ABRAXAS PETROLEUM CORP
Form 8-K/A
December 09, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

F O R M 8-K/A Number 1

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report
December 9, 2002

Abraxas Petroleum Corporation
(Exact name of registrant as specified in its charter)

Nevada
(State of other jurisdiction of incorporation)

0-19118	74-2584033
(Commission File Number)	(I.R.S. Employer Identification Number)

500 N. Loop 1604 East, Suite 100
San Antonio, Texas 78232
(Address of principal executive offices)

Registrant's telephone number, including area code:
210-490-4788

Item 5.OTHER EVENTS

The following exhibits are filed as part of this report:

NUMBER	DOCUMENT
99.1	Purchase and Sale Agreement among Abraxas Petroleum as

	seller and Primewest Gas, Inc. as purchasor.
99.2	Farmout Agreement between Grey Wolf Exploration Limited and Prime West Energy, Inc.
99.3	Farmout Agreement between Grey Wolf Exploration Limited and Prime West Energy, Inc.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ABRAXAS PETROLEUM CORPORATION

By: ____________________________________
Chris Williford
Executive Vice President, Chief Financial Officer and Treasurer

Dated: December 6, 2002

weakening of prices continued in the early part of 2002. The Company undertook a planned eight-day maintenance and modification shutdown at its Pulp mill in August 2001 and was shutdown for 19 days over the year to correct technical difficulties. Paper prices realized by the Company on average increased by approximately 23.5% in 2001, compared to 2000, primarily as a result of the disposition of lower priced product lines. Paper sales in 2001 decreased to $52.6 million from $78.6 million in 2000, on a volume decrease of 45.8%. In 2001, sales volumes for printing papers decreased by approximately 49.9%, primarily due to the sale of the printing paper mill in Hainsberg effective November 2000. Sales volumes for specialty papers decreased by 2.4% compared to 2000. The Company did not sell any packaging paper in 2001 as a result of the sale of its packaging paper mill in 2000. On average, the Company's per tonne fibre costs for pulp production in 2001 increased by approximately 6.3%, compared to 2000, and remained among the lowest in Europe. While prices for waste paper, which comprises approximately 25% of the fibre for the Paper mills, increased by approximately 30.0% in 2001 compared to 2000, they remained relatively low compared to the cost of virgin fibre. YEAR ENDED DECEMBER 31, 2000 COMPARED TO THE YEAR ENDED DECEMBER 31, 1999 In 2000, revenues increased by $108.3 million to $236.2 million from $127.9 million in 1999, primarily as a result of higher pulp sales. The Company completed the Conversion Project in late 1999 to convert the Pulp mill's production to kraft pulp and increase its annual production capacity. The Pulp mill ramped up production in early 2000 and operated in excess of 90% of capacity after the first quarter of 2000. As the Company's products are principally sold in Euro, the depreciation of the Euro against the U.S. dollar by 20 approximately 13.6% on average in 2000, compared to the same period in 1999, resulted in lower prices in U.S. dollar terms for the Company's products. Costs and expenses were $206.6 million in 2000, compared to $164.9 million in 1999. Cost of sales increased to $175.4 million in 2000 from $117.3 million in 1999, primarily as a result of higher pulp sales volumes. General and administrative expenses decreased to $14.3 million in 2000, from $22.4 million in 1999. Interest expense in 2000 increased to $14.0 million from $3.0 million in 1999. In 1999, interest expense of $9.9 million in respect of the Conversion Project was capitalized. The Company sold its printing paper mill located in Hainsberg, Germany effective November 2000 for approximately $4.6 million plus an amount equal to the net working capital associated with the Hainsberg mill from the sale. The Company also sold its packaging paper mill located in Trebsen, Germany effective June 2000 for approximately $8.7 million plus an amount equal to the net working capital associated with the Trebsen mill from the sale. In 2000, the Company reported net income of $29.5 million, or $1.76 per share on a basic basis and $1.72 per share on a diluted basis, compared to a net loss of $38.1 million, or $2.33 per share on a basic and diluted basis, in 1999. In 2000, the Company's pulp and paper sales increased by approximately 79.7% to $225.6 million from $125.6 million in 1999 on a 266.9% increase in pulp revenues and an 8.1% decrease in paper sales. In 2000, pulp sales were significantly higher than in 1999 as a result of the completion of the Conversion Project in late 1999, and the subsequent ramping-up of production of kraft pulp in 2000. Overall, in 2000, paper markets were generally stable with prices increasing marginally. On average, pulp prices realized by the Company in 2000 increased by approximately 44.8% compared to 1999. Pulp sales increased to $147.0 million in 2000 from $40.1 million in 1999, primarily as a result of a sales volume increase of 153.4%. Pulp sales were strong in 2000 as a result of increased demand and low producer inventories. List prices for kraft pulp in Europe increased from approximately $600 per tonne at the end of 1999 to approximately $630 per tonne during the first quarter of 2000, approximately $670 per tonne during the second quarter of 2000 and approximately $710 per tonne during the last six months of 2000. Kraft pulp prices started to weaken at the end of 2000 as a result of high product inventories and such weakening of prices continued in the early part of 2001. The Company undertook a planned nine-day maintenance and modification shutdown at its Pulp mill in late-September 2000. The shutdown extended for an additional two days into October 2000. Paper prices realized by the Company on average increased by approximately 20.6% in 2000, compared to 1999, primarily as a result of rising costs of materials. Paper sales in 2000 decreased to $78.6 million from $85.5 million in 1999, on a volume decrease of 23.8%. In 2000, sales volumes for packaging and printing papers decreased by approximately 57.6% and 7.2%, respectively, primarily due to the sale of the packaging paper mill in Trebsen effective June 2000 and the printing paper mill in Hainsberg effective November 2000. Sales volumes for specialty papers increased by 13.4% compared to 1999. On average, the Company's per tonne fibre costs for pulp production in 2000 increased by approximately 14.5%, compared to 1999, and remained among the lowest in Europe. While prices for waste paper, which comprises approximately 25% of the fibre for the Paper mills, increased by approximately 147.6% in 2000 compared to 1999, they remained relatively low compared to the cost of virgin fibre. 21 LIQUIDITY AND CAPITAL RESOURCES The following table is a summary of selected financial information concerning the Company for the periods indicated: DECEMBER 31, DECEMBER 31, 2001 2000 ------------- ------------- (IN THOUSANDS) FINANCIAL POSITION Working capital.. $ 13,846 $ 26,665 Property, plant and equipment (net)........................ 248,167 265,607 Total assets... 382,643 403,659 Long-term debt.. 193,169 208,315 Shareholders' equity....................................... 117,230 125,407 At December 31, 2001, the Company's cash and cash equivalents totalled $10.5 million, a net decrease of $8.0 million from $18.5 million at the end of 2000. At December 31, 2001, the Company had short-term trading securities totalling $4.1 million, compared to $5.3 million at December 31, 2000. OPERATING ACTIVITIES Operating activities in 2001 provided cash of $26.7 million, compared to $40.0 million in 2000. Net changes in trading securities provided cash of $0.5 million in 2001, compared to using cash of $0.8 million in 2000. A decrease in receivables and inventories provided cash of $7.0 million and $2.3 million, respectively, in the current period, compared to an increase in receivables and inventories using cash of $7.2 million and $3.4 million, respectively, in 2000. A decrease in accounts payable and accrued liabilities used cash of $0.8 million in 2001, compared to an increase in accounts payable and accrued liabilities providing cash of $0.3 million in 2000. The Company expects to generate sufficient cash flow from operations to meet its working capital requirements for its paper operations. Working capital for the Company's pulp operations will be funded from cash flow from operations. INVESTING ACTIVITIES Investing activities in 2001 used cash of $9.3 million, consisting primarily of capital expenditures on properties, compared to providing cash of $38.3 million in 2000, primarily due to investment grants received by the Company and sales of properties. The Company expects aggregate capital expenditures in 2002 to be approximately $17.1 million, which will be funded from cash, cash flow from operations and borrowings. In 2001, aggregate capital expenditures, excluding costs in respect of the Conversion Project, were approximately $9.0 million, compared to approximately $8.8 million in the same period of 2000. The Company completed the Conversion Project in the fourth quarter of 1999. The Company's aggregate capital expenditures in respect of the Conversion Project to December 31, 2001 were approximately $385.7 million. The Conversion Project was financed by a combination of borrowings under the Project Loan Agreement, non-refundable governmental grants, governmental assistance and guarantees for long-term project financing and an equity investment by the Company. See "Business -- Pulp Mill Conversion Project". In December 2001, the Company acquired the Landqart mill for approximately $2.7 million, which was financed by working capital. The purchase agreement in connection with the acquisition of the Landqart mill provides for an additional cash payment of approximately $2.0 million based on certain profitability criteria being met prior to September 30, 2003. The purchase price may be further increased if certain parcels of real estate are sold prior to January 1, 2004. 22 FINANCING ACTIVITIES In 2001, financing activities used cash of $26.9 million, primarily as a result of the repayment of $25.6 million of amounts due in connection with the Conversion Project, compared to using cash of $61.5 million in 2000. The Company's pulp and paper operations had net operating tax losses of approximately $175.0 million at December 31, 2001, which under former German tax laws could be carried forward indefinitely. However, the German government has amended its tax laws to restrict the use of tax losses to offset future taxable income in taxation years completed after 1996. The Company provided a valuation reserve for much of these losses. Other than the agreement relating to the Stendal Project, the Company had no material commitments to acquire assets or operating businesses. The Company anticipates that there will be acquisitions of businesses or commitments to projects in the future. To achieve its long-term goals of expanding the asset and earnings base by mergers and acquisitions, the Company will require substantial capital resources. The required necessary resources will be generated from cash flow from operations, cash on hand, borrowing against its assets and/or the sale of assets. FOREIGN CURRENCY Substantially all of the Company's operations are conducted in international markets and its consolidated financial results are subject to foreign currency exchange rate fluctuations, in particular, those in Germany. In 2002, Germany formally adopted the Euro as its currency in place of deutschmarks. The conversion to the Euro did not materially affect the Company's financial condition or results of operations. The Company's pulp and paper products are principally sold in Euro and approximately 99% of the Company's revenues are denominated in Euro. The Company translates foreign assets and liabilities into U.S. dollars at the rate of exchange on the balance sheet date. Revenues and expenses are translated at the average rate of exchange prevailing during the period. Unrealized gains or losses from these translations are recorded as shareholders' equity on the balance sheet and do not affect the net earnings of the Company. Since substantially all of the Company's revenues are received in Euro, the financial position of the Company for any given period, when reported in U.S. dollars, can be significantly affected by the exchange rate for Euro prevailing during that period. In the year ended December 31, 2001, the Company reported a net $7.7 million foreign exchange translation loss and, as a result, the cumulative foreign exchange translation loss increased to $64.0 million at December 31, 2001 from $56.3 million at December 31, 2000. The average and period end exchange rates for the U.S. dollar to the Euro for the periods indicated are as follows: YEARS ENDED DECEMBER 31, -- 2002 2001 2000 ------------------------- ------------------------- ------------------------- PERIOD AVERAGE MARCH 26 TO MARCH 26 PERIOD END PERIOD AVERAGE PERIOD END PERIOD AVERAGE --------- ------------- ---------- ------------- ---------- ------------- RATES OF EXCHANGE...... Euro................... 1.1407 1.1395 1.1227 1.1172 1.0646 1.0861 Based upon the period average exchange rate in 2001, the U.S. dollar increased by approximately 2.9% in value against the Euro since December 31, 2000. 