

METHANEX CORPORATION

INVESTOR'S CONFERENCE CALL

Fourth Quarter 2008 RESULTS CONFERENCE CALL

January 29, 2009

****CHECK AGAINST DELIVERY****

Jason Chesko

Good morning, ladies and gentlemen. I would like to remind our listeners that our comments and answers to your questions may contain forward-looking information. This information by its nature is subject to risks and uncertainties that may cause the stated outcome to differ materially from the actual outcome. Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections which are included in the forward-looking information. Please refer to the bottom of our latest news release and to our 2007 annual report for more information.

I would now like to turn the call over to Methanex's president and CEO, Mr. Bruce Aitken, for his comments.

Bruce Aitken

Thank you Jason and good morning everyone. And welcome to the Methanex fourth quarter investor conference call. I have a number of colleagues with me in the room and they will be available to help answer questions a little later on.

Firstly, some comments on our results for the fourth quarter. As in many industries, our operating environment changed quite dramatically during the quarter. I will comment more on this later in the call but wanted to emphasize that our results for the quarter were substantially impacted by the dramatic changes in the operating environment. EBITDA for the quarter was \$(12) million and we reported a net loss of \$3.1 million or \$0.03 per share. There were a number of factors that influenced this result:

- First, as a result of the decline in methanol demand during the quarter, sales volumes were lower than in previous quarters. Customers cancelled about 200,000MTs of orders in the last 2 months of the year which had a big impact on both our earnings and inventories.

- Second, the discount to posted prices was higher than expected, as fixed price and cost to serve volumes made up a larger percentage of our sales than usual.
- Third, as is typical in a declining methanol price environment, our margins on purchased and produced methanol are negatively impacted as a result of our FIFO accounting policy.
- And finally - an occurrence that is not as common - as a result of the sharp decline in methanol pricing, we took a pre-tax \$33 million write down on our inventories to reflect the difference in the average cost of our inventory at the end of the fourth quarter to what we expect to realize on the sales of those inventories during the first quarter.

There was also one adjustment that had a positive impact on our net income. We resolved a tax position relating to distribution of profits from subsidiaries which reduced our tax rate for 2008 to 13%. However, this is a non-recurring item and over the next 12 months, we expect our effective tax rate to be in the 30% range as it typically has been in recent quarters.

The result for Q4 2008 is not a good reflection of the strength and earning capability of the company. It is primarily the volatility in

methanol prices and the timing of inventory flows that suppressed earnings. If this volatility was removed we would have expected to earn more than \$100 million of EBITDA at the average prices that prevailed during the quarter- I hope that this helps explain the effect of volatility on our results.

I will comment on the recent significant changes to the industry and pricing environment later in the call, but first I would like to provide you with an update on our operations.

Production from our large, low-cost plants in Trinidad during the quarter continued to be excellent. We produced a total of 494,000 tonnes, which is slightly above design capacity for those plants. At the beginning of January, we shut down our Atlas plant to complete some repairs and maintenance and the plant was re-started yesterday. This should result in about 75,000 tonnes less production from Trinidad during the first quarter.

Our site in Chile operated at 28% capacity during the fourth quarter with gas supply from Chile and we produced 272,000 tonnes of methanol. This was slightly better than last quarter as we benefited from increased gas deliveries from Geopark. I will comment more on

the outlook for natural gas for our plants in Chile in just a few moments.

At the beginning of October, we added about 400,000 tonnes of incremental production in New Zealand, as we started up the larger 900,000 tonne Motunui plant and shut down the smaller 500,000 tonne plant in nearby Waitara Valley. The Motunui plant ran near capacity for most of the quarter and we produced 200,000 tonnes of methanol. We have some production flexibility at our New Zealand site and recently, in order to manage inventories, we have been operating the plant at moderately lower operating rates – in the 70% range for the last month or so. We anticipate that we will return to full operating rates at this plant next week. On the last call, I reported that we are assessing the possibility of restarting the Waitara Valley plant again this year. Given current market conditions, we are delaying this potential restart; however in the medium to long term, under more normal industry conditions, we continue to believe that we can operate both plants, given the improved outlook for natural gas supply in New Zealand.

I will switch topics now and address the industry and pricing outlook, which has changed significantly over the last quarter. Near the beginning of the quarter, demand was relatively stable with customers

reporting fairly normal operations. However, as the quarter evolved, the impacts of the global financial crisis and weak economic environment were felt, and many methanol derivative plants either shut in or operated at lower rates. The drop off in demand occurred extremely quickly and it was widespread, with demand down significantly across all major global regions, including China. We estimate that overall global methanol demand in Q4 was about 15% below Q3 levels. Traditional methanol derivatives such as formaldehyde and acetic acid were most impacted, while demand for most energy related derivatives remained steady, despite the lower energy price environment, as lower methanol prices continued to make the economics of those derivatives competitive. The sharp drop off in demand resulted in higher global inventories and a significant decline in methanol prices during the fourth quarter and into January. In January, our average non-discounted price across all of the major regions is about \$220/tonne.

With the recent sharp drop off in demand, industry supply has rationalized quickly, particularly in China, where we estimate about six million tonnes of high cost production was taken out of the market during the fourth quarter. High cost plants are also shut down or operating at lower rates in other areas such as Russia and Eastern Europe. This decline in supply has provided some stability in pricing-

earlier this week we rolled January pricing into February. However global inventories remain high at the producer level and we have not yet seen any significant changes in demand. One significant change in the market is the level of imports into China. Over the last few years China has imported in the range of 1 to 1.5 million tonnes per year. During December and January China's imports have increased to an annualized rate of about 4 million tonnes as low cost supply mainly from the Middle East and South East Asia has partially offset the decline in production in China.

