of 2023 adversely impacted our operating loss by approximately $26.4 million, comprised of approximately $21.6 million in direct out-of-pocket expenses and the balance in reduced production.

Pulp sales volumes decreased by approximately 5% to 972,851 ADMTs in the first half of 2023 from 1,026,572 ADMTs in the same period of 2022 primarily due to weaker demand in early 2023.

In the first half of 2023, prices for NBSK pulp decreased from the same period of 2022, largely as a result of weaker demand. Average list prices for NBSK pulp in Europe and North America were approximately $1,312 per ADMT and $1,593 per ADMT, respectively in the first half of 2023 compared to approximately $1,383 per ADMT and $1,635 per ADMT, respectively, in the same period of 2022. Average NBSK net prices in China were approximately $780 per ADMT in the first half of 2023 compared to approximately $954 per ADMT in the first half of 2022.

Average NBSK pulp sales realizations decreased by approximately 9% to $769 per ADMT in the first half of 2023 from approximately $847 per ADMT in the same period of 2022. In the first half of 2023, average NBHK pulp sales realizations decreased by approximately 10% from the same period of 2022.

In the first half of 2023, primarily as a result of the effect of the strengthening dollar on our Canadian dollar denominated costs and expenses, we recorded a net positive impact of approximately $21.2 million in operating loss due to foreign exchange compared to the same period of 2022.

In the first half of 2023, we recorded inventory impairment charges at our Canadian mills of $66.6 million which were primarily non-cash. The impairment charges were primarily caused by lower pulp sales realizations and higher per unit fiber costs.

Costs and expenses in the first half of 2023 increased by approximately 11% to $874.3 million from $784.5 million in the first half of 2022 primarily due to higher per unit fiber and chemical costs and inventory impairment charges at our Canadian mills partially offset by lower pulp sales volumes, the receipt of $29.5 million of insurance proceeds in the first half of 2023, relating to the 2021 turbine downtime at the Rosenthal mill and the July 2022 fire at the Stendal mill, and the positive impact of a stronger dollar.

On average, in the first half of 2023 overall per unit fiber costs increased by approximately 29% from the same period of 2022 due to higher per unit fiber costs for all of our mills. Our German mills had higher per unit fiber costs as a result of strong demand from other wood consumers such as heating pellet manufacturers in response to energy shortages caused by the war in Ukraine. For our Canadian mills, per unit fiber costs increased as a result of strong demand in the mills' fiber baskets and for our Celgar mill a decrease in the availability of wood chips because of regional sawmill curtailments.

Transportation costs for our pulp segment decreased by approximately 8% to $83.7 million in the first half of 2023 from $91.1 million in the same period of 2022 primarily caused by lower pulp sales volumes.

In the first half of 2023, depreciation and amortization increased to $55.2 million from $54.7 million in the same period of 2022 due to the completion of capital projects.

In the first half of 2023, the pulp segment had an operating loss of $70.7 million from operating income of $161.7 million in the same period of 2022 primarily as a result of lower pulp and energy sales realizations, higher per unit fiber and chemical costs and the non-cash inventory impairment at our Canadian mills partially offset by the receipt of insurance proceeds in the first half of 2023 and the positive impact of a stronger dollar.

Solid Wood Segment - Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

Selected Financial Information

	Six Months Ended June 30,			
	2023		2022	
	(in thousands)			
Lumber revenues	$	119,303	$	188,634
Energy revenues	$	11,055	$	10,232
Manufactured products revenues[(1)]	$	21,793	$	10,059
Pallet revenues	$	68,850	$	—
Biofuel revenues[(2)]	$	18,377	$	—
Wood residuals revenues	$	7,686	$	6,857
Depreciation and amortization	$	32,024	$	7,986
Operating income (loss)	$	(49,562)	$	82,027

(1) Manufactured products primarily includes CLT and finger joint lumber.

(2) Biofuels includes pellets and briquettes.

In the first half of 2023, solid wood segment revenues increased by approximately 15% to $247.1 million from $215.8 million in the same period of 2022 primarily because of the inclusion of Torgau and the ramping up of our mass timber operations partially offset by the decline in lumber revenues.

In the first half of 2023, lumber revenues decreased by approximately 37% to $119.3 million from $188.6 million in the same period of 2022 primarily caused by lower sales realizations partially offset by higher sales volumes. In the first half of 2023, both U.S. and European realized lumber prices were lower because of decreased demand as a result of higher interest rates and an uncertain economic outlook compared to the same period of 2022. The U.S. market accounted for approximately 56% of our lumber revenues and approximately 52% of our lumber sales volumes in the first half of 2023. The majority of the balance of our lumber sales were to Europe.

