

Methanex Corporation
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Hello good morning, thanks Fai for the introduction and thanks RBC for inviting me to the materials and mining and conference. We welcome the opportunity to speak with you. The purpose of my presentation, it will be quite brief, but just to give you a little bit of an overview of company, our strategy and our near term prospects. And we structured this presentation so that hopefully this is enough time to have a few questions at the end of the presentation.

A little bit of business as usual. Caution you that the presentation contains forward-looking information and you should not put undue reliance on that forward-looking information. A little bit about our company and our value and our value proposition. As Fai said Methanex is the leader in our industry. We do only one thing, that is make and sell methanol, we are a global leader. We have about 15% to 20% of the market and you think about commodity business that's quite unique. And we think that, that leadership position, that market position has been very valuable for our shareholders.

And our strategy is all about maintaining and leveraging that global positioning and underpinning that global positioning with low cost assets. So that's the core of our strategy. We're entering in this period of economic uncertainty in a strong financial position which is obviously a good thing and it not only allows us to weather this period of economic uncertainty, but we think it allows us to continue to develop and grow our business. And the good news is that we have lots of opportunity and again core to what we think the value proposition is, is that we think that we can more than double our production capacity and cash flow generation capability over the next three to five years. So we have journey, but it's quite a price for us.

Another thing you should know about our business is that methanol tends to be traded at price level that's correlated with the energy value of oil. So if you believe that oil prices are going to increase in this relationship continues, that means that structurally I think we could see higher methanol prices in the future. So that's just a very high level overview of our company and our value proposition.

A little bit about how methanol is used and a little bit about what the market dynamics are today. First of all methanol is a basic industry company, we divide the end users and traditional users and energy. Traditional users represents about 70% of the market and this is the market that tends to grow industrial production. So if you look at the last few years, industrial production has grown globally 4% or 5% and that happens to be the growth rate of the methanol industry over the last few years.

This is also the area in our industry where it's been hardest hit as a result of the global recession. So we think that if you look at it year-over-year in this part of the methanol

market demand has declined by around 20%. So quite a significant reduction in demand year-over-year in the traditional sector. Now the good news is that there is another 30% of demand in our industry and this the area where demand tends to grow the fastest and that's in the energy uses. And this demand is happening particularly in China.

China is quite interesting. If you look at, and the growth rates have been significant. In 2002 demand for methanol in the energy sector would have close to zero, today it's around 6 million tons. So you can see that the tremendous growth rates for methanol demand for the energy sector in China. And it comes from two sources this demand, one is for gasoline blending. Today gasoline blending represent about 3.5 to 4 million tons of methanol demand and you can think of the analogy of ethanol in the United States it's sort of how methanol is blended in China. It's a clean burning fuel, extends the fuel, but it also is environmentally.

The advantage of methanol of course of is it's about one-third the cost of ethanol. So tremendous competitive advantage. And the Chinese really methanol as a potential source to diversify their fuel uses, especially in the transportation sector and recently, for those of you that follow us, will know that the Chinese have just put out national standards around gasoline blending for methanol, gasoline blending which take effect on November this year. And of course we think that this is a good foundation for future growth and it emphasizes what the Chinese have been saying all along, is that this is a potential, this is something they would like to hear from a public policy point of view is diversify their energy uses for transportation fuels.

The other use for methanol in the energy sector is DME. DME is a simple molecule. Its basically two methanol molecules put together and dehydrated and this DME product is used in the LPG market as blending component. It can be blended up to 20% levels and there is some tremendous growth there as well. So with a small return I think in industrial production and what we think is more growth opportunities in the energy sector, we can see the potential for decent growth rates in the future.

This is snapshot of our cost across the industry and I should say that we really benefit from the steepness of this cost curve. Our competitive advantage of course is that our assets are low cost and tend to be – and located on the left hand side of the cost curve. Those assets being of course, Fai mentioned Chile and Trinidad, but also we're building our project in Egypt which is coming on-stream next year, which is also very low cost.

This is the market capacity added over the last few years and typically in a commodity industry capacity is added at the low end of the cost curve. While in our industry a lot of capacity has been added at the high end of the cost curve and in particular in China and its high cost and it tends to be coal based. And this is also where we've seen the restructuring results of the decreases in demand recently. So think that about 6 million tons of demand has come out of the system in the last few months and a lot of that of course is coming out of China.

We still believe there is a lot high cost capacity left in the industry. Today we would estimate that there is about 6 million tons of high cost capacity that have a cost structure

between 175 and \$250 a ton. So I think that boards well. So with – and that's of course important in the context that there is some new capacity coming on-stream over the next few years. In the next three years we estimate that about 5 million tons of new capacity will come on-stream with a combination of demand growth and the steepness of the cost curve and rationalization of some high cost capacity we think that absorbs the capacity additions.

I mentioned earlier that we have a strong financial position and we're really benefitting from that. We have strong cash balances, a little over \$300 million, no refinancing requirements for 2002 and we have a backup credit facility, \$250 million backup facility that expires in June of 2010. Pretty low leverage. We have always managed our balance sheet quite prudently. We have resisted the temptation to leverage up and we think that particularly beneficial when you get into the economic environments like this. So others are trying survive, we think we have the opportunity with a strong balance sheet to continue to grow and develop our business.

So why don't we just go through our capital requirements over the next couple of years. First of all we have some capital allocated maintaining our business, most of that is this year, two turnarounds in our Trinidadian sites, one of those we completed and one of them is being undertaken as we speak. Going forward in 2010 very little in the way of capital maintenance. So our capital maintenance bill is very manageable and you compare that to a depreciation bill a year of \$120 million, quite modest.

We're very excited about Egypt, Egypt is coming on-stream mid 2010 and the capital required is around \$100 million to complete the project. And then we have allocated 50 to \$60 million per year to help accelerate natural gas development in Southern Chile and I'll go though that in a couple of slides. The point being here is that within the constraints of our balance sheet we have opportunities here to continue to grow and develop our business.

So I like to talk a little bit about our Egypt project. Just an excellent project, great location, low cost. Really looking forward to this project becoming part of our asset portfolio. Taking shape, as you can see from the picture it's starting to look like a methanol plant. I would say that we're at the most challenging phase in the construction. Lots of people on the site, lots of detailed work and we're working hard to manage the risk around these things. But overall we're very pleased with the progress of the construction. It's on budget and we're expecting startup in the first half of 2010. So very, very excited about this asset coming on-stream.

The second capital requirement and opportunity for growth that I want to talk to you about is Chile. We have 3.08 million tons of capacity in Southern Chile. Very well located, can reach all major markets today. We are only operating one plant and this is as a result of problems of not receiving gas from Southern Argentina. Today we talk about this site as an opportunity. The opportunity is to add 2.8 million tons of low cost capacity without a huge capital spend and we think we can achieve this over the next three to five year period.

Our strategy is to source gas from the Chilean side of the border and what we're trying to do to help accelerate the gas development is working with other E&P producers and developers to make small investment to help accelerate natural gas. So working with two companies, a company called GeoPark. We have exclusive right to a block very close to our plant and we lent them \$40 million, in return we will get exclusive rights to natural gas that's developed there, and that so far is going very, very well.

We are also working with state gas company ENAP on another block very close to our plant called Dorado Riquelme and again similar structure – similar motive, a little bit different structure. We provided capital, we own 50% of the rights to the gas from this block and that development is although early, is going very well as well. So we think it's going to take a little bit of time. But we do know however is that the southern cone of Chile is gas prone the success rates are high and what we've seen in the past is another investment in natural in Southern Chile. Having said that as you can see in this chart there's been steady progress in drilling activity and significant increases in drilling activity expected over the next couple of years.

In fact that we estimate that over the next two years there will be about \$500 million spent in this region drilling activity. So this gives us a lot of reason for optimism, that we can get our plants operating eventually at full rates. Now as I'll say a few times today, it is a journey and the way I think it will happen is it will be progressive increase in production over the next few years at our Chile site.