23 CYCLICAL NATURE OF BUSINESS; COMPETITIVE POSITION The pulp and paper business is cyclical in nature and markets for the Company's principal products are characterized by periods of supply and demand imbalance, which in turn affects product prices. The markets for pulp and paper are highly competitive and sensitive to cyclical changes in industry capacity and in the economy, both of which can have a significant influence on selling prices and the earnings of the Company. Demand for pulp and paper products has historically been determined by the level of economic growth and has been closely tied to overall business activity. During the past three years, pulp prices have both risen and fallen at rates faster than previously experienced by the industry. The competitive position of the Company is influenced by the availability and quality of raw materials (fibre) and its experience in relation to other producers with respect to inflation, energy, transportation, labour costs and productivity. STENDAL PULP MILL PROJECT UNCERTAINTIES The Company's participation in the Stendal Project is subject to certain conditions, including completion of its due diligence and entering into a shareholders' agreement. In addition, the Stendal Project itself is subject to various risks and uncertainties customary to large "greenfield" projects of this nature which may result in the Stendal Project not proceeding as currently planned, or at all, such as availability and cost of materials and labour, construction delays, cost overruns, weather conditions, governmental regulations, availability of adequate financing, increases in long-term interest rates and increases in taxes and other governmental fees. The Stendal Project will also be subject to extensive and complex regulations and environmental compliance which may result in delays, in ZSG and/or its shareholders, including the Company, incurring substantial costs in relation thereto or in the Stendal Project being amended or not proceeding at all. The implementation of the Stendal Project is currently expected to commence in 2002 and be completed by the end of 2004. However, there can be no assurance that the Stendal Project will proceed as currently planned, or at all. See "Business -- Stendal Pulp Mill Project". LABOUR DISPUTES The majority of the Company's employees in Germany are unionized and are represented by the IG-BCE, a national union that represents pulp and paper workers in Germany. The collective agreement relating to employees at the Company's paper mills in Germany expires on July 31, 2002. The collective agreement relating to employees at the Company's pulp mill in Germany expires at the end of 2002. The Company expects to negotiate new collective agreements with its pulp and paper workers in Germany in 2002. However, there can be no assurance that the Company will be able to negotiate acceptable collective agreements with its employees upon expiration of the existing collective agreements. This could result in a strike or work stoppage by the affected workers. The renewal of the collective agreements could result in higher wages or benefits paid to union members. Accordingly, the Company could experience a significant disruption of its operations in Germany or higher ongoing labour costs, which could have a material adverse effect on the business, financial condition, result of operations and cash flow of the Company. INFLATION The Company does not believe that inflation has had a material impact on revenues or income during 2001. ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK The Company is exposed to market risks from changes in interest rates, foreign currency exchange rates and equity prices which may affect its results of operations and financial condition. The Company manages these risks through internal risk management policies which are administered by management. 24 Pursuant to this strategy, approximately Euro 148.3 million of the principal amount of the fixed interest credits portion of SPB's indebtedness as at December 29, 2000 has been converted into approximately $124.7 million at a forward rate of $0.841225 to Euro 1.00. The $124.7 million debt portion bears a fixed interest rate of 5.83% per annum, payable quarterly in U.S. dollars. The underlying term of the foreign currency forward rate swap covers the period from December 29, 2000 to September 30, 2008, on which date the interest rate on the fixed interest credits portion of SPB's indebtedness will be readjusted. In addition, approximately Euro 75.0 million of the principal amount of the commercial debt portion of SPB's indebtedness as at March 31, 2001 was converted into approximately $63.3 million at a forward rate of $0.844525 to Euro 1.00. The $63.3 million debt portion bears a fixed interest rate of 6.80% per annum, payable semi-annually in U.S. dollars, not including the bank margin of 0.6-0.7% per annum which remains payable in Euro on the underlying Euro principal amount. The underlying term of the foreign currency forward rate swap covers the period from March 31, 2001 to September 30, 2013, the maturity date of the aggregate principal amount due under the Project Loan Agreement. As of December 31, 2001, the current nominal amount of the two currency swap contracts was approximately Euro 217.4 million and a fair value gain of $0.4 million on these contracts was recognized during the year. Beginning in 2001, up to 30% of the quantity of pulp which represents one-twelfth of the annual sales revenues of SPB may be hedged monthly to ensure that a price of at least Euro 520.00 is hedged per tonne of pulp. The percentage amount may be increased to a maximum of 70%. As at December 31, 2001, no derivative contract had been executed with respect to pulp prices. During the first quarter of 2001, the Company entered into a U.S. dollar/Euro forward contract in the amount of approximately Euro 35.0 million, which was settled in March 2001. The contract resulted in a $2.3 million loss. During the second quarter of 2001, the Company entered into two U.S. dollar/Euro forward contracts in the aggregate amount of approximately Euro 22.4 million, maturing in the second quarter of 2002. A fair value loss of $0.4 million on these contracts was recognized during the year. Any change in the fair value of derivative instruments is included in the determination of earnings. SPB agreed to grant to the Lenders a security interest by way of a pledge on its claims against the Bank under all hedging agreements. Furthermore, the parties to the Amendment Agreement agreed that the Bank's claims against SPB under any hedging agreement is secured pari passu by all security interests granted by SPB to the Lenders under the Project Loan Agreement (except the "C&L Ausfallburgschaft", as defined in the Project Loan Agreement). To this effect, certain amendment agreements to the security interest agreements and the security pooling agreement under the Project Loan Agreement were executed by the parties. INTEREST RATE RISK Fluctuations in interest rates may affect the fair value of fixed interest rate financial instruments. An increase in interest rates may decrease the fair value of financial instrument assets and increase the fair value of financial instrument liabilities. A decrease in interest rates may increase the fair value of financial instrument assets and decrease the fair value of financial instrument liabilities. The Company's financial instruments which may be sensitive to interest rate fluctuations are investments, cash restricted, notes receivable and debt obligations. The following tables provide information about the Company's exposure to interest rate fluctuations for the carrying amount of financial instruments that may be sensitive to such 25 fluctuations as at December 31, 2001 and 2000, respectively, and expected cash flows from these instruments: AS AT DECEMBER 31, 2001 EXPECTED FUTURE CASH FLOW* CARRYING FAIR -- VALUE VALUE 2002 2003 2004 2005 2006 THEREAFTER -------- -------- -------- -------- -------- -------- -------- ---------- (THOUSANDS) Investments(1)........ $ 2,157 $ 2,157 $ 2,157 $ -- $ -- $ -- $ -- $ -- Cash restricted....... 29,739 29,739 8,524 884 884 884 884 28,286 Notes receivable...... 4,877 4,877 341 5,218 -- -- -- -- Debt obligations(2)... 203,806 203,806 24,974 28,953 21,677 21,732 21,831 144,620 ------------------------- * Including dividends and interest where applicable. (1) Investments consist of debt securities. (2) Debt obligations consist of the Company's notes and loan payable. AS AT DECEMBER 31, 2000 EXPECTED FUTURE CASH FLOW* CARRYING FAIR -- VALUE VALUE 2001 2002 2003 2004 2005 THEREAFTER -------- -------- -------- -------- -------- -------- -------- ---------- (THOUSANDS) Investments(1)........ $ 4,164 $ 4,164 $ 4,164 $ -- $ -- $ -- $ -- $ -- Cash restricted....... 25,150 25,150 1,006 1,006 1,006 1,006 1,006 33,198 Notes receivable...... 4,296 4,296 344 344 4,640 -- -- -- Debt obligations(2)... 143,417 143,417 11,494 17,423 20,951 15,880 15,274 95,774 ------------------------- * Including dividends and interest where applicable. (1) Investments consist of debt securities. (2) Debt obligations consist of the Company's notes and loan payable. FOREIGN CURRENCY EXCHANGE RATE RISK The reporting currency of the Company is the U.S. dollar. The Company held financial instruments primarily denominated in Euro and, to a lesser extent, in Swiss francs and Canadian dollars. A depreciation of such currencies against the U.S. dollar will decrease the fair value of financial instrument assets and financial instrument liabilities. An appreciation of such currencies against the U.S. dollar will increase the fair value of financial instrument assets and financial instrument liabilities. The Company's financial instruments which may be sensitive to foreign currency exchange rate fluctuations are investments, cash restricted and debt obligations. Foreign currency debt obligations subject to U.S. dollar currency swap contracts are not subject to foreign currency exchange risk. The following tables provide information about the Company's exposure to foreign currency exchange rate fluctuations for the carrying 26 amount of financial instruments that may be sensitive to such fluctuations as at December 31, 2001 and 2000, respectively, and expected cash flows from these instruments: AS AT DECEMBER 31, 2001 EXPECTED FUTURE CASH FLOW* CARRYING FAIR -- VALUE VALUE 2002 2003 2004 2005 2006 THEREAFTER -------- -------- -------- -------- -------- -------- -------- ---------- (THOUSANDS) Investments(1)................ $ 3,682 $ 3,682 $2,796 $ -- $ -- $ -- $ -- $ 886 Cash restricted............... 29,739 29,739 8,524 884 884 884 884 28,286 Debt obligations(2)........... 11,495 11,495 3,483 8,799 -- -- -- -- ------------------------ * Including dividends and interest where applicable. (1) Investments consist of debt and equity securities. Debt securities are denominated in Euro. Equity securities are denominated primarily in Euro, and to a lesser extent, in Canadian dollars. (2) Debt obligations consist of the Company's notes and loan payable, denominated in Euro and Swiss francs. AS AT DECEMBER 31, 2000 EXPECTED FUTURE CASH FLOW* CARRYING FAIR -- VALUE VALUE 2001 2002 2003 2004 2005 THEREAFTER -------- -------- -------- -------- -------- -------- -------- ---------- (THOUSANDS) Investments(1)........... $ 2,833 $ 2,833 $ 1,710 $ -- $ -- $ -- $ -- $ 1,123 Cash restricted.......... 25,150 25,150 1,006 1,006 1,006 1,006 1,006 33,198 Debt obligations(2)...... 21,652 21,652 23,937 -- -- -- -- -- ------------------------ * Including dividends and interest where applicable. (1) Investments consist of debt and equity securities. Debt securities are denominated in Euro. Equity securities are denominated primarily in Euro, and to a lesser extent, in Canadian dollars. (2) Debt obligations consist of the Company's notes and loan payable, denominated in Euro. EQUITY PRICE RISK Changes in trading prices of equity securities may affect the fair value of equity securities or the fair value of other securities convertible into equity securities. An increase in trading prices will increase the fair value and a decrease in trading prices will decrease the fair value of equity securities or instruments convertible into equity securities. The Company's financial instruments which may be sensitive to fluctuations in equity prices are investments. The following tables provide information about the Company's exposure to fluctuations in equity prices for the carrying amount of financial instruments sensitive to such fluctuations as at December 31, 2001 and 2000, respectively, and expected cash flows from these instruments: AS AT DECEMBER 31, 2001 EXPECTED FUTURE CASH FLOW* CARRYING FAIR

-- VALUE VALUE 2002 2003 2004 2005 2006 THEREAFTER -------- -------- -------- -------- -------- -------- -------- ---------- (THOUSANDS) Investments(1)............ $9,552 $9,552 $1,894 $ -- $ -- $ -- $ -- $7,658 ------------------------ * Including dividends where applicable. (1) Investments consist of equity securities. 27 AS AT DECEMBER 31, 2000 EXPECTED FUTURE CASH FLOW* CARRYING FAIR -- VALUE VALUE 2001 2002 2003 2004 2005 THEREAFTER -------- -------- -------- -------- -------- -------- -------- ---------- (THOUSANDS) Investments(1)............ $10,566 $10,566 $5,320 $ -- $ -- $ -- $ -- $5,246 ------------------------ * Including dividends where applicable. (1) Investments consist of equity securities and debt securities convertible into equity securities. ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA The consolidated financial statements and supplementary data required with respect to this Item 8, and as listed in Item 14 of this annual report, are included in this annual report commencing on page 32. ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE Not applicable. 28 PART III ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT As a Massachusetts trust, the Company is managed by "trustees", who have comparable duties and responsibilities as directors of corporations. J.S.H. LEE, age 45, has been a Trustee since May 1985 and President and Chief Executive Officer since 1992. Previously, Mr. Lee served with MFC Bancorp Ltd. as a director from 1986, Chairman from 1987 and President from 1988 to December 1996, respectively. C.S. MOON, age 55, has been a Trustee since June 1994. Mr. Moon is an independent consultant. He was formerly the Executive Director of Shin Ho Group of Korea, an international paper manufacturer headquartered in Korea until 1998. Mr. Moon joined Shin Ho Group in 1990 and previously served in managerial positions with Moo Kim Paper Manufacturing Co., Ltd. and Sam Yung Pulp Co., Ltd. M. ARNULPHY, age 68, has been a Trustee since June 1995. Mr. Arnulphy has been the Managing Director of Electro Orient Ltd., a merchandise trading company located in Hong Kong, since 1998. From 1975 to 1998, Mr. Arnulphy was the Managing Director of J. Mortenson & Co., Ltd. in Hong Kong, a water treatment equipment manufacturing company. M. REIDEL, age 39, has been a Trustee since December 1996. Mr. Reidel has been the Chief Financial Officer of Ision Internet AG since August 1999. Mr. Reidel was a Managing Director of SPB from 1994 to 1999 and the Chairman of the Management Board of DPAG from 1995 to 1998. Previously, he was a member of the Supervisory Board of DPAG from 1992 to 1994, a member of BVS responsible for portfolios of service industry and wood and paper industry companies from 1992 to 1994, and an accountant with Arthur Andersen & Co. from 1987 to 1992. R.I. RIGG, age 59, has been a Trustee since July 1999 and Secretary and Chief Financial Officer since October 1999. Mr. Rigg has been Chief Financial Officer and a director of Advanced Projects Ltd. since 1996 and of Terrawest Industries, Inc. since 1989. He is also a director of Carlin Resources Corp. and a nominee director and officer of Bank Gospodarki of Poland. Mr. Rigg is a chartered accountant in Canada. A. MILLIGAN, age 77, has been a Trustee since July 2001. Mr. Milligan has been President and Chief Executive Officer of Stockscape Technologies Inc. since 1999. From 1986 to 1999, he was the President and Chief Executive Officer of Cornucopia Resources Ltd., which acquired Stockscape Technologies Inc. in 1999 and changed its business accordingly. He is also a director of Skye Resources Inc., Lysander Minerals Corporation and Great Basin Gold Ltd. Mr. Milligan is an economist by profession. ITEM 11. EXECUTIVE COMPENSATION Incorporated by reference from Registrant's definitive proxy statement to be filed within 120 days of the end of Registrant's fiscal year. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT Incorporated by reference from Registrant's definitive proxy statement to be filed within 120 days of the end of Registrant's fiscal year. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS Incorporated by reference from Registrant's definitive proxy statement to be filed within 120 days of the end of Registrant's fiscal year. 29 PART IV ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K PAGE -------- (a)(1) FINANCIAL STATEMENTS Independent Auditors' Report................................ 32 Consolidated Balance Sheets................................ 33 Consolidated Statements of Operations....................... 34 Consolidated Statements of Comprehensive Income............ 35 Consolidated Statements of Changes in Shareholders' Equity.. 36 Consolidated Statements of Cash Flows....................... 37 Notes to the Consolidated Financial Statements............. 38 30 (2) LIST OF EXHIBITS 3.1 (a) * Restated Declaration of Trust of the Company as filed with the Secretary of State of Washington on June 11, 1990 together with an Amendment to Declaration of Trust dated December 12, 1991. (b) * Amendments to Declaration of Trust dated July 8, 1993; August 17, 1993; and September 9, 1993. 3.2* Trustees' Regulations dated September 24, 1973. 4.1 Shareholder Rights Plan. Incorporated by reference from Form 8-A dated August 17, 1993. 10.1 Acquisition Agreement among