Energy and wood residual revenues increased by approximately 9% to $18.7 million in the first half of 2023 from $17.1 million in the same period of 2022 primarily due to the inclusion of Torgau.

In the first half of 2023, our mass timber business continued to ramp up operations and manufactured products revenues more than doubled to $21.8 million from $10.1 million in the same period of 2022.

Pallet revenues of $68.9 million and biofuel revenues of $18.4 million in the first half of 2023 are from the inclusion of Torgau.

Lumber production increased by approximately 13% to 256.3 MMfbm in the first half of 2023 from 227.8 MMfbm in the same period of 2022 as a result of realizing the benefits of the upgrades at the Friesau mill and the inclusion of Torgau.

Average lumber sales realizations decreased to $436 per Mfbm in the first half of 2023 from approximately $854 per Mfbm in the same period of 2022 caused by lower demand in both the U.S. and European markets. Demand was negatively impacted by concerns over rising interest rates, inflationary pressures and an uncertain economic outlook.

Manufactured products sales realizations increased to $1,587 per m^3 in the first half of 2023 from $824 per m^3 in the same period of 2022 as a result of higher CLT sales volumes.

Fiber costs were approximately 80% of our lumber cash production costs in the first half of 2023. In the first half of 2023, per unit fiber costs for lumber production increased by approximately 6% compared to the same period of 2022. Higher per unit fiber costs were due to strong fiber demand in Germany.

In the first half of 2023, depreciation and amortization increased to $32.0 million from $8.0 million in the same period of 2022 primarily because of the inclusion of Torgau. Torgau’s amortization included $8.3 million for the order backlog intangible asset acquired, which is now fully amortized.

Transportation costs for our solid wood segment in the first half of 2023 increased by approximately 42% to $34.0 million from $24.0 million in the same period of 2022 primarily due to the inclusion of Torgau and higher lumber sales volumes.

In the first half of 2023, operating loss was $49.6 million compared to operating income of $82.0 million in the same period of 2022 primarily because of lower sales realizations.

Liquidity and Capital Resources

Summary of Cash Flows

	Six Months Ended June 30,	
	2023	2022
	(in thousands)	
Net cash from (used in) operating activities	$ (34,952)	$ 223,351
Net cash used in investing activities	(150,376)	(148,344)
Net cash from financing activities	45,409	5,189
Effect of exchange rate changes on cash and cash equivalents	(775)	(5,945)
Net increase (decrease) in cash and cash equivalents	$ (140,694)	$ 74,251

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

Cash Flows from (used in) Operating Activities. Cash used in operating activities was $35.0 million in the six months ended June 30, 2023 compared to cash provided of $223.4 million in the comparative period of 2022. A decrease in accounts receivable provided cash of $23.5 million in the six months ended June 30, 2023 and $13.4 million in the same period of 2022. Inventory impairments of $66.6 million were recorded in the six months ended June 30, 2023, adjusting for these impairments an increase in inventories used cash of $27.6 million in the six months ended June 30, 2023 and $15.1 million in the same period of 2022. A decrease in accounts payable and accrued expenses used cash of $7.2 million in the six months ended June 30, 2023 and an increase in accounts payable and accrued expenses provided cash of $3.2 million in the same period of 2022.

Cash Flows from (used in) Investing Activities. Investing activities in the six months ended June 30, 2023 used cash of $150.4 million primarily related to the acquisition of Structurlam for $82.1 million and capital expenditures of $72.9 million. In the six months ended June 30, 2023, capital expenditures primarily related to costs to complete the Rosenthal lignin plant, upgrades to the wood rooms at our Canadian mills and maintenance and optimization projects at our German mills. In the first half of 2023, we received $2.7 million of insurance proceeds for our property damage claim related to the fire at our Stendal mill. Investing activities in the six months ended June 30, 2022 used cash of $148.3 million primarily related to capital expenditures of $80.3 million and our transferring $75.0 million into a six month term deposit. In the first half of 2022, we received the final payment of $6.4 million of insurance proceeds for our property damage claim related to the Peace River recovery boiler.

Cash Flows from (used in) Financing Activities. In the six months ended June 30, 2023, financing activities provided cash of $45.4 million. In the six months ended June 30, 2023, we borrowed approximately $54.4 million under our revolving credit facilities and we paid dividends of $5.0 million. In the six months ended June 30, 2022, financing activities provided cash of $5.2 million. In the first half of 2022, we borrowed $17.4 million under our revolving credit facilities and received $1.1 million in government grants to partially finance innovation and greenhouse gas emission reduction capital projects at our Canadian mills. In the six months ended June 30, 2022, we paid dividends of $5.0 million.