The next thing I wanted to mention was the value proposition and I mentioned earlier that methanol is highly correlated to energy and to crude oil. Methanol price is highly correlated to crude oil. And if you believe with the growth of industrial production that we'll see growth in oil prices, we think that, that means that structurally methanol prices will be higher in future than they've been in the past. And to give you an example, if oil is trading at \$80 a barrel we would think that methanol would trade on a energy value equivalent at about \$300 a ton. So just give you a little bit of a sense and we certainly don't think that \$80 a barrel is a stretch given the current environment.

Also as I mentioned before we have the potential to more than double our production capability over the next few years and the price is huge. We have outlined that in this slide. And I'll start with the price. The prices that – today we have 4 million tons of production. We think we can double it over the next three to five years to around 8 million tons. And if you assume \$300 a ton methanol, which we don't believe is a stretch, the company generates \$800 million of EBITDA. So very significant cash generation capability. Now that's the price and as I've mentioned before earlier today is that I look at it as a journey and some of the price will come in increments and a big increment comes starting in 2010 with the startup of Egypt and with some bottleneck activity we have been achieving in Trinidad and with some incremental production in Chile and that adds to about 1 million tons of incremental production, which is about a 25% increase over today's level.

So if you assume the sale meaning dollars a barrel, we think that translates into about \$600 million of EBITDA. So that's \$300 a ton. And even if you assume that methanol prices stay where they are today, which is about \$200 ton, once Chile comes on-stream we think the running rate for our company in terms of EBITDA is about \$300 million a ton. So tremendous cash flow generation capability for our company. So the combination of potential for higher methanol prices and huge leverage from increasing our low cost production base provides tremendous opportunity for increases in cash flow for our company.

So to summarize. We are a global leader. We think we have an excellent franchise, high – we have high quality low cost assets in place around the world today. Potential to than double our production and when we double our production that's the potential to double our cash generation capability.

So with that thank you and I think there is time for some questions as well. Sure.

Q&A

<Q>: In terms of the fact that you talked about oil prices are there any other factors that you're looking at in terms of coming up with your methanol price forecast, internal forecast, perhaps such as coal prices in China, economic factors, something you're looking at, at this point?

<A - Ian Cameron>: Well I think the world is keeping an eye on industrial production. Notwithstanding the fact that we think that we're seeing small increments of demand growth particularly in Asia right now. So if you look at our best guess of Q2 over Q1, we would estimate that there is 5% in methanol demand particularly in Asia quarter-over-quarter. Having said that we wouldn't see the same phenomenon in Europe and North America. So the way I look at it, I think there is very little visibility in the marketplace today. And people are talking about green shoots and of course I think we are seeing some evidence of green shoots. But it's very, very difficult to get very good visibility. So things I'm looking at is industrial production. I think industrial production will be very beneficial for our company and I also believe personally that if we see some industrial production I think that will probably tend to put pressure on oil prices. As I mentioned before I think higher oil prices are really good for us. They are good for us in the sense that it increases demand for methanol in the energy market. It tends to increase the cost structure of our competitors, because our competitors use energy based feedstocks to make methanol. And so I think that high oil prices for us is a very, very good thing. So it's a combination to me [indiscernible] of industrial production and higher oil price. Of course we keep an eye of the cost structure of the Chinese methanol industry. We think this is cost curve industry which has been evidenced by the shutdown of high cost capacity in China. So the cost curve for China is also very, very important to us. So as you mentioned Fai, we keep an eye on the cost structures of China and the cost structure of China is based on coal. So coal price is obviously very important.

<Q>: In terms of China, being an importer of methanol, this year it's been an important importer. And I think there has been some industry chatter about countervailing duties, potentially trying to impose some countervailing duties. What's the risk of that in your view and how would you react?

<A - Ian Cameron>: Well just to give you a little bit of history, if you look at over the last say seven or eight years, there is about 1 million tons of methanol that's been imported to China. And demand of course has grown tremendously in China and that increment has been satisfied by domestic production. So at the end of third quarter of last year we would have estimated there would have been 1 million tons of – on an annualized basis of imports and 10 to 11 million tons of domestic production in China.

However, we've always said that China is a high cost producer and if there was – and behind the cost curve and if there was going to be restructuring because of lack of demand it would likely take place in China and that's exactly what's happened. So if you look at the last few months, as I mentioned in my – the formal part of my presentation, there is about, it's been about 6 million tons of high cost capacity in China that has shutdown due to economic reasons.

So to sort of give you a little bit of background, to elaborate on Fai's question, there has been a couple of domestic methanol producers that have made a complaint around anti-dumping of methanol into China as a result of the fact that there has been a significant increase in imports. So today on an annualized basis imports into China is about 6 million tons, sort of replacing the shutdown of methanol, of domestic methanol in China. I think – you know it's very hard to predict the outcome Fai. But I think things that are in our favor is one that methanol is a fungible product, it's traded globally.

The market price is based on supply and demand fundamentals, always has. And in fact today China has the highest, it is one of the highest anyway methanol price regions in the world. The problem for China is that they also have the highest cost of methanol in the world. So that is the challenge and of course I think our strategic benefit as a company is that our assets are located at the low end of the cost curve.

<Q>: Can you talk about – sorry. Can you talk a little bit about changes in Trinidad and any opportunities that there may be in Trinidad?

<A - Ian Cameron>: Well just to give everybody a little bit of background. We have two plants in Trinidad. A big plant called – a big plant, 1.7 million ton plant and a smaller plant 850,000 ton plant. The bigger plant we own in connection with BP, so we own 63% of that plant and our ownership positions around the lean times and the other plants 850,000 tons plant.

The big plant is underpinned by a gas contract that goes up to 2025 and the Titan plant gas contract expires in 2014. So the big priority for us right now is to ensure longevity of the Titan plant and the good news is that we think that the fundamentals in Trinidad are very good. With the issues around L&G we think the supply of length, gas supply length

in Trinidad and it's an opportune time to start to think about renewing the contract. And we do know that there has been evidence, there has been some competitors that have been able to extend gas contracts recently. I mean I think it's the right time right now. We think the better time just try negotiating an extension is closer to 2014. But I would say that we very confident that we will be able to extend and achieve a good result in Trinidad.

The other thing that we are doing is we are taking opportunities to go through these turnaround exercises, through the bottleneck and we think that we will achieve as a result of these two turnarounds 200,000 tons of additional low cost capacity and if you think about that in the context of today's methanol price. If you think about the variable cost of that 200,000 tons and save \$100 a ton, and you have a \$100 margin, well there is \$20 million of additional margin that's been achieved there. So we feel really good about our Trinidadian assets, operating really well. Really, rally first class assets, well located, short supply chain to the United States, short supply chain into Europe.

<Q>: In one of your slides you showed GeoPark next year. I think there is a decline in the number of wells drilled this year and this is a pickup next year. Can you maybe explain year-over-year change in terms of the wells you drilled for GeoPark?

<A - Ian Cameron>: Well GeoPark is an entrepreneurial company and it is fun working with them because all they care about is making money. They move very, very quickly when they take action and when they take action and drill they've proven to be successful. The challenge with GeoPark is like a lot of small E&P companies, is that they are capital start and when you have an economic environment like we are in today, getting capital has been very difficult.

So, the reduction in the capital available for drilling activity has reduced a little bit and that's caused there to be small decreases in the amount of drilling activity in 2009. But we do expect that to increase again in 2010. As a matter of fact GeoPark just raised \$11 million in equity and we think that there will be other opportunities for them to achieve additional financing, continue their drilling and we are very hopeful that they do, because they've done such a good job for us.

<Q>: And do you see opportunities to maybe help GeoPark if they do need capital – continue to be capital constraint going forward?

<A - Ian Cameron>: Yes we like the model we have today. So the model we have today, we've lent them money and they repay us by delivering gas. And as I mentioned we exclusive rights to all the gas that they produce at a predetermined gas price formula. So that's a model that we think works really well. So we are working closely with GeoPark and we would consider potentially providing them with small amounts of additional capital if it allowed them to drill more quickly and actively.

<Q>: Great, good returns on those?

<A - Ian Cameron>: Excellent returns, excellent returns.

<A>: Well –