Treuhandanstalt, Dresden Papier AG, Dresden Papier Holding GmbH, Mercer International Inc., and Shin Ho Paper Mfg. Co., Ltd. Incorporated by reference from Form 8-K dated September 20, 1993. 10.2 Acquisition Agreement among Treuhandanstalt, Zellstoff-und Papierfabrik Rosenthal GmbH, Raboisen Einhundertsechsundfunfzigste Vermogensverwaltungs- gesellschaft GmbH, to be renamed ZPR Zellstoff-und Papierfabrik Rosenthal Holding GmbH, Mercer International Inc. and 448380 B.C. Ltd. dated July 3, 1994. Incorporated by reference from Form 8-K dated July 3, 1994. 10.3 Amended and Restated 1992 Stock Option Plan. Incorporated by reference from Form S-8 dated March 2, 2000. 10.4* 1994 Employee Incentive Bonus Plan. 10.5* Form of Separation Agreement between Mercer International Inc. and Arbatax International Inc. 10.6 English Translation of a Loan Agreement in the amount of DM 508,000,000 between Zellstoff-und Papierfabrik Rosenthal GmbH & Co. KG, Blankenstein on the one hand and Bayerische Hypotheken-und Wechsel-Bank Aktiengesellschaft, Munich and Bayerische Vereinsbank Aktiengesellschaft, Munich on the other hand dated July 6, 1998. Incorporated by reference from Form 8-K dated July 16, 1998. 10.7* Amended and Restated Employment Agreement between Mercer International Inc. and Jimmy S.H. Lee dated November 20, 2000. 10.8* Trustee's Indemnity Agreement between Mercer International Inc. and Jimmy S.H. Lee dated November 20, 2000. 10.9 English Translation of Amendment Agreement No. 4 dated December 13, 2000 between Zellstoff-und Papierfabrik Rosenthal GmbH & Co. KG and Bayerische Hypo-und Vereinsbank Aktiengesellschaft to the Loan Agreement dated July 6, 1998. Incorporated by reference from Form 8-K dated January 23, 2001. 10.10 Purchase Agreement between Sihl and Mercer International Inc. dated December 14, 2001 relating to the acquisition of Landqart AG. 21 List of Subsidiaries of Registrant. 23 Independent Auditors Consent. ---------------------------- * Filed in Form 10-K for prior years. (b) The Registrant filed the following reports on Form 8-K with respect to the indicated items during the fourth quarter of the fiscal year: None. 31 INDEPENDENT AUDITORS' REPORT To the Shareholders Mercer International Inc. We have audited the accompanying consolidated balance sheets of Mercer International Inc. and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years ended December 31, 2001, 2000 and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mercer International Inc. and Subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years ended December 31, 2001, 2000 and 1999, in conformity with accounting principles generally accepted in the United States. /s/ PETERSON SULLIVAN P.L.L.C. Seattle, Washington March 15, 2002 32 MERCER INTERNATIONAL INC. CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2001 AND 2000 (IN THOUSANDS OF DOLLARS) 2001 2000 -------- -------- ASSETS Current Assets Cash and cash equivalents................................ $ 10,458 $ 18,496 Investments... 4,052 5,320 Receivables.. 42,658 46,088 Inventories.. 22,323 19,977 Prepaid and other....................................... 3,534 3,000 -------- -------- Total current assets............................... 83,025 92,881 Long-Term Assets Cash restricted... 29,739 25,150 Properties.. 248,167 265,607 Investments... 7,658 6,101 Notes receivable.. 4,877 4,296 Deferred income tax..................................... 9,177 9,624 -------- -------- 299,618 310,778 -------- -------- $382,643 $403,659 ======== ======== LIABILITIES Current Liabilities Accounts payable and accrued expenses.................... $ 46,242 $ 38,204 Notes payable... 6,584 839 Debt.. 16,353 27,173 -------- -------- Total current liabilities.......................... 69,179 66,216 Long-Term Liabilities Debt.. 193,169 208,315 Other... 3,065 3,721 -------- -------- 196,234 212,036 -------- -------- Total liabilities.................................. 265,413 278,252 SHAREHOLDERS' EQUITY Shareholders' Equity Preferred shares, no par value: 50,000,000 authorized and issuable in series: Series A, 500,000 authorized, none issued and outstanding.. -- -- Series B, 3,500,000 authorized, none issued and outstanding... -- -- Shares of beneficial interest, $1 par value: unlimited authorized and 16,794,899 issued and outstanding at December 31, 2001 and 2000............................. 99,995 99,995 Retained earnings....................................... 86,171 88,698 Accumulated other comprehensive loss..................... (68,936) (63,286) -------- -------- 117,230 125,407 -------- -------- $382,643 $403,659 ======== ======== The accompanying notes are an integral part of these financial statements. 33 MERCER INTERNATIONAL INC. CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA) 2001 2000 1999 -------- -------- -------- Revenues Sales of pulp and paper.................................. $183,496 $225,626 $125,570 Transportation.. 4,915 3,857 -- Other... 8,578 6,719 2,297 -------- -------- -------- 196,989 236,202 127,867 Expenses Cost of pulp and paper.................................. 161,659 175,420 117,314 Transportation.. 3,648 2,923 -- Special charges... -- -- 22,155 General, administrative and other........................ 16,502 14,284 22,420 Loss on foreign currency derivative contracts............ 2,241 -- -- Litigation settlement................................... 918 -- -- Interest expense.. 14,474 13,993 2,995 -------- -------- -------- 199,442 206,620 164,884 -------- -------- -------- Income (loss) before income taxes.......................... (2,453) 29,582 (37,017) Income tax provision....................................... (74) (108) (1,092) -------- -------- -------- Net income (loss)...................................... $ (2,527) $ 29,474 $(38,109) ======== ======== ======== Earnings (loss) per share Basic.. $ (0.15) $ 1.76 $ (2.33) ======== ======== ======== Diluted.. $ (0.15) $ 1.72 $ (2.33) ======== ======== ======== The accompanying notes are an integral part of these financial statements. 34 MERCER INTERNATIONAL INC. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (IN THOUSANDS OF DOLLARS) 2001 2000 1999 -------- -------- -------- Net income (loss)... $(2,527) $29,474 $(38,109) Other comprehensive income Foreign currency translation adjustment.................. (7,687) (6,400) (21,266) Unrealized gains (losses) on securities Unrealized holding gains (losses) arising during the period.. 2,037 (1,729) 1,745 Reclassification adjustment for losses included in net income (loss)....................................... -- 85 1,340 ------- ------- -------- 2,037 (1,644) 3,085 ------- ------- -------- Other comprehensive loss................................... (5,650) (8,044) (18,181) ------- ------- -------- Comprehensive income (loss)................................ $(8,177) $21,430 $(56,290) ======= ======= ======== The accompanying notes are an integral part of these financial statements. 35 MERCER INTERNATIONAL INC. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (IN THOUSANDS OF DOLLARS) ACCUMULATED OTHER COMPREHENSIVE SHARES OF BENEFICIAL INTEREST INCOME --------------------------------- ------------------------------------- AMOUNT FOREIGN PAID IN CURRENCY UNREALIZED NUMBER OF EXCESS OF RETAINED TRANSLATION GAINS (LOSSES) SHARES PAR VALUE PAR VALUE EARNINGS ADJUSTMENTS ON SECURITIES TOTAL ---------- --------- --------- -------- ----------- ------------- -------- Balance at December 31, 1998......... 15,440,122 $15,440 $76,473 $98,167 $(28,663) $(8,398) $(37,061) Shares issued for exercise of warrants.......................... 1,245,277 1,245 6,097 -- -- -- -- Repurchase of shares................ (50,000) (50) (167) -- -- -- -- Payment of dividends................ -- -- -- (834) -- -- -- Net loss............................ -- -- -- (38,109) -- -- -- Other comprehensive income (loss).... -- -- -- -- (21,266) 3,085 (18,181) ---------- ------- ------- ------- -------- ------- -------- Balance at December 31, 1999......... 16,635,399 16,635 82,403 59,224 (49,929) (5,313) (55,242) Shares issued for exercise of options........................... 159,500 160 797 -- -- -- -- Net income.......................... -- -- -- 29,474 -- -- -- Other comprehensive income (loss).... -- -- -- -- (6,400) (1,644) (8,044) ---------- ------- ------- ------- -------- ------- -------- Balance at December 31, 2000......... 16,794,899 16,795 83,200 88,698 (56,329) (6,957) (63,286) Net loss............................ -- -- -- (2,527) -- -- -- Other comprehensive income (loss).... -- -- -- -- (7,687) 2,037 (5,650) ---------- ------- ------- ------- -------- ------- -------- Balance at December 31, 2001......... 16,794,899 $16,795 $83,200 $86,171 $(64,016) $(4,920) $(68,936) ========== ======= ======= ======= ======== ======= ======== SHAREHOLDERS' EQUITY ------------- Balance at December 31, 1998......... $153,019 Shares issued for exercise of warrants.......................... 7,342 Repurchase of shares................ (217) Payment of dividends................ (834) Net loss............................ (38,109) Other comprehensive income (loss).... (18,181) -------- Balance at December 31, 1999......... 103,020 Shares issued for exercise of options........................... 957 Net income.......................... 29,474 Other comprehensive income (loss).... (8,044) -------- Balance at December 31, 2000......... 125,407 Net loss............................ (2,527) Other comprehensive income (loss).... (5,650) -------- Balance at December 31, 2001......... $117,230 ======== The accompanying notes are an integral part of these financial statements. 36 MERCER INTERNATIONAL INC. CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (IN THOUSANDS OF DOLLARS) 2001 2000 1999 -------- -------- -------- Cash Flows from Operating Activities Net income (loss)....................................... $(2,527) $29,474 $(38,109) Adjustments to reconcile net income (loss) to cash flows from operating activities Special charges...................................... -- -- 22,155 Depreciation... 20,557 22,139 7,018 Changes in current assets and liabilities Investment in trading securities....................... 460 (806) 8,478 Inventories... 2,337 (3,391) (996) Receivables... 6,955 (7,227) (12,489) Accounts payable and accrued expenses.................. (841) 267 7,718 Prepaid and other..................................... (282) (504) (2,411) ------- ------- -------- Net cash provided by (used in) operating activities... 26,659 39,952 (8,636) Cash Flows from Investing Activities Proceeds from the sales of available-for-sale securities.. -- 189 6,867 Proceeds from the sales of long-term investments.......... 605 -- -- Purchases of available-for-sale securities............... (569) (1,918) (1,264) Sale of properties...................................... -- 13,346 -- Acquisition of properties, net of investment grants....... (6,845) 26,073 (255,186) Purchase of subsidiary, net of cash acquired............. (1,839) -- -- Change in notes receivable............................... (605) 585 4,178 ------- ------- -------- Net cash provided by (used in) investing activities... (9,253) 38,275 (245,405) Cash Flows from Financing Activities Cash restricted... (5,921) (12,285) -- Increase (decrease) in pulp mill costs payable........... (902) (50,286) 47,701 Increase in notes payable and debt....................... 5,821 5,649 162,863 Decrease in notes payable and debt....................... (25,924) (5,582) (2,299) Shares of beneficial interest issued for cash............ -- 957 -- Repurchase shares of beneficial interest................. -- -- (217) Dividends... -- -- (834) Other... -- -- 3 ------- ------- -------- Net cash provided by (used in) financing activities..... (26,926) (61,547) 207,217 Effect of exchange rate changes on cash and cash equivalents.. 1,482 94 (4,704) ------- ------- -------- Net increase (decrease) in cash and cash equivalents........ (8,038) 16,774 (51,528) Cash and Cash Equivalents, beginning of year............... 18,496 1,722 53,250 ------- ------- -------- Cash and Cash Equivalents, end of year..................... $10,458 $18,496 $ 1,722 ======= ======= ======== The accompanying notes are an integral part of these financial statements. 37 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS NOTE 1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Mercer International Inc. ("the Company") is a business trust organized under the laws of the State of Washington, USA. Under Washington law, shareholders of a business trust have the same limited liability as shareholders of a corporation. The amounts in the notes are rounded to the nearest thousand except for the per share amounts. BASIS OF PRESENTATION The consolidated financial statements include the accounts of the Company and its subsidiaries. Significant intercompany accounts and transactions have been eliminated. CASH AND CASH EQUIVALENTS Cash and cash equivalents include highly liquid investments with original maturities of three months or less and are recorded at cost which approximates market. The Company maintains cash balances in foreign financial institutions in excess of insured limits. INVESTMENTS The Company's available-for-sale and trading securities are stated at their fair values. Any unrealized holding gains or losses of available-for-sale securities are reported as a separate component of comprehensive income until realized and, for trading securities, any unrealized gains or losses are included in the results of operations. If a loss in value in available-for-sale securities is considered to be other than temporary, it is recognized in the determination of net income. Cost is based on the specific identification method to determine realized gains or losses. The Company incurs liabilities for security acquisitions where the security transfer is to occur at a future date. However, the liability amount is subject to the ultimate market price of the security. INVENTORIES Inventories of pulp are stated at the lower of cost (average-cost method) or market. Paper products are stated at the lower of cost (first-in, first-out method) or market. PROPERTIES Depreciable properties are stated at cost unless the estimated future undiscounted cash flows expected to result from either the use of an asset or its eventual disposition is less than its carrying amount in which case an impairment loss is recognized based on the fair value of the asset. Grants received from a government reduce costs of property improvements. Depreciation of buildings and production equipment is based on the estimated useful lives of the assets and is computed using the straight-line method. Buildings are depreciated over 10 to 50 years and production equipment over 8 to 20 years. FOREIGN CURRENCY TRANSLATION The Company translates foreign assets and liabilities of its subsidiaries at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the average rate of exchange throughout the year. Unrealized gains or losses from these translations are reported as a separate component of 38 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) comprehensive income. Realized gains or losses are included in general and administrative expenses in the consolidated statements of operations. The translation adjustments do not recognize the effect of income tax because the Company expects to reinvest the amounts indefinitely in operations. ENVIRONMENTAL CONSERVATION Liabilities for environmental conservation are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. Any potential recoveries of such liabilities are recorded when there is an agreement with the reimbursing entity. STOCK-BASED COMPENSATION Compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee is required to pay for the stock. There was no stock-based compensation included in these consolidated financial statements. TAXES ON INCOME The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax laws or rates. DERIVATIVE INSTRUMENTS The Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective January 1, 2001. Derivative instruments are measured at fair value and reported in the balance sheet as assets or liabilities. Accounting for gains or losses depends on the Company's intended use of the derivative instruments. Gains or losses on derivative instruments which are not designated hedges are recognized in earnings in the period of the change in fair value. Accounting for gains or losses on derivative instruments designated as hedges depends on the type of hedge and such gains or losses are recognized in either earnings or other comprehensive income. Retroactive application of this standard was not allowed. There is no cumulative effect in the Company's financial statements as a result of adopting this standard. The Company had a derivative instrument at December 31, 2000, which was entered into at year-end. There was no change in its fair value in 2000. EARNINGS PER SHARE Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted earnings per share takes into consideration common shares outstanding (computed under basic earnings per share) and potentially dilutive common shares. 39 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) ESTIMATES The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. NEW ACCOUNTING STANDARDS Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," is to be applied starting with years beginning after December 15, 2001. This standard addresses how intangible assets, other than those acquired in a business combination, should be accounted for. Goodwill and intangible assets that have indefinite useful lives will no longer be amortized but will be tested annually for impairment. Management has not determined the effect this standard may have, if any, on the Company's financial statements. Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," is effective for years beginning after June 15, 2002. This standard addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated retirement costs. Management has not determined the effect, if any, this standard may have on the Company's financial statements. Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," is effective for years beginning after December 15, 2001. This standard supersedes the previous standard on this issue as well as others which dealt with accounting for discontinued operations and the elimination of an exception to consolidation. Management has not determined the effect this standard may have on the Company's financial statements. NOTE 2. INVESTMENTS Trading securities are classified as current investments and are summarized as follows: DECEMBER 31 ------------------ 2001 2000 -------- -------- Bonds.. $2,158 $4,164 Equity securities.. 1,894 1,156 ------ ------ $4,052 $5,320 ====== ====== Included within trading securities is an investment in a bond and common shares of two companies that represent 53% and 46%, respectively, of the total value of trading securities at December 31, 2001. At December 31, 2000, investment in a bond and common shares of a company represented 39% and 18%, respectively, of the total value of trading securities. The change in net unrealized holding gains (losses) on trading securities which has been included in earnings was $1,238, $(171) and $2,411 during 2001, 2000 and 1999, respectively. 40 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 2. INVESTMENTS (CONTINUED) Available-for-sale securities consist of bonds and equity securities and have been classified as long-term investments. Equity securities of two companies represented 85% and 91% of the total available-for-sale securities at December 31, 2001 and 2000, respectively. The proceeds from sales of these securities amounted to none, $189 and $6,867 which resulted in realized losses of none, $(77) and $(1,340) during 2001, 2000 and 1999, respectively. The fair value of available-for-sale securities included on the balance sheets at December 31, 2001, 2000 and 1999, was $7,305, $5,247 and $6,925, respectively. The cost of these securities was $12,225, $12,204 and $12,238 which resulted in unrealized losses being recorded in comprehensive income of $(4,920), $(6,957) and $(5,313) at December 31, 2001, 2000 and 1999, respectively. Also, included in long-term investments were equity securities stated at cost of $353 and $854 at December 31, 2001 and 2000, respectively, which did not have a readily determinable fair value. However, management believes that the estimated market value is greater than the carrying value. NOTE 3. RECEIVABLES DECEMBER 31 ------------------ 2001 2000 -------- -------- Sale of paper and pulp products............................ $21,207 $14,869 Securities trading... 12,592 17,645 Sale of properties... -- 6,147 Value added tax.. 956 892 Other.. 7,903 6,535 ------- ------- $42,658 $46,088 ======= ======= At December 31, 2001 and 2000, the Company pledged $12,592 and $17,645, respectively, in securities trading receivables as collateral for amounts payable for securities. NOTE 4. INVENTORIES DECEMBER 31 ------------------ 2001 2000 -------- -------- Pulp and paper Raw materials.. $13,008 $10,862 Work in process and finished goods........................ 9,315 9,115 ------- ------- $22,323 $19,977 ======= ======= NOTE 5. PROPERTIES DECEMBER 31 ------------------ 2001 2000 -------- -------- Land.. $ 8,519 $ 7,425 Buildings... 17,252 16,346 Production and other equipment............................ 291,428 290,789 -------- -------- 317,199 314,560 Less: Accumulated depreciation............................. 69,032 48,953 -------- -------- $248,167 $265,607 ======== ======== 41 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 5. PROPERTIES (CONTINUED) During 1999, management determined that some of the Company's paper mills were impaired. These mills were written down to their estimated fair values based on existing market conditions. This impairment loss, amounting to $19,064, was reflected as special charges in the Company's consolidated statement of operations for the year ended December 31, 1999. Also, included in special charges in 1999, was a loss of $3,091 on abandoned pulp mill equipment. NOTE 6. NOTES PAYABLE AND DEBT At December 31, 2001, the Company had two notes payable to banks. One of the notes amounting to $5,821 is due on demand at 7% interest. The other note which had a balance of $763 and $839 at December 31, 2001 and 2000, respectively, is due monthly at 6.75% interest and is secured by inventory. Long-term debt consists of the following: DECEMBER 31 ------------------ 2001 2000 -------- -------- Note payable to bank, interest at rates varying from 4.5% to 6.8% at December 31, 2001, principal due in semi-annual installments based on a percentage of the final loan amount beginning at 2.4% to 5.1% at September 30, 2001, after an initial payment of $21,300 on March 31, 2001, until September 30, 2013 (final payment date), collateralized by receivables, inventory and pulp mill assets with 48% and 32% principal plus interest guaranteed by the Federal Republic of Germany and the State of Thuringia, respectively; cash restricted amounted to $29,739 and $25,150 at December 31, 2001 and 2000, respectively, in connection with this borrowing........... $193,607 $231,017 Debenture payable, 8% interest payable semi-annually, due 2003, unsecured, with attached warrants which allows a debenture holder to acquire common shares of the Company at the higher of $6 per share or the average price of the stock for the ten days prior to conversion................ 4,135 4,135 Loans payable to a bank, interest at rates varying from 3.875% to 6.5%, payment terms varying from on demand to December 31, 2003, secured by receivables and properties... 11,492 -- Other.. 288 336 -------- -------- 209,522 235,488 Less: Current portion....................................... (16,353) (27,173) -------- -------- $193,169 $208,315 ======== ======== On December 29, 2000 and April 1, 2001, the Company entered into foreign currency forward swap agreements in the notational amount of $124,700 and $66,797, respectively, with respect to the long-term note payable to bank. These agreements are with the same bank which holds the note payable. These contracts were entered into by the Company for its own account consistent with its policy to manage foreign currency exchange risks. These agreements cover the period December 29, 2000, to September 30, 2008, and April 1, 2001 to September 30, 2013, respectively. While the Company may be exposed to credit risk with respect to these agreements, it does not anticipate nonperformance by the bank. The Company 42 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 6. NOTES PAYABLE AND DEBT (CONTINUED) recorded a gain from a change in the fair value of these contracts of $412 during the year ended December 31, 2001. Additionally, during 2001, the Company entered into two foreign currency forward agreements in the notational value of $10,000 each. The contracts were entered into by the Company for its own account and are consistent with its policy to manage foreign currency exchange risks. These agreements mature on April 22, 2002 and May 5, 2002. The Company recorded a loss from a change in the fair value of these contracts of $352 during the year ended December 31, 2001. During the first quarter of 2001, the Company entered into a U.S. dollar/euro foreign currency forward contract with a notational amount of approximately $31,000 which was settled in March of 2001. This contract resulted in a loss of $2,301. As of December 31, 2001, the principal maturities of long-term debt are as follows: MATURES AMOUNT ------- -------- 2002.. $ 16,353 2003.. 22,461 2004.. 12,687 2005.. 13,513 2006.. 14,441 Thereafter.. 130,067 -------- $209,522 ======== Interest paid amounted to $14,191 in 2001, $11,465 in 2000 and $12,100 ($9,904 capitalized) in 1999. NOTE 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES DECEMBER 31 ------------------- 2001 2000 -------- -------- Trade payables.. $18,875 $14,926 Accounts payable and accrued expenses...................... 17,640 16,357 Payable for securities.................................... 7,946 6,921 Other.. 1,781 -- ------- ------- $46,242 $38,204 ======= ======= NOTE 8. INCOME TAXES The provision for income taxes is current and consists of the following: YEAR ENDED DECEMBER 31 ----------------------------- 2001 2000 1999 -------- -------- -------- Provision for income taxes, non U.S......................... $(74) $(108) $(1,092) ==== ===== ======= 43 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 8. INCOME TAXES (CONTINUED) Differences between the U.S. Federal Statutory and the Company's effective rates are as follows: YEAR ENDED DECEMBER 31 ----------------------------- 2001 2000 1999 -------- -------- -------- U.S. Federal statutory rates on income from operations benefit (provision)...................................... $ 834 $(10,058) $12,585 Tax differential on foreign income (loss).................. 3,152 (800) 8,182 Valuation allowance.. (5,494) 10,750 (20,748) Other.. 1,434 -- (1,111) ------ -------- ------- $ (74) $ (108) $(1,092) ====== ======== ======= Deferred tax assets are composed of the following: DECEMBER 31 ------------------- 2001 2000 -------- -------- German tax loss carryforwards.............................. $64,140 $63,853 U.S. tax loss carryforwards................................ 6,075 4,272 Swiss tax loss carryforwards................................ 3,084 -- Other.. 617 744 ------- ------- 73,916 68,869 Valuation allowance.. (64,739) (59,245) ------- ------- Net deferred tax asset................................... $ 9,177 $ 9,624 ======= ======= Because of potential restrictions on the use of German preacquisition tax loss carryforwards by successor entities, the Company provided a valuation reserve for much of these losses. German tax losses of approximately $175,000 at December 31, 2001, may be carried forward indefinitely. However, the Company is the subject of income tax audits on a continuing basis in Germany which may result in a change in the German tax loss amount. Management believes that, while realization of the net deferred tax asset on the German tax losses is not assured, it is more likely than not that it will be realized. The Company's U.S. net operating losses amount to approximately $17,800 at December 31, 2001. Losses of $4,600, $1,900, $1,200, $3,700, $2,800 and $3,600 will expire in 2021, 2020, 2019, 2018, 2012 and 2011, respectively, if not used. Management believes that these tax loss carryforwards are likely not to be utilized under current circumstances and has fully reserved any resulting potential tax benefit. The Company's Swiss net operating losses amounted to approximately $9,000 at December 31, 2001. Losses of $3,200 and $5,800 will expire in 2004 and 2007, respectively, if not used. Management believes that these tax loss carryforwards are likely not to be utilized under current circumstances and has fully reserved any resulting potential tax benefit. Income (loss) from foreign source operations amounted to $2,118, $30,152 and $(34,903) for the years ended December 31, 2001, 2000 and 1999, respectively. These amounts are intended to be indefinitely reinvested in operations. Since available-for-sale securities are primarily securities held by foreign 44 MERCER

INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 8. INCOME TAXES (CONTINUED) subsidiaries and the proceeds are expected to be reinvested, no tax has been provided in the determination of other comprehensive income for the years ended December 31, 2001, 2000 and 1999. NOTE 9. SHAREHOLDERS' EQUITY In a prior year, the Company issued one attached preferred share purchase right for each outstanding share of beneficial interest. A total of 11,958,993 rights were issued which allow the holder to acquire from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock at a price of $75 per one one-hundredth of a preferred share. The rights will expire on December 31, 2003. The Company has the right to repurchase the rights for $.01 each. The Company has reserved 110,000 Series A Junior Participating Preferred Shares in connection with the rights. The preferred shares are entitled to quarterly dividends of $10 per share and have 100 votes per share. However, the preferred shares will be entitled to an aggregate dividend of 100 times any dividends declared on shares of beneficial interest and an aggregate of 100 times any payment to shares of beneficial interest on merger or liquidation. Also, during a prior year the Company authorized the issuance of 3.5 million shares of Cumulative Retractable Convertible Preferred Shares, Series B at a price of $20 per share. These shares have a cumulative dividend rate of up to 4%, a liquidation preference of $20 per share plus unpaid dividends, a redemption right beginning January 1, 2004, at $20 per share plus unpaid dividends, and may convert up to 10% of the issued and outstanding shares into shares of beneficial interest based on dividing the issue price plus unpaid dividends by $20 per share. NOTE 10. ACQUISITION On December 14, 2001, the Company acquired all of the outstanding common shares of Landqart AG ("Landqart"), a Swiss company, for $2,650 cash. The effective date of this acquisition is December 31, 2001. The results of Landqart's operations will be included in the Company's consolidated financial statements beginning January 1, 2002. Landqart is a manufacturer of specialty paper which is expected to become an integral part of the Company's paper segment. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Current assets... $11,542 Properties.. 9,912 ------- Total assets acquired.................................... 21,454 Current liabilities....................................... 12,237 Long-term liabilities...................................... 6,567 ------- Total liabilities assumed................................ 18,804 ------- Net assets acquired...................................... $ 2,650 ======= The following unaudited pro forma information presents the results of operations of the Company as if this acquisition had taken place on January 1, 2001 and 2000, respectively. The pro forma information is not necessarily indicative of the results that would have occurred had the acquisition taken place at the 45 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 10. ACQUISITION (CONTINUED) beginning of the periods presented. Further, the pro forma information is not necessarily indicative of future results. YEAR ENDED DECEMBER 31 ------------------ 2001 2000 -------- -------- Revenues... $232,851 $270,659 Net income (loss).. $ (3,251) $ 29,473 Earnings per share Basic.. $ (0.19) $ 1.76 Diluted.. $ (0.19) $ 1.72 The purchase agreement provides for an additional payment of up to $1,958 based on profitability criteria being met during the period January 1 through September 30, 2003. The purchase price may be further increased if certain parcels of real estate are sold prior to January 1, 2004. This increase will amount to 30% of the difference between the carrying value of the parcel at December 31, 2000, and its net sales price. If any of these contingent payments which are to be paid in cash, become due, they will be treated as an additional cost of acquisition. NOTE 11. STOCK-BASED COMPENSATION The Company has a non-qualified stock option plan which provides for options to be granted to officers and employees to acquire a maximum of 3,600,000 shares of beneficial interest including options for 130,000 shares to trustees who are not officers or employees. During 2000, options to acquire 1,600,000 shares of beneficial interest at $6.375 per share were granted to officers and employees of the Company which vest one-third at grant date and one-third each for the next two years. These options expire in ten years. The weighted fair value of these options was $3.60 each. Following is a summary of the status of the plan during 2001, 2000 and 1999: WEIGHTED AVERAGE NUMBER OF EXERCISE SHARES PRICE --------- -------- Outstanding at December 31, 1999 and 1998.................. 765,500 $10.03 Granted.. 1,600,000 6.375 Exercised... (159,500) 6.00 --------- Outstanding at December 31, 2001 and 2000.................. 2,206,000 $ 7.67 ========= ====== 46 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 11. STOCK-BASED COMPENSATION (CONTINUED) Following is a summary of the status of options outstanding at December 31, 2001: OUTSTANDING OPTIONS EXERCISABLE OPTIONS

--- ------------------- WEIGHTED AVERAGE WEIGHTED WEIGHTED REMAINING AVERAGE AVERAGE CONTRACTUAL EXERCISE EXERCISE EXERCISE PRICE RANGE NUMBER LIFE PRICE NUMBER PRICE ------------------- --------- ---------- -------- --------- -------- 6.00$-6.375.. 1,770,000 8.0 $ 6.34 1,236,666 $ 6.33 8.50 - 11.66.. 231,500 5.1 9.19 231,500 9.19 16.89 - 18.47.. 204,500 3.9 17.50 204,500 17.50 COMPENSATION Proforma information with respect to fair value accounting for the Company's stock option plan is as follows: 2001 2000 1999 -------- -------- -------- Net Income (Loss) As reported.. $(2,527) $29,474 $(38,109) Proforma... $(5,403) $26,598 $(38,421) Basic Earnings (Loss) Per Share As reported.. $ (.15) $ 1.76 $ (2.33) Proforma... $ (.32) $ 1.59 $ (2.34) Diluted Earnings (Loss) Per Share As reported.. $ (.15) $ 1.72 $ (2.33) Proforma... $ (.32) $ 1.55 $ (2.34) The fair value of each option granted is estimated on the grant date using the Black Scholes Model. The assumptions used in calculating fair value are as follows: 2001 2000 1999 -------- -------- -------- Risk-free interest rate................................... 4.5% 8.5% 6.0% Expected life of the options.............................. 2 years 2 years 2 years Expected volatility....................................... 68.9% 78.4% 60.0% Expected dividend yield................................... 0.0% 0.0% 0.0% 47 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 12. EARNINGS PER SHARE Earnings per share data for years ended December 31 is summarized as follows: NET INCOME (LOSS) ----------------------------- 2001 2000 1999 -------- -------- -------- Net income (loss) available to shareholders of beneficial interest.. $(2,527) $29,474 $(38,109) ======= ======= ======== SHARES ------------------------------------- 2001 2000 1999 ----------- ----------- ----------- Weighted average number of shares outstanding -- basic.............................. 16,874,899 16,778,962 16,389,944 Effect of dilutive securities: Options... -- 365,528 -- ----------- ----------- ----------- Weighted average number of shares outstanding -- diluted............................ 16,874,899 17,144,490 16,389,944 =========== =========== =========== For 2001 and 1999, warrants and options were not included in the computation of diluted earnings per share because they were anti-dilutive. NOTE 13. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO STATEMENTS OF CASH FLOWS There were no significant noncash transactions in 2001 and 2000. Significant noncash transactions in 1999 include: - The Company issued shares of beneficial interest amounting to $7,342 upon the conversion of outstanding debentures. - The Company surrendered preferred shares in an entity valued at $2,621 in a settlement. NOTE 14. BUSINESS SEGMENT INFORMATION The Company operates in two reportable business segments: pulp and paper. The segments are managed separately because each business requires different production and marketing strategies. The pulp segment consists of a single mill located in Germany which currently produces and markets kraft pulp. The paper segment consists of two mills located in Germany and one located in Switzerland. Both segments operate in industries which are cyclical in nature and their markets are affected by fluctuations in supply and demand in each cycle. These fluctuations have significant effect on the cost of materials and the eventual sales prices of products. 48 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 14. BUSINESS SEGMENT INFORMATION (CONTINUED) Summarized financial information concerning the segments is shown in the following table: PULP PAPER TOTAL ---- -------- -------- 2001 Sales to external customers................................ $130,903 $52,593 $183,496 Intersegment net sales..................................... 5,187 -- 5,187 Segment income (loss)..................................... 4,069 (2,891) 1,178 Segment assets.. 333,381 47,384 380,765 Capital expenditures...................................... 6,638 2,400 9,038 RECONCILIATIONS Loss: Total income for reportable segments..................... $ 1,178 Elimination of intersegment profits....................... 2,274 Unallocated amounts, other corporate expenses............. (5,905) -------- Consolidated loss before income taxes.................. $ (2,453) ======== Assets: Total assets for reportable segments..................... $380,765 Intersegment receivable.................................. (6,560) Other unallocated amounts................................ 8,438 -------- Consolidated total assets.............................. $382,643 ======== PULP PAPER TOTAL -------- -------- -------- 2000 Sales to external customers................................ $147,048 $78,578 $225,626 Intersegment net sales..................................... 1,269 -- 1,269 Segment income (loss)..................................... 31,929 (278) 31,651 Segment assets.. 378,362 43,290 421,652 Capital expenditures...................................... 21,881 3,003 24,884 RECONCILIATIONS Income: Total income for reportable segments...................... $ 31,651 Elimination of intersegment profits...................... 1,377 Unallocated amounts, other corporate expenses............. (3,446) -------- Consolidated income before income taxes................ $ 29,582 ======== Assets: Total assets for reportable segments...................... $421,652 Intersegment receivable.................................. (22,661) Other unallocated amounts................................ 4,668 -------- Consolidated total assets.............................. $403,659 ======== 49 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 14. BUSINESS SEGMENT INFORMATION (CONTINUED) PULP PAPER TOTAL -------- -------- -------- 1999 Sales to external customers................................ $ 40,080 $85,490 $125,570 Intersegment net sales..................................... 86 -- 86 Segment loss.. (4,200) (25,885) (30,085) Segment assets.. 411,541 40,592 452,133 Capital expenditures...................................... 282,920 6,190 289,110 RECONCILIATIONS Loss: Total loss for reportable segments........................ $(30,085) Elimination of intersegment profits....................... 2,704 Unallocated amounts, other corporate expenses............ (9,636) -------- Consolidated loss before income taxes.................. $(37,017) ======== Assets: Total assets for reportable segments...................... $452,133 Intersegment receivable.................................. (357) Other unallocated amounts 4,069 -------- Consolidated total assets $455,845 ======== The following table presents net sales to external customers by geographic area based on location of the customer. 2001 2000 1999 -------- -------- -------- Germany.. $ 84,574 $ 95,376 $ 72,129 Other European Union....................................... 64,406 76,827 47,498 Eastern European and other................................. 34,516 53,423 5,943 -------- -------- -------- $183,496 $225,626 $125,570 ======== ======== ======== The following table presents total assets by geographic area based on location of the asset. 2001 2000 1999 -------- -------- -------- Germany.. $352,538 $398,991 $451,776 Other.. 30,105 4,668 4,069 -------- -------- -------- $382,643 $403,659 $455,845 ======== ======== ======== The pulp mill has fiber supply contracts with two companies which expire in 2002 and 2003 at prices agreed to periodically. The Company also has labor agreements which expire in 2002. In 2001, pulp sales to two customers amounted to 22% of total pulp sales, and pulp sales to one customer amounted to 27% in 2000. 50 MERCER INTERNATIONAL INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS The fair value of other financial instruments at December 31 is summarized as follows: 2001 2000 -------------------- -------------------- CARRYING CARRYING AMOUNT FAIR VALUE AMOUNT FAIR VALUE -------- ---------- -------- ---------- Cash and cash equivalents.......................... $ 10,458 $ 10,458 $ 18,496 $ 18,496 Cash restricted.................................... 29,739 29,739 25,150 25,150 Notes receivable................................... 4,877 4,877 4,296 4,296 Notes payable...................................... 6,584 6,584 839 839 Long-term debt..................................... 209,522 209,522 235,488 235,488 The fair value of cash and cash equivalents is based on reported market value. The fair value of cash restricted was equal to its carrying amount because it is in an account which bears a market rate of interest. The value of notes receivable is based on the value of similar long-term receivables. The fair value of notes payable was based on the value of similar debt incurred in the pulp industry. The fair value of long-term debt was determined using discounted cash flows at prevailing market rates. The other long-term liabilities which have a carrying value of $3,065 and $3,721 at December 31, 2001 and 2000, respectively, are primarily an accrued environmental liability at the pulp mill. This liability may be partially reimbursable. Further, the Company cannot estimate at this time when these amounts will be paid. Therefore, the fair value of other long-term liabilities cannot be determined. NOTE 16. COMMITMENTS AND CONTINGENCIES At December 31, 2001 and 2000, the Company recorded a liability for environmental conservation expenditures of $1,822 and $1,921, respectively. Management believes the liability amount recorded is sufficient, however, future regulations in Germany may result in additional liability. The Company is required to pay certain charges based on water pollution levels at its mills. Unpaid charges can be reduced by investing in qualifying equipment that results in less water pollution. The Company believes that equipment investments already made will offset most of these charges, but it has not received final determination from the appropriate authorities. Accordingly, a liability for these water charges has only been recognized to the extent that equipment investments have not been made. The Company is involved in various matters of litigation arising in the ordinary course of business. In the opinion of management, the estimated outcome of such issues will not have a material effect on the Company's financial statements. 51 MERCER INTERNATIONAL INC. SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) QUARTERLY FINANCIAL DATA (THOUSANDS, EXCEPT PER SHARE AMOUNTS) QUARTER ENDED -- MARCH 31 JUNE 30 SEPTEMBER 30 DECEMBER 31 --------- -------- ------------- ------------ 2001 Net Sales....................................... $55,996 $52,310 $47,276 $41,407 Gross profit.................................... 14,019 9,046 7,402 1,215 Income (loss) before extraordinary items and cumulative effect of a change in accounting..... 4,575 (71) 169 (7,200) Income (loss) before extraordinary items and cumulative effect of a change in accounting, per share*... 0.27 (0.00) 0.01 (0.43) Net income (loss)................................ 4,575 (71) 169 (7,200) 2000 Net Sales....................................... $55,760 $63,715 $61,694 $55,033 Gross profit..................................... 6,868 15,531 15,899 19,561 Income before extraordinary items and cumulative effect of a change in accounting................ 1,071 8,976 9,094 10,333 Income before extraordinary items and cumulative effect of a change in accounting, per share*.... 0.06 0.52 0.52 0.61 Net income...................................... 1,071 8,976 9,094 10,333 ----------------------- * on a diluted basis 52 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) 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/ JIMMY S.H. LEE -- Jimmy S.H. Lee Dated: March 29, 2002 CHAIRMAN Pursuant to the requirements of the SECURITIES EXCHANGE ACT OF 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. /s/ JIMMY S.H. LEE -- Jimmy S.H. Lee Date: March 29, 2002 Chairman, Chief Executive Officer and Trustee /s/ MICHEL ARNULPHY -- Michel Arnulphy Date: March 29, 2002 Trustee /s/ C.S. MOON -- C.S. Moon Date: March 29, 2002 Trustee /s/ MAARTEN REIDEL -- Maarten Reidel Date: March 29, 2002 Trustee /s/ R. IAN RIGG -- R. Ian Rigg Date: March 29, 2002 Chief Financial Officer and Trustee /s/ ANDREW F.B. MILLIGAN -- Andrew F.B. Milligan Date: March 29, 2002 Trustee 53 EXHIBIT INDEX EXHIBIT NO. DESCRIPTION OF EXHIBIT ----------- -- 3.1 (a)* Restated Declaration of Trust of the Company as filed with the Secretary of State of Washington on June 11, 1990 together with an Amendment to Declaration of Trust dated December 12, 1991. (b)* Amendments to Declaration of Trust dated July 8, 1993; August 17, 1993; and September 9, 1993. 3.2* Trustees' Regulations dated September 24, 1973. 4.1 Shareholder Rights Plan. Incorporated by reference from Form 8-A dated August 17, 1993. 10.1 Acquisition Agreement among Treuhandanstalt, Dresden Papier AG, Dresden Papier Holding GmbH, Mercer International Inc., and Shin Ho Paper Mfg. Co., Ltd. Incorporated by reference from Form 8-K dated September 20, 1993. 10.2 Acquisition Agreement among Treuhandanstalt, Zellstoff-und Papierfabrik Rosenthal GmbH, Raboisen Einhundertsechsundfunfzigste Vermogensverwaltungs-gesellschaft GmbH, to be renamed ZPR Zellstoff-und Papierfabrik Rosenthal Holding GmbH, Mercer International Inc. and 448380 B.C. Ltd. dated July 3, 1994. Incorporated by reference from Form 8-K dated July 3, 1994. 10.3 Amended and Restated 1992 Stock Option Plan. Incorporated by reference from Form S-8 dated March 2, 2000. 10.4* 1994 Employee Incentive Bonus Plan. 10.5* Form of Separation Agreement between Mercer International Inc. and Arbatax International Inc. 10.6 English Translation of a Loan Agreement in the amount of DM 508,000,000 between Zellstoff-und Papierfabrik Rosenthal GmbH & Co. KG, Blankenstein on the one hand and Bayerische Hypotheken-und Wechsel-Bank Aktiengesellschaft, Munich and Bayerische Vereinsbank Aktiengesellschaft, Munich on the other hand dated July 6, 1998. Incorporated by reference from Form 8-K dated July 16, 1998. 10.7* Amended and Restated Employment Agreement between Mercer International Inc. and Jimmy S.H. Lee dated November 20, 2000. 10.8* Trustee's Indemnity Agreement between Mercer International Inc. and Jimmy S.H. Lee dated November 20, 2000. 10.9 English Translation of Amendment Agreement No. 4 dated December 13, 2000 between Zellstoff-und PapierfabriK Rosenthal GmbH & Co. KG and Bayeriche Hypo-und Vereinsbank Aktiengesellschaft to the Loan Agreement dated July 6, 1998. Incorporated by reference from Form 8-K dated January 23, 2001. 10.10 Purchase Agreement between Sihl and Mercer International Inc. dated December 14, 2001 relating to the acquisition of Landqart AG. 21 List of Subsidiaries of Registrant. 23 Independent Auditors Consent. ----------------------- * Filed in Form 10-K for prior years.