Balance Sheet Data

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

	June 30, 2023	December 31, 2022
	(in thousands)	
Cash and cash equivalents	$ 213,338	$ 354,032
Working capital	$ 628,881	$ 800,114
Total assets	$ 2,633,369	$ 2,725,037
Long-term liabilities	$ 1,529,436	$ 1,508,192
Total shareholders' equity	$ 733,469	$ 838,784

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 expenditures, capital expenditures and interest payments on our senior notes.

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

	Six Months Ended June 30,	
	2023	2022
	(in thousands)	
Capital expenditures	$ 72,911	$ 80,321
Cash paid for interest expense[(1)]	$ 36,861	$ 33,237
Interest expense[(2)]	$ 39,138	$ 34,796

(1) Amounts differ from interest expense, which includes non-cash items. See supplemental disclosure of cash flow information from our Interim Consolidated Statements of Cash Flows included in this report.
(2) Interest on our senior notes due 2026 is paid semi-annually in January and July of each year. Interest on our senior notes due 2029 is paid semi-annually in February and August of each year.

As of June 30, 2023, we had cash and cash equivalents of $213.3 million and approximately $232.3 million available under our revolving credit facilities and as a result aggregate liquidity of about $445.6 million.

We have reduced our planned capital expenditures for fiscal 2023 and expect them to be between $130 to $150 million.

We currently consider the majority of undistributed earnings of our foreign subsidiaries to be indefinitely reinvested and, accordingly, no U.S. income tax has been provided on such earnings. However, if we were required to repatriate funds to the United States, we believe that we currently could repatriate the majority thereof without incurring any material amount of taxes as a result of our shareholder advances and U.S. tax reform. However, it is currently not practical to estimate the income tax liability that might be incurred if such earnings were remitted to the United States. Substantially all of our undistributed earnings are held by our foreign subsidiaries outside of the United States.

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, 2022.

As of June 30, 2023, we were in full compliance with all of the covenants of our indebtedness.

Off-Balance Sheet Arrangements

As of June 30, 2023, 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 June 30, 2023.

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 and Canadian dollar as of June 30, 2023, we recorded a non-cash increase of $30.9 million in the carrying value of our net assets, consisting primarily of our property, plant and equipment denominated in euros and Canadian dollars. This non-cash increase does not affect our net loss, Operating EBITDA or cash but is reflected in our other comprehensive income and as an increase to our total equity. As a result, our accumulated other comprehensive loss decreased to $149.0 million.

Based upon the exchange rate as of June 30, 2023, the dollar has weakened by approximately 2% against the euro and the Canadian dollar since December 31, 2022. 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, 2022. 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, 2022.

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", "estimates", or words of similar meaning, or future or conditional verbs, such as "will", "should", "could", or "may", although not all 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:

<u>Risks Related to our Business</u>

- Our business is highly cyclical in nature;
- cyclical fluctuations in the price and supply of our raw materials, particularly fiber, could adversely affect our business;
- our business, financial condition and results of operations could be adversely affected by disruptions in the global and European economies caused by Russia's invasion of Ukraine;
- inflation or a sustained increase in our key production and other costs would lead to higher manufacturing costs which could reduce our margins;
- the ongoing COVID-19 pandemic could materially adversely affect our business, financial position and results of operations;
- we face intense competition in the forest products industry;
- our business is subject to risks associated with climate change and social and government responses thereto;
- if we are unable to offer products certified to globally recognized forestry management and chain of custody standards or meet customers' product specifications, it could adversely affect our ability to compete;
- our operations require substantial capital and we may be unable to maintain adequate capital resources to provide for such capital requirements;
- trends in non-print media and changes in consumer habits regarding the use of paper have and are expected to continue to adversely affect the demand for market pulp;
- fluctuations in prices and demand for lumber could adversely affect our business;
- our solid wood segment lumber products are vulnerable to declines in demand due to competing technologies or materials;
- we may experience material disruptions to our production;
- acquisitions may result in additional risks and uncertainties in our business;
- we are subject to risks related to our employees;

- we are dependent on key personnel;

- 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;

- our insurance coverage may not be adequate;

- we rely on third parties for transportation services;

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

- we have limited control over the operations of the Cariboo mill;

Risks Related to our Debt

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

- 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 are exposed to interest rate fluctuations;

Risks Related to Macro-economic Conditions

- 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;

- we are exposed to currency exchange rate fluctuations;

- globally, central banks have raised interest rates in response to high inflation rates which could dampen macroeconomic conditions and business activity which could reduce demand for our products;

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

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

Legal and Regulatory Risks

- 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;

- we sell surplus green energy in Germany and are subject to changing energy legislation in response to high prices and energy shortages resulting from the war in Ukraine;

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

Risks Related to Ownership of our Shares

- the price of our common stock may be volatile; and

- a small number of our shareholders could significantly influence our business.

