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Methanex Corp. (MEOH)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Sandra Daycock

Director-Investor Relations, Methanex Corp.

So, you've all received the agenda today in the folders provided. We'll be having six presentations from members of our senior leadership team. There will be a 15-minute break at 10:00; you'll have the opportunity to grab some coffee in the foyer and after the session, we invite you to join us for an informal lunch. It would be an opportunity to ask further questions to the management.

Regarding the flow of the day, we've allowed 5 to 10 minutes of questions after each presentation, and then at the end of the six presentations, we'll have a longer Q&A period with John Floren.

We have five members of our senior management team here today. I'll introduce each of them. Vanessa James, who is our Senior Vice President-Global Marketing and Logistics; Paul Hexter is the President of Waterfront Shipping Company; then we have Kevin Henderson, who is Senior Vice President of Manufacturing; Mike Herz, who is Senior Vice President, Corporate Development; and Ian Cameron, at the end, who is our Senior Vice President, Finance and CFO.

We're also happy to have two board members joining us today; Benita Warmbold, who is right there. She joined our board of directors in 2016 and she serves on the Audit, Finance and Risk Committee as well as the Responsible Care committee. Benita was senior managing director and CFO at Canada Pension Plan Investment Board from 2013 until her retirement in 2017.

We also have Doug Arnell. Doug joined Methanex also in the fall of 2016 and he serves on the Corporate Governance and Public Policy committee. He's the President and Chief Executive Officer of Helm Energy Advisors, a private company he founded in March 2015 that provides advisory services to the global energy sector, and prior to founding Helm Energy, Doug was the CFO of Golar LNG Limited, a U.S. company focused on owning and operating LNG midstream floating assets.

We encourage you to meet each member of the executive team as well as Doug and Benita over lunch once the formal part of the meeting is completed.

So, before I turn the meeting over to John Floren, I'd like to announce that this will be my last Investor Relations event. I'm moving to a new role in the company, Director of Corporate Development, and I will certainly miss my interaction with all of you and the excellent relationships we've fostered over the last five years. I'm leaving you in good hands. Dean Richardson, who unfortunately couldn't be here today, but has been with Methanex for many years in a number of senior financial management roles will be taking the role of Vice President-Treasury and Investor Relations. He's assuming responsibility November 1, and many of you may remember Dean as he's been actually out at a number of Investor Relations events in the past.

Kim Campbell, who's also here today, has joined the Investor Relations team as Manager-Investor Relations, and will be supporting Dean.

So, I'd now like to introduce you to John, who most of you know, President and CEO of Methanex. He joined Methanex in 2000 and has been CEO since 2013. He brings more than 30 years of international and management experience in the chemicals industry, and during his tenure as CEO, he's been instrumental in

executing initiatives that have doubled the production capability of the company, and has been unwavering in his commitment to disciplined capital allocation.

With that, I'd like to welcome John Floren.

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Thank you. Good morning, everyone. Thank you for attending our Investor Day here in Toronto. We appreciate – this is a major time commitment particularly for those who have traveled here, and I hope that you'll find the presentations to be useful in expanding your understanding of the company.

This is our standard reminder to our remarks today contain forward-looking statements and non-GAAP measures. You can refer to the slide at the end of the presentation which has been posted on our website for more information.

Before we move to the detailed presentations, I'd like to review our investment thesis and our company's strategy. Each share of Methanex represents an investment in the global methanol market leader. We have the leading market share, competitive assets and a franchise value that is difficult to replicate.

Methanol industry and fundamentals are positive, with a healthy demand growth outlook and unlimited new supply entering the market through the end of the decade. We have some low capital cost growth opportunities ahead of us in Chile as well as some optimization opportunities at some of our other plants. At the same time, the methanol market continues to grow, helped by strong demand from existing applications, as well as several emerging markets for methanol.

We believe Methanex represents excellent value for investors, as we are trading at a discount [indiscernible] (01:05:02) replacement cost with an attractive free cash flow generation capability. The company has a track record of giving back excess cash to shareholders, with over $1 billion of free cash returned since 2012, through dividends and share repurchases.

Our vision of global methanol leadership has been an unwavering goal. Since the company's inception in 1992, we've had a clear, consistent strategy to achieve this vision. Through the strategic pillars of leadership, operational excellence and low cost, we strive to create a sustainable competitive advantage for unmatched security of supply to our customers. Under the umbrella of this strategy, we've made investments to develop the company with competitive assets that enhance our global position.

At Methanex, Responsible Care is the core of everything we do. This means we adhere to the highest principles of health, safety, environmental stewardship, product stewardship and social responsibility. We strive to have a positive, sustainable impact on the communities and environments in which we live and work. Our 2016 Responsible Care and Sustainability Report was published in June and I encourage each of you to read it on our website in order to learn more about our approach to Responsible Care.

Mike Herz will discuss today our competitive advantage which is enhanced through market leadership. With approximately 14% market share, Methanex is global market leader and roughly double the size of our next largest competitor. Another key aspect of our market leadership is having a global presence across all major global markets.

As Mike will discuss, our global supply chain gives us enormous flexibility and agility to deliver on our commitments to our customers. Although size is important, we believe that it is leadership that is more impactful as this allows us to lead all aspects of the methanol industry, including market development, safety, product stewardship and responsible care.

Operational excellence is a second core pillar of our strategy, and Kevin Henderson will address the strategic initiatives the company is pursuing in the area of reliability and safety. Reliability is important not only for continuing to provide secure supply to our customers, but also for enhancing profitability as the last tonne produced is the most profitable. We believe safety and reliability go hand-in-hand.

The final pillar of our strategy is low cost. Competitive low-risk assets are at the center of this objective. Our production has more than doubled since 2010 and this has allowed us to achieve significant operating leverage and reduce our cost structure.