I will switch topics now and talk about some of the opportunities and challenges that we face.

Firstly, natural gas supplies to our plants in Chile. We continue to operate our site in Chile at about 30% of capacity based on gas supplied exclusively from Chile. For much of the fourth quarter there was a surplus of gas availability in Southern Chile but the surplus was never sufficient to provide us with comfort that we could reliably operate a second plant at a stable rate. The various initiatives underway in southern Chile to increase gas supply are progressing well. Firstly, our long term gas supply with GeoPark is continuing to provide increasing quantities of gas from the Fell Block. As I mentioned earlier,

GeoPark increased its deliveries of gas and during the fourth quarter they supplied about 25% of the gas we consumed. Our major initiative with ENAP in the Dorado Riquelme Block is also progressing to plan. Seven wells were drilled in this block during 2008 with a very high success rate. We are already receiving small quantities of gas from this new block, and are planning an increased drilling program this year. Together, the ultimate goal of Geopark and ENAP is that these two blocks alone have the potential to supply us with about 40% of our total gas requirements. Finally, exploration and development activities are in the early stages in the nine exploration blocks that the Government of Chile awarded to several international oil and gas companies earlier this year under the international bidding round. Under the terms of the agreements from the bidding round, capital has already been committed to these blocks, so we expect exploration and development activity to progress as planned.

When we add up all of the initiatives in southern Chile, we estimate that about \$600 million will be spent by a variety of oil and gas companies on gas exploration and development between 2009 and 2011. Based on this significant activity, and the success already achieved in current initiatives, we continue to be optimistic on the prospects for sourcing more gas from Chile and returning our site back to a four-plant

operation. However, as I have commented before, this will be a gradual process, and we continue to expect that it will take a couple of years before we see a significant improvement to our operating rate.

The next opportunity that I wanted to provide you an update on is our new methanol plant in Egypt. The project is now about 70% complete and it continues to be on budget and on schedule for startup in early 2010. The first of the major equipment has been delivered to the site and installed, and the plant is beginning to take shape. As this plant will be amongst the lowest cost plants in the world, we expect it will generate strong cash flow for our shareholders after it starts up, even in a weak pricing environment. In addition, our joint venture DME project in Egypt is also progressing well and it is currently advancing towards early engineering work.

I will change topics now and make a few comments about our liquidity and capital allocation in the current environment. Despite negative accounting earnings during the fourth quarter, we generated \$51 million in cash flow from operations, and we continue to be in a strong financial position. We have \$328 million of cash on our balance sheet, a \$250 million undrawn credit facility, low leverage, and no refinancing requirements until 2012. We have two key priorities for the use of

cash and, relative to our liquidity position, the capital required for these initiatives is modest. Firstly, completing the Egypt Project which requires a remaining equity contribution before interest of about \$90 million. And secondly, we will continue to focus on initiatives to accelerate gas development in southern Chile and expect to spend around \$70 million on these initiatives during 2009. So, we are well-positioned to satisfy these commitments and our planned plant maintenance expenditures. However, in the current environment where operating cash flow has declined sharply and the credit markets are effectively closed, we need to manage the company with some caution. Our objective is to emerge from the current recession a stronger company with an improved ability to generate cash. We are making some short term sacrifices to achieve this goal. We have stopped repurchasing shares under our Normal Course Issuer Bid, cancelled almost all discretionary capital spending and embarked upon a global cost cutting program. With these actions we believe that we can continue to invest to grow and improve the quality of the company's assets, and manage through the current financial crisis.

Before stopping for questions, I'll make a few comments regarding the future and our expectations for the first quarter. However, in this uncertain environment it continues to be difficult to predict the outlook

for our industry with much certainty in the short term.

As is evident in this quarter's results, our earnings move up and down quite sharply in times of volatile pricing. This is caused primarily by accounting for inventories on a FIFO basis. It takes about 2 months for production and purchases to be expensed so we are matching today's revenues with a cost structure from 2 months ago. This is the effect that caused us to write down inventories in Q4 and means that our inventories at the end of the fourth quarter (which will be about two thirds of Q1's sales) have been written down to a level from which we would more or less expect to earn a break even gross margin.

As I mentioned earlier, contract methanol prices in January average about \$220/tonne and we have rolled January prices into February. We think that based on current supply and demand balances, prices should remain reasonably stable during the quarter. We expect sales volumes to be similar to Q4 and will likely only return to more normal sales volume levels when methanol demand recovers. The discount from contract prices should be somewhat lower than has been normal in the last couple of years as, at lower prices, fixed price and cost of serve contracts have a lesser impact on our results. Our cost structure is quickly adjusting to the current environment however we will still

experience the cost lags that are flowing through our inventories. Based on the comments that I have made this morning you should not be surprised that we are expecting to report an accounting loss in Q1 however we also expect to have positive operating cash flow during this quarter.

Despite the Market's current focus on short term results and current industry conditions, we are well positioned for the long term. We are in a strong position to endure the current period of weakness, complete our project in Egypt and continue with our initiatives to improve gas supply in Chile. We are also still believers in stronger energy prices long term and that methanol will play a significant role as an alternative energy source. With the initiatives we are working on we can potentially double our low cost production base in a relatively short period of time and offer significant upside potential to our earnings and valuation.

So at this point I am happy to stop and take any questions that you might have.

Closing comments

Thank you everyone for participating on the call.

This has been a challenging quarter and we expect 2009 will be a challenging year for many industries, including our own; but I just wanted to stress that our priorities haven't changed... we can continue to invest to strengthen our business and that will make us a stronger company in the future and I feel like our financial prudence has paid off by leaving us in a strong position in a weak environment. And I look forward to being able to report more positive results in the future than we have been able to report in this quarter.

So thank you very much for your continuing support and good morning to everyone.