Given these uncertainties, you should not place undue reliance on our forward-looking statements. The foregoing 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 under "Part II. Other Information – Item 1A. Risk Factors" and 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, 2022. 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 pulp production on the market, if market conditions, prices and trends warrant such actions.

Demand for each of pulp and lumber has historically been determined primarily by general global macro-economic conditions and has been closely tied to overall business activity. Pulp and lumber prices have been and are likely to continue to be volatile and can fluctuate widely over time.

The third party industry quoted average European list prices for NBSK pulp between 2013 and 2023 have fluctuated between a low of $790 per ADMT in 2016 to a high of $1,500 per ADMT in 2022. In the same period, third party industry quoted average North American list prices for NBHK pulp have fluctuated between a low of $770 per ADMT in 2013 to a high of $1,620 per ADMT in 2022.

As a key construction material, the pricing and demand for lumber is also significantly influenced by the number of housing starts, especially in the United States. In the U.S., third party industry quoted monthly average western spruce/pine/fir (WSPF) 2 x 4 #2&Btr prices between 2013 and 2023 have fluctuated between a low of $245 per Mfbm in 2015 to a high of $1,604 per Mfbm in 2021. Similarly, the demand for CLT is primarily driven by the wood construction market and increased government policies focused on a low-carbon economy.

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 pulp producer's actual sales price realizations are net of customer discounts, rebates and other selling concessions. 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, Canada and the United States. Most of the operating costs and expenses of our German mills are incurred in euros and those of our Canadian mills in Canadian dollars. However, the majority of our sales are in products quoted in dollars. Our results of operations and financial condition are reported in dollars. As a result, our costs generally benefit from a strengthening dollar but are adversely affected by a decrease in the value of the dollar relative to the euro and to the Canadian dollar. Such declines in the dollar relative to the euro and the Canadian dollar reduce our operating margins and the cash flow available to fund our operations and to service our debt. This could have a material adverse effect on our business, financial condition, results of operations and cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

For additional information, please refer to Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk included in our annual report on Form 10-K for the fiscal year ended December 31, 2022.

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, 2022. We do not believe that the outcome of such litigation will have a material adverse effect on our business or financial condition.

ITEM 1A. RISK FACTORS

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in our annual report on Form 10-K for the fiscal year ended December 31, 2022.

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 information from the Quarterly Report on Form 10-Q for the fiscal period ended June 30, 2023 of Mercer International Inc., formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Interim Consolidated Statements of Operations; (ii) Interim Consolidated Statements of Comprehensive Income (Loss); (iii) Interim Consolidated Balance Sheets; (iv) Interim Consolidated Statements of Changes in Shareholders' Equity; (v) Interim Consolidated Statements of Cash Flows; and (vi) Notes to the Interim Consolidated Financial Statements.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 has been formatted in Inline XBRL.

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* 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/ Juan Carlos Bueno
Juan Carlos Bueno
Chief Executive Officer

Date: August 3, 2023

EXHIBIT 31.1

CERTIFICATION OF PERIODIC REPORT

I, Juan Carlos Bueno, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mercer International Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
   (a) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (c) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: August 3, 2023

/s/ Juan Carlos Bueno
Juan Carlos Bueno
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PERIODIC REPORT

I, Richard Short, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mercer International Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: August 3, 2023

/s/ Richard Short

Richard Short

Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF PERIODIC REPORT

I, Juan Carlos Bueno, Chief Executive Officer of Mercer International Inc. (the "Company"), certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002*, that, to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the *Securities Exchange Act of 1934*; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 3, 2023

/s/ Juan Carlos Bueno
Juan Carlos Bueno
Chief Executive Officer

A signed original of this written statement required by Section 906 of the *Sarbanes-Oxley Act of 2002* has been provided to Mercer International Inc. and will be retained by Mercer International Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002* and shall not, except to the extent required by the *Sarbanes-Oxley Act of 2002*, be deemed filed by the Company for purposes of Section 18 of the *Securities Exchange Act of 1934*, as amended.

EXHIBIT 32.2

CERTIFICATION OF PERIODIC REPORT

I, Richard Short, Chief Financial Officer of Mercer International Inc. (the "Company"), certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 3, 2023

/s/ Richard Short
Richard Short
Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Mercer International Inc. and will be retained by Mercer International Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.