Our growth has been concentrated in low-risk jurisdictions including New Zealand, Canada and the United States. The responsive cost structure is also critical because it allows us to stay competitive when it matters the most, at the bottom of the price cycle. More than half of our gas costs are linked to methanol prices. Our freight costs move with oil prices and our supply chain is flexible. Finally, a strong balance sheet and ample liquidity also support our low-cost goal. Our financing cost structure is underpinned by an investment-grade credit rating.

Over the past five years, we've invested over $2 billion to grow the company, and we returned excess of $1 billion to our shareholders. These investments expanded our capacity to generate cash while reducing our share count. As a result, our production per share has more than doubled in this time period. Potential capacity is even higher as a result of the very low-cost capital investments we anticipate making in Chile.

I hope you enjoy the presentations today, and I'll be back at the podium to answer questions at the end of the morning. With that, I'd like to turn the podium back over to Sandra to introduce Vanessa James.

Sandra Daycock

Director-Investor Relations, Methanex Corp.

Thanks, John. So, I'll be introducing Vanessa. She's the Senior Vice President of Global Marketing and Logistics at Methanex and she's been with Methanex since 1995, and she was appointed Senior Vice President in 2013. Vanessa provides leadership and direction on global marketing and logistics, as well as to Methanex's wholly-owned subsidiary, Waterfront Shipping, and she also is responsible for executive oversight for New Zealand.

So, with no further ado, I welcome Vanessa to the stand.

Vanessa L. James

Senior Vice President-Global Marketing & Logistics, Methanex Corp.

Good morning, everybody. So, in my presentation this morning, I'll provide a general market overview of methanol and a deeper dive into the methanol demand and supply fundamentals as we see them currently. In particular, we'll take a look at China, the market developments in China, in particular, Methanol to Olefins industry, or MTO as we call it, which has been a key driver for methanol demand in the past several years, as well as reviewing demand development for new emerging applications as we see them.

On the supply side, we'll take a look at our views on capacity additions inside and outside of China and finally, we'll review the implications for the industry dynamics for methanol price environment going forward.

So in 2017 to-date, we've seen strong, continued demand for methanol, driven largely by new MTO capacity which has been added since 2016. But despite this new MTO capacity addition, we did see a decline in demand from that segment in the first half of 2017 due to the technical issues in a number of those plants. Traditional demand, however, has been strong with growth, in the range of 4% to 5% year-over-year, and this is being led by formaldehyde and acetic acid due to healthy construction applications. Other segments have shown strong growth as well, such as methyl methacrylate chloromethane and silicon, all driven by stronger global economic activity.

On the supply side, the industry outside of China was constrained by a number of supply outages in Southeast Asia, Trinidad, United States; and in China we saw supply impacted by the spring turnaround season. But as we've moved into Q3, our supply has improved, which is typical for this period due to lower gas constraints in the end of the Chinese turnaround season.

Nonetheless, today, we still see inventory levels in China remaining low, suggesting that the high supply has been absorbed by healthy demand across traditional and energy applications, and as Chinese MTO operations have returned to production. So, as a commodity, the price of methanol is cyclical and however, within those cycles, methanol pricing has been more volatile within the last two years.

This volatility primarily reflects changes in MTO operating rates since 2013. During that time, the MTO startups have been considerable and it's not unusual, as we've seen, for plants to have reliability issues in the startup phases because of the size of the individual MTO plants, with each plant on average having a methanol consuming capacity of about 1.4 million tonnes.

So, relative to the overall size of the market or rather demand applications, an unplanned outage can cause sizable short-term demand fluctuations which in turn impacts the price of methanol. So, in Q2, this year in particular, we saw seven different MTO plants take downtime for periods varying in duration which corresponded obviously with a sharp correction of methanol prices at that time.

All but one of these plants have since restarted in Q3 and we've witnessed the recovery in the China spot market. So, what we also see is three new MTO plants scheduled for completion in 2018 and so, we do not believe we've seen the end of this pattern of pricing volatility. But what is important is that the overall demand outlook for methanol is very robust.

So, today, approximately 54% of methanol demand is what we would call traditional chemical demand because these applications historically have made up the majority of demands. So methanol was used in the production of chemicals like formaldehyde, acetic acid, methyl methacrylate, which in turn are used in consumer and industrial products. So because of the diversified use for methanol, demand for methanol into these applications is growing at roughly the same pace as the global economy. So we continue to see strong demand in new segments, and it will continue to comprise just over half of total methanol demand as we head into 2020.

So MTO has been growing at very strong rates, and we expect by the same timeframe in 2020 to see this segment represent about 18% of global demand. We'll talk about MTO in more detail coming up, but it's important to note that there is no growth assumed in this chart from any new MTO plant other than those already under construction.

So the remainder of methanol demand from other energy applications including direct fuel blending, MTBE and biodiesel. Growth in these fuel segments has remained strong, in line with growth in gasoline demand. But there

is still considerable future potential for stronger growth, as methanol benefits from being a cleaner burning fuel, particularly in China, which has become the more important driver as we go forward. So IHS' overall forecast is for 5% annual growth rate for methanol between now and 2020.

So, MTO has led methanol demand growth globally, and in China over the past several years. It's now the largest – single largest end-use demand for methanol in China today. So the slide shows the rapid increase in MTO demand since 2014 and it also shows the variation in operating rates that we've seen in this industry.

As mentioned, this industry is relatively new, and has undergone some technical issues. This was certainly the case for the first half of this year, when we saw as many as seven large facilities take downtime for plant maintenance or for technical issues, which pulled out approximately 1.3 million tonnes out of our roughly 70-75-million tonne market.

So, we continue to see these three new plants progressing to completion with an expected startup during 2018, which would represent more than 3 million tonnes of new demand potential, operating at full rate. There are a number of other announced projects representing a potential second wave of MTO plants and although we don't include any of this potential demand in our forecast, these new projects continue to gain traction.

So, what is key for MTO plants, and what also differentiates the coastal MTO plants is that the majority of these MTO units that are operating today are integrated downstream through the – beyond ethylene and propylene. The vertical integration has been a key strategic driver for these MTO players in that the level of integration enhances risk diversification due to the cyclical profitability of many of the markets along the chemical production chain.

The slide highlights the extent of the integration of the 10 MTO plants operating today, into various downstream products. It highlights that the profitability of each of these plants depends on the product price of a wide range of chemical downstream product [ph] routes (00:16:55) each with its own market drivers and pricing.

MTO operations were tested in a low-oil environment in 2016 and in a higher methanol price environment that we saw in Q1 this year. High operating rates were observed for MTO plants without technical issues, all plant maintenance and both of these price environments. The key point being that the extent of integration of this type of operation not only provides resilience to earnings, but also it makes the calculation of affordability for methanol into the process a more complex one.

So, we are methanol producers; we're certainly not the olefins industry experts, but some of you may recognize this slide from Lyondell's recent Investor Day presentation, which they've permitted us to use. So, there are a number of new ethylene and polyethylene facilities recently started or currently under construction in the U.S., and they are expected to increase global olefin supply in the 2018 timeframe and result in somewhat of a lower operating rate during that period. While there is some variability amongst experts around anticipated operating rates in 2018 and beyond, most do point to operating rates dipping in 2018 and then returning in 2019 to current levels or higher.

So, delays in any of these new projects, combined with unexpected announcements such as what we recently witnessed with the ban of import recycling plastics into China, can further change this outlook. So, in the chart, the dark gray line represents the range of consultants and Lyondell's expectations for operating rates, while the blue shaded area typically highlights the range from 90% to 94%, representing the transition zone where most consultants think the market would be described as balanced.

So, overall, we expect the impact in 2018 to be short term, and already, the industry is anticipating higher operating rates post that period, which, we believe, is positive for MTO producers.

So, if we move off of MTO and talk a little bit about the three major emerging energy applications where Methanex is actively involved in promoting growth, these include marine fuel, fuel blending and methanol to power applications.

Our involvement as a company has ranged from investing in new technologies such as the case of marine fuel, to partnering with other organizations and governments in the development of standards and best practices for handling methanol which, we think, is vitally important as is the case of fuel blending, and power applications. But other than fuel blending, there is limited demand today from these applications, but they do represent a significant upside for shareholder value as the potential market size for any of these segments fast surpasses the methanol industry size today. So even a small penetration into one of these markets would be material demand growth for the methanol industry.

IHS' forecast – demand forecast did not include any demand for marine or boiler applications before 2020, which we think is appropriate, but we are often surprised to the upside on the pace of demand growth in certain applications as we saw with MTO. Further, despite relatively low oil prices, these initiatives continue to make progress, largely driven by the clean-burning aspects of methanol as a fuel.

So, a promising area for methanol demand is at the cleaner marine fuel. We've seen this develop as the IMO or the International Maritime Organization, has reduced sulphur limits allowable in marine fuel and by 2020, this limit will be 0.5% globally.

Currently, the predominant shipping fuel is heavy fuel oil, which doesn't meet the sulphur limits and as we know, methanol is a sulphur-free fuel. The IMO and other countries like China are phasing in further regulations to further reduce sulphur, NOx and particulate matter from marine fuels over the next few years. So, methanol as a fuel is commercially ready today and further significant interest is developing globally and has been supported by a number of projects that we'll talk about.

So, in 2016, Waterfront Shipping, in conjunction with its partners, welcomed the world's first seven flex-fuel clean-burning, fuel-efficient vessels. I'm not going to spend time talking about it as our next presenter, Paul Hexter, the President of Waterfront Shipping will come along and talk about our progress and the results from using methanol as the marine fuel in those vessels.

So, in addition to the ocean-going vessels and ferry markets, there are a number of other marine market segments currently being explored as a potential for methanol. So we're now seeing engine optimization work in smaller vessel demonstration programs being developed in Europe, China and Singapore. I won't go through all the ones listed, but just some for an example, in the large-engine market, the German government is funding the MethaShip Project to support further commercialization work for new methanol cruise ships and roll-on/roll-off passenger ferries.

In the smaller engine market which includes tugs and barges, Methanex is involved in the LeanShips Project which is sponsored by the EU to support commercialization of smaller methanol engines. Finally, Singapore based [ph] Methanol Miles (00:22:23) is scheduled to launch a methanol fueled harbor tug at the Port of Singapore in the first-half of next year and they have plans to launch a number of other methanol fueled boats in the Port of Singapore over the coming years.

In China, we continue to work with the Ministry of Transport and other stakeholders to develop methanol ships [ph] fuel pilot (00:22:42) to support the development of methanol in marine fuel standards. It's very hard to estimate the total demand potential into the segment as the pace of adoption of methanol as a fuel will really depend on the pace of methanol as a fuel versus other competing fuels or technologies, its relative economics and some other factors. But today, this segment does represent a material demand in our forecast; however, total marine fuel global market prices have been estimated at 650 million tonnes. So, even a small percentage of this global market would represent material demand change for methanol.

So, there is growing recognition of the clean-burning aspects of methanol as a fuel and this is driving growth in methanol and high-level blends. China in particular, has a high-blend methanol vehicle pilot program which focuses on methanol blends of 85% or pure methanol 100% blend. This has grown into five provinces currently with a further expansion planned in 2018. These programs are initiated by the Ministry of Industry and Information Technology and has shown positive results from emissions, the technology, fuel economy during this pilot program.

And the MIIT is also developing comprehensive set of standards for high blends such as in M85 and M100 methanol-using vehicles and we're collaborating with them on that effort.

Our low-level blending also continues to grow with the main growth driver being the growing demand for gasoline in each country and today, in China, 16 provinces have low-level blending standards in place for methanol. So, we believe we're going to – we'll continue to see steady increase in fuel blending initiatives and use in China.

So, I know you've seen this chart before, but it just highlights that several countries outside China are in the assessment or near-commercial stage for fuel blending. However, as noted, we do have minimal demand included in our current forecast for these regions. And just some examples; Europe today is blending methanol into fuel where up to 3% blending is permitted and in 2016, the United Kingdom announced a significant fuel tax incentives to support high-level methanol blends.

New Zealand just recently announced new fuel specifications allowing 3% methanol blends and gasoline [ph] full (00:25:11). Probably, the most advanced outside of China is Israel where the standard was approved for [indiscernible] interesting blends late (00:25:18) in 2016 and has a total market potential of close to 0.5 million tonnes and Israel continues to test higher blends at the same time. And in North America, the Open Fuel Standard Bill, which will allow methanol to be used as a flexible fuel was recently reintroduced into Congress.

So, in China, stricter environmental regulations are leading to a phase-out of coal-fired boilers. Methanol is an alternative that is already being used today and it is competitive with diesel and natural gas. Currently, around 0.5 million coal-fired boilers exist in China and in the three Emission Controlled Areas, which are in place in China today, and which is where we're focusing our efforts, there are more than 100,000 coal-fired boilers alone. So if 5% of those 100,000 boilers are converted into burning methanol, methanol demand would be over 5 million tonnes.

So, already today, we estimate that there is around 1.5 million tonnes of methanol demand being used in industrial boilers today. So, we're working closely with industry associations and key players to develop standards to ensure that the industry develops at a healthy and sustainable way. We've also partnered with key organizations to develop a demonstration project in Beijing to highlight the operation of methanol as a boiler fuel to look at the emission and cost benefits.

So, a demonstration project started in November last year and the results – and it's running well and the results have been positive. The test results show that NOx emissions were 10% below the required threshold and SOx emission 70% below the threshold required by the government.

So, switching now to look at industry balances. If we can compare the demand forecast from IHS Chemical to our industry-expected capacity additions over the next four years, you'll see that demand growth outstrips new capacity over that timeframe. The new capacity outside of China on this slide includes just over 4 million tonnes of capacity in Iran, OCI's Natgasoline project in Texas, Yuhuang Chemical's project in Louisiana, a small plant in Russia and approximately 1.5 million tonnes in other regions.

Other announced projects in the U.S. have continued to progress, but with limited committed capital to-date. We attribute the slow pace of these projects to the continued high-capital cost environment in North America, and the current low energy and methanol prices. So, we believe that these projects are challenged to meet the required returns at current methanol prices and are likely having difficulties securing financing.

With some new capacity being added in the U.S., we do expect exports from the U.S. to grow. However, we also continue to expect an ongoing level of import into the U.S. given such considerations as customer-supply contracts, as well as impacts such as the Jones Act for vessels.

For the global market and the growing Asian market, even with the addition of [ph] Chile molecules (00:28:28) into our system, we would expect to continue to export products from the U.S. to optimize our supply chain and serve our growing Asian customer base. So, our expectation is that continued strong demand will require higher cost capacity to run in China to balance the market.

So, if we talk for a few moments about where we are seeing this capacity be added, given the abundance of gas reserves in Iran, in particular, for many years it's had a long list of potential methanol projects announced. Currently, today, there's about 5 million tonnes of capacity that does run at variable rates due to seasonal gas shortages, and often with technical or marketing constraints.

As we look into 2018, we anticipate two plants worth 4 million tonnes of capacity will start up. We know there are other projects at various stages of progress with uncertain completion or uncertain timing for start-up.

Iran has recently announced a cancellation of a number of these projects as they undergo a strategic review in Iran and accordingly, no new approvals will be given for new methanol projects. So, continued political uncertainty in the Middle East and the remaining sanctions risk for the U.S., as well as the significant investment required in the South Pars oil field, which supplies most of the methanol plants today, just highlight some of the key challenges for methanol industry growth in Iran.

Given the importance of China to the methanol industry, the next few slides will focus on this market for a bit of a deeper understanding on its scale as well as its complexity. From an overall industry supply perspective, China supplies almost half the world's methanol, but it's typically consumed almost within China completely and going forward, China is expected to be a continuing growing net importer. This year alone, China will import about 8 million tonnes.

Despite having roughly 56 million tonnes of capacity, China produces only about half that amount. The reasons for this vary, including lack of feedstock, lack of redundancy in plants that allow continuous operations, dated technology, which doesn't meet current environmental standards and overall lower reliability of the plants.

So, as the slide highlights, the capacity reflects 175 plants across the country in 25 provinces, but they all tend to be smaller plants. Today, we'd classify a world-scale plant as a 1 million tonne plant. Over half the plants in China have a capacity of less than 200,000 tonnes. Also, there's a large proportion of capacity inland and in regions such as Inner Mongolia, but the demand, however, is concentrated in the coastal region, which makes logistics difficult, as products must be transported by rail or trucks across large distances.

So, within China methanol plants typically consume one of four key feedstock, which is a key driver of its cost position and therefore overall industry operating rate. What we see is that thermal based coal capacity is the largest capacity and represents over 50% of all domestic capacity in China. Supplementing this is the higher cost natural gas production as well as coke oven plants and anthracite based coke capacity.

Operating rates as a percentage of effective capacity are higher than nameplate rates suggest – you can see from the slide that most of the capacity that's not operating today is from higher-cost feedstock, in particular, anthracite coal and natural gas. So, this suggests that any increase in operating rates required to balance market demand will be at the high end of the cost curve.

So, methanol policy announcements from China over recent years have been targeted at reducing over-capacity and inefficiency in the industry, such as prohibiting standalone base methanol plants with an annual capacity of less than 1 million tonnes from being built and no new natural gas based plant. So, we've seen a steady decline in the pace of additions in China over recent years.

There are 9 million tonnes of announced capacity additions in China out to 2021. But you'd have to say post 2018, any new capacity, and its timing is more speculative given often the delay, the cancelations of these projects that we see with the timeframe post the 2018 startup, given how early in the phase of development they'll be.

So, most new capacity additions are small expansion projects to existing plants or they are integrated with downstream demand and we also expect capacity rationalization of the inefficient technology consistent with Chinese. China's 13th five-year plan to occur and so while most of this capacity is not operating today, we therefore expect it not to be able to restart.

So, given the combination of demand forecasts and supply outlook, we expect China operating rates will need to increase over time to balance the market. As we've highlighted, there's limited potential to increase coal production due to government-imposed regulations on new methanol plants and tightening environmental regulations. So, this implies that higher cost capacity will be required to operate at higher rates to balance the market.

So, with the industry cost curve in China today, we've provided an outlook of the Chinese methanol cost curve for Q3. So what we see from this slide most importantly is that, the China cost curve provides a solid price floor support in a low energy environment. So there's approximately 15 million tonnes of capacity that have costs above $260 a tonne with a cost curve range in Q3 at the high end of the range being somewhere between $280 and $320 a tonne.

So today, the natural gas producers and the high-cost coal producers are the marginal price [indiscernible] (00:34:46) on the cost curve sitting at the steep end of that cost curve. A key factor in China production cost is obviously the coal price. Methanol from coal production is not the high-end of the China cost curve but rather sits at the middle floor range. So, the Chinese government institute has measures to support coke prices back in April last year and these measures, combined with stronger-than-anticipated demand resulted in a rapid increase in coal prices.

So at the beginning of this year, we saw the government announced a targeted range of RMB 500 to RMB 570 a tonne for coal and so the policy drivers are complex, and it's been likened to somewhat of a goldilocks policy. It's not too high and not too low, but ultimately targeting a range where most coal mines remain profitable, but electricity prices remain affordable.

So, it's hard to predict the methanol prices, which is why when we look at our future financial performance, we look at it as a range of methanol prices. Ian Cameron will come and discuss in a later presentation, Methanex is well-positioned to generate strong cash flows at a wide range of methanol prices.

So, this [ph] chart (00:36:03) slide shows the factors that would result in positive upside to methanol prices, along with those that could pressure pricing. So generally, we look at price in a range bound by the floor set by the cost curve, which is dependent on import costs for methanol and affordability for methanol, which in today's market is influenced by energy prices and various downstream energy derivative prices. So supply factors such as capacity additions, delays, and gas availability also play a role in determining the shape of the cost curve.

So, in summary, we believe the outlook for methanol demand is robust and methanol demand is forecast to outpace GDP growth rate. This growth is led by energy and MTO-related-demand growth, which is expected to be almost 50% of methanol's global demand by 2021. Strong MTO demand is supported by downstream product integration with a positive olefins industry long-term outlook.

As the industry grows, capacity is being added in key locations such as the U.S., Iran and China, and each of these locations have different challenges for growth from higher capital costs in the U.S. to operational and political risk in Iran.

There are positive developments in many emerging uses for methanol, including as a marine fuel or methanol to power, where demand is relatively small today, but it has significant upside potential driven by the clean burning and environmental benefits of methanol.

So, overall, we remain positive about the outlook for methanol and its continued growth. So, thank you.

QUESTION AND ANSWER SECTION

Joel Jackson
Analyst, BMO Capital Markets (Canada)

Q

Hi. It's Joel from BMO. Just, as I'm going through some of your demand projections, it seems like if we go to your math, you're expecting about a 7% demand CAGR for methanol over the next three years, maybe 4% to 5% for traditional uses. That's my first question. And then in 2020 with the Yuhuang plant coming on later, you've got the U.S. being [indiscernible] (00:38:38) or North America being [indiscernible] (00:38:39) methanol. How might that play into trading pattern shifts in price and then in basic premium, things like that? Thanks.

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.

A

Okay. So firstly, in terms of demand growth, the forecast overall for traditional and all that applications from methanol list is 5%. So, through 2017, through 2018, it's 5% for the overall for the whole industry, if that wasn't clear.

Joel Jackson
Analyst, BMO Capital Markets (Canada)

Q

Well, but just in your chart, analyzed demand is about 70 million tonnes...

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.

A

Yeah.

Joel Jackson
Analyst, BMO Capital Markets (Canada)

Q

...and you're showing 70.5 million tonnes of the methanol demand over three years. That's a 7% CAGR.

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.

A

Yeah, okay, I'm not sure how the numbers all stack up that way, but the forecast we're using from IHS has a 5% demand, so there might be a bit of a blend of what we've got versus what IHS has got.

Joel Jackson
Analyst, BMO Capital Markets (Canada)

Q

Okay.

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.

A

Capacity in the U.S. being added. So yes, once Natgasoline comes on and assuming Yuhuang comes on in the timeframe, the U.S. will become a net exporter. The demand – the capacity in the U.S. will exceed the demand, so we would expect exports from North America to continue as we're already seeing today across basins so that will just continue over the years.

In terms of basin balance pricing and differentials, that remains to be seen. There's a lot of theories out there as to what will actually happen to basin balance differentials. Today we'd say the Middle East still fits that differential and we're seeing that going forward. That may switch to the U.S., and it remains to be seen what will impact – what will happen to that absolute differential.

Daniel Jester
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. Hi. Dan Jester from Citi. You talked about the second wave of potential MTO; so, what are some of the catalysts that you think are going to be required for that to go forward, and how does that compare today to building new CTO capacity or building new naphtha crackers? Thanks.

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.

A

Yeah. I think if you look back at when most of the MTO capacity was built in what we call the first wave, we were in a different oil environment; we're an $80-plus-oil environment or even a $65-oil environment. MTO had clear advantages. Today, in the energy price environment we are in, obviously, MTO is not as advantaged and naphtha cracker is probably more advantaged.

So, we see people taking the time to look at either further investment in an MTO/CTO or naphtha cracker, but it's an uncertain investment environment and while there is a second wave announced, I think what we're seeing is people take a pause and evaluate market conditions before they proceed further.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Thank you. Matthew Blair, Tudor, Pickering. Vanessa, you talked about the three new MTO plants coming online; could you share your expectations for the operating rates of the existing MTO plants over the next few years with this new low-cost ethane cracking capacity coming online? Thanks.

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.

A

Yeah. I think what we highlighted is that in the presentation is their expectation that there is likely to be pressure on operating rates for MTO players as this new capacity in the U.S. comes online and exports. As to what the absolute operating rate will be, that's hard to say, but what we've seen in there, in both a high-price methanol environment and a low energy price environment is these plants have operated at high rates. So, while we may see some dip in operating rates, we believe, personally, that they'll continue to run well.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Thank you.

Nelson Ng
Analyst, RBC Dominion Securities, Inc.

Q

It's Nelson Ng from RBC. In terms of the methanol blend – fuel blending and also switching from coal to methanol for the boilers, can you just talk about the economics or are there any economic incentives for them to do so?

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.
A

No. The main driver for particular investor of the boiler conversion has been the environmental aspects of it. What we've also seen from the trials is that it is cost-competitive or economic compared to diesel or Natgasoline – natural gasoline. So, that economic advantage exists today as we've seen from our trials.

Nelson Ng
Analyst, RBC Dominion Securities, Inc.
Q

And is there a significant CapEx required to switch from coal to methanol on the boiler side?

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.
A

No. The boiler requires just a new combustion – gosh, I forgot the word – anyway – thank you, injector, and that's a small amount of capital, not significant. And the only other requirement is a storage capacity for methanol. So conversion costs haven't been significant.

Nelson Ng
Analyst, RBC Dominion Securities, Inc.
Q

Okay. Thanks.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Good morning, Vanessa. Hassan Ahmed, Alembic Global. Two questions around China. One is just the other day, I was reading an article about, I believe, 11 provinces in China now testing ethanol on the fuel blending side of things. So, just your thoughts about whether that sort of eats up some of the market share that you guys may have? How we should think about fuel blending? I mean, you spent a fair bit of time talking about MTO, but not much about fuel blending. So, that's one side.

The second is around pollution. So, as it pertains to China, again and again, most of the chemical companies that I speak with talk about how China has become extremely serious about curbing pollution and there's even talk about potential capacity rationalization. So, how do you bake that into your numbers in terms of Chinese supply/demand?

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.
A

Okay. So, two questions there. The first one around ethanol and if you're with us, like you've noted, a recent announcement that's just come out in the recent days, China's got a huge fuel market, so we would say that there's room for all. We have MTBE already going into – to fuel in China as well methanol. So, given the size of the market, there's room also for ethanol. So, ultimately, you may see what we call a GEM fuel into China, but we'll continue to play out given it's a recent announcement.

On the pollution side, yes, currently we're seeing a lot more concerted effort on monitoring plants and plant shutdowns where – for inefficient technology, where there are pollution concerns. So, it's not just on the methanol side, it's also on the demand side in terms of formaldehyde plants and the like. So, yes, China is, yeah, making a much more concerted effort on efficient technologies.

And as we noted, we've got a number – a lot of rationalization assumed in our numbers for Chinese methanol plants, but this is capacity that's not operating today. So, it's capacity we don't assume that won't be able to restart or help to meet, obviously, higher required operating rates in the future.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Thanks.

Q

[indiscernible] (00:46:27) Vanessa, would you mind unpacking the answer about basin differentials? And if you think about the average blended price outside China, are the scenarios that you are thinking about, tilting towards that price moves higher or lower as capacity additions in the U.S. increase the amount of exports from the U.S. and what do you think tilts that probabilities one way or the other?

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.

A

Yeah. So, it's a really hard question to answer. We get asked that a lot. I think until we start to see this new capacity come on, yeah, it's difficult to answer which way it's going to go. You've got Middle East players; they supply Europe and are sticky that way and won't swing, depending on what's going on with base and differentials. So, I think, we're really going to have to wait and see the new capacity comes on to be able to, with confidence, say which way pricing differentials are going to go.

I think, we probably maybe have time for one more question and then we'll move on to the next presentation. I'll just remind you that there's a chance for questions at the end as well.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Jacob Bout from CIBC. I'm not sure if this is the right spot to ask this question, but just how do you think about disruptions on the technology side? I think there was a recent article in one of the scientific journals talk about using gold palladium catalysts lowering the energy cost to produce methanol. Is that a serious threat or are there any others that we should be thinking about?

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.

A

I'm probably not the right one.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Jacob, maybe we'll handle that question with Kevin makes his presentation on manufacturing.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Okay. Sure.

Vanessa L. James
Senior Vice President-Global Marketing & Logistics, Methanex Corp.

A

Thanks.

Sandra Daycock
Director-Investor Relations, Methanex Corp.

A

Great. So, I think, we'll pause here, and we'll take further questions at the end. Thank you very much.

Sandra Daycock
Director-Investor Relations, Methanex Corp.

Okay. Thanks for some excellent questions. The next speaker is Paul Hexter, who is our President of Waterfront Shipping – Waterfront portfolio, a subsidiary of Methanex. Paul manages the world's largest fleet of methanol tankers and is responsible for commercial and operational leadership as well as renewal and expansion of the Waterfront Shipping fleet. Paul became President of Waterfront in 2017 and has been with Waterfront Shipping for over 15 years. Most recently he is commercial manager where he builds and develop relationships with third-party customers and optimize vessel fleet logistics including responsibility for all commercial activity and for backhaul cargos. Paul could you come to the podium?

Paul Hexter
President, Waterfront Shipping Company

Thank you very much. As Sandra said, my name is Paul Hexter. I'm the President of Waterfront Shipping. And thank you for the opportunity to introduce you to what we're doing on the shipping side. During this presentation, we'll give you a little bit of background on what we're doing with regards to the vessels, overall fleet, safety and Responsible Care, and then we'll delve into what probably most of you are most interested in, and that's the methanol as a fuel and our experience so far with methanol as flex fuel.

So, Waterfront is a group of – as Sandra said, sorry, a wholly owned subsidiary of Methanex. We have 17 people within Waterfront Shipping, 16 of us sitting in the Vancouver office, and we recently added 1 operator in the Methanex Hong Kong office. So, we have commercial operations and technical groups and we're responsible for the day-to-day planning of the methanol program and movement, but also any third-party cargos that we fix on the open market, and we have extensive tank cleaning knowledge. We're transitioning between methanol and third-party cargo on a very regular basis, so this tank cleaning expertise is industry leading.

We have long-term relationships with suppliers and customers who help us ensure that we have excellent quality equipment to provide on-time and on-spec service for Methanex and/or other customers. We also have a network of brokers and agents around the world that we use from a shipping side to keep us in touch with the market. But we also use the access they have to knowledge to understand what other methanol movements our competitors are doing, so we can receive market intelligence from them with regards to different production, outages, or product movements.

As Sandra said, we have the largest fleet of methanol tankers in the world. Today, we have 28 ships trading in most areas of the world. We have two small tankers that are trading into Asia from our storage in Yeosu. One is a Korean flagship that can do domestic movements within Korea, the other is doing small parcels into Asia.

This enables us to use the larger ships to do larger drops into storage in Yeosu to speed them up more quickly and then use the small ships for distribution in the smaller ports, but the larger ships couldn't necessarily enter.

Then we have a series of, what we call, handy-size ships. These are the 20,000 deadweight tonnes to 30,000 deadweight tonnes ship. They're performing the majority of the short haul voyages.

Then the remaining 20 are the 45,000 deadweight tonnes to 50,000 deadweight tonnes ships. These are the workhorses of the fleet performing the long haul voyages and the majority of our third-party or backhaul cargos. Seven of those handy- or MR-sized ships, 45,000 deadweight tonnes to 50,000 deadweight tonnes, are the new vessels we took last year, the first-of-their-kind technology with the MAN 2-stroke flex-fuel engines.

Methanex is very safety focused in Waterfront Shipping. Responsible Care plays a huge part of our focus as well. We have Quality and Responsible Care Manager who has developed various safety programs. The tanker industry these days is heavily monitored. It's a very safe industry but we have inspections by government officials, port officials, oil majors, other regulatory bodies all the time.

From Waterfront's perspective, we wanted to add our own safety visit into this and we didn't want to mirror the inspections that we're going on already. We wanted to focus more on the human element. So, in the industry, you see any accidents – or the majority of the accidents tend to be human error or power gap related. So, we developed this safety program or safety visits program to improve the quality of life on board and the safety to make sure that there's the safety culture and that junior officers aren't afraid to speak up if they see an unsafe practice going on onboard.

So, we've seen great results in that and have lot of support from the crews onboard the ships. So, that type of program for us has gone a long way to ensure crew retention. So, in this day and age, there's a draw on the crew availability.

So, to get the same crew returning to your ships over and over goes a long way for the other crew training initiatives we have, but when it comes to the new methanol ships, it's even more important. So, we have returning crew who are comfortable with the technology and experienced in its operation.

So, in addition to the safety visits, we started a program a few years ago called the Methanol Group. And in this initiative, we invite representatives, both commercial and technical, from all of the owners that we deal with, the ship-owning companies, to Vancouver for an open forum where we share best practices and talk about improvements in safety opportunities, near-miss experiences.

And what we found is that the owners, and again, the crew, as a result of this recognized that we're invested in them and in their safety. And it's become a great opportunity to share best practices. Initially, there was some difficulty in getting some of the owners to open up and share incidents. But at the end of the day there's nothing proprietary when it comes to safety. So, they've all been very positive in their contributions.

So, as I said all of these measures are especially important now that we've taken this new technology with the new vessels. So, having the support of the owners and the crew in this experience has gone a long way for us.

So, now I'm going to show you a short video that illustrates the value and the opportunity of methanol as a clean burning fuel. And some of the history and how we came about this decision to go with methanol as a flex fuel.

[Video Presentation] (00:55:54-00:59:02)

Across the globe, governments and stakeholders are pushing for more clean alternative fuel, moving away from the traditional fuel and decreasing pollution. Methanol is a clear solution – or part of the solution to this. We've

seen standards in emissions come under pressure across the globe. And as the video discussed, the IMO, the governing body is imposing more and more strict emission restrictions. So, methanol in addition to being a safe and environmentally friendly alternative, its low emissions and innovative technology, it also provides a flexibility and is widely available today.

Methanol is more environmentally benign than the standard heavy fuel oil or MGO. It's clear, water white. It's naturally biodegradable and dissolves in water rapidly and it's also – it will evaporate. By volume, it's one of the top five commodity chemicals moved globally. So, it's readily available throughout many of the major ports in the world.

The IMO and risk classification societies have created regulations and standards for how methanol can be carried. So, ships are built specifically for the carriage of methanol under the IMO regulations. So, they impose certain parameters, so the tank size and vessel equipment. Methanol is a fuel that's relatively new. So, some of the classification societies, the ones that we worked with for these seven ships have developed standard for the use of methanol as a fuel and how it's stored.

The IMO introduced the low flash fuel code that came into effect earlier this year. And today, it's specific to LNG. But there's work being done today to have additional fuels added to that IGF Code, and methanol is among those. So today, we can carry methanol as a cargo and use it as a fuel under the guidelines prepared by the classification societies that will be approved by IMO in due course.

As we saw on the video, and Vanessa spoke about the IMO and governments around the world are imposing more and more strict SOx restrictions, today, we've seen ECA zones, Emission Control Areas, in the U.S., North America, Canada, and Northwest Europe, in the Baltic. In 2020, we'll see a global ECA, where the sulfur – the SOx emissions will be reduced from 3% in the fuel to 0.5%. So this is going to put a lot of pressure on the fuels that are available today will no longer be able to burn the standard IFO at sea. So alternatives will be needed, and methanol is a good opportunity.

NOx is also under a lot of pressure. So, in the U.S., today, we have very strict NOx regulations. These are going to come into effect in the European ECA in 2021. Today, anything – any new ships built have to adhere to the Tier III regulations. Anything built prior to 2016 in the future will need to meet the Tier II restrictions.

So, today, methanol can achieve – the ships that we have today can achieve the Tier II without any problem, and achieve all of the SOx regulations for any future changes in that regulation.

There is work being done by MAN in the development of opportunities to further reduce equipment needed on the main engine in order for the methanol to achieve Tier III. So, there's some combinations with methanol and water that will eventually enable us to remove some additional equipment on the main engines, so reducing the cost further.

Methanol, historically, over the last five years, has been competitive with the low-sulfur fuels, as you can see here in many of the world's ports where our ships are bunkering. It's been competitive or even more cost effective on energy equivalent when you look at gas oil, the other low-sulfur fuel. Today, in the low-oil-price environment, there's a small disconnect, but it's still competitive.

Post 2020, when we see the regulatory changes, there's some concern whether MGO and low-sulfur fuels will be readily available, whether there'll be sufficient supply to cover the marine industry, and what that will do for pricing. So, we may see the MGO prices come under some pressure in 2020 post the regulation changes.

As we talked about a couple of times, methanol is readily available in many ports. It's transported to many of the ports you can see here, and is – very little infrastructure requirements or changes would be needed to enable it to be used as a bunker in these ports.

Methanol can be stored in any mild steel tank or transported on any barge. So, you don't have the infrastructure difficulties you could have with some of the other fuel opportunities or alternatives.

When we look at the future, these are really the options we have available as an industry. Today, HFO is the main fuel for the shipping industry, but it on its own in the future won't meet any of the regulations we're talking about. So, if you're going to be burning HFO, you'll need to install scrubbers. So, scrubbers is a technology that we don't necessarily believe is a solution for the long term.

MGO, we've discussed. There may be some supply issues come 2020. It will meet all of the Sox requirements and particulate matter requirements but it doesn't do much for the NOx emissions. LNG, obviously, is an alternative and methanol which we deemed to be the most viable and that's why we've gone with the seven methanol flex-fuel ships.

So, as we discussed, in 2016, we took delivery of seven methanol flex-fuel ships. We did this with three owners. We started the project in 2012 and then really got it rolling in 2013 following the concept. But then selecting partners that we believed would be the best for us to work with.

So, we joined with Mitsui O.S.K. Lines of Japan, Westfal-Larsen of Norway and Marinvest of Sweden in the development of these ships. And in 2016, we welcomed them into our fleet. Four of them were built in Korea and three were built in Japan.

Today, we're loading methanol as a fuel every time we load it as a cargo. So, with it being the first of its kind, new technology, our intention is to get the crew on board, the officers and the technical managers on the shore comfortable with the technology, familiar with it and gain as much experience as possible. But also, with it being first-of-its-kind technology, there's also been improvements that have been, being made since we took delivery of the first ship in April of last year.

So, how are we doing? In a word, we're doing well. We're very happy with the technology. As we mentioned, we've had some improvements that have been made and continue to be made. The majority of them are technical and related to the fuel delivery or the secondary fuel delivery system. So, this picture depicts the changes or the additional equipment that are required for the methanol-burning engines apart from the engine itself.

So, when we talk about IMO dictating certain regulations or standards for the methanol as a cargo or a stored cargo, one of the things that they control is that a low flashpoint fuel can't be stored in the engine room. So, you look at this picture and we have a deck tank – methanol service tank. So, because it can't be stored in the engine room, it's stored on deck, and then it's pumped into the engine room through a double-wall piping.

So, it's a fail-safe technology. If there are sensors throughout the system and if there's ever a breach or an alarm, the methanol portion of the delivery system is shut off and the ship immediately reverts to whatever the conventional fuel was it was burning previously.

So, in the early days, we saw a lot of false alarms just as a result of normal engine vibrations. Some of the sensors throughout the system were too sensitive. So, unnecessary sensors have been removed and we've seen less false failures and a more seamless running on methanol.

We continue to have opportunities to make adjustments. It's, as we said, first-of-its-kind technology. So, we'll continue to make improvements and see improvements in our performance as we go on. But all of the learning that we've had are being shared with the engine manufacturer and will go into the next generation methanol engines. So all of the learnings we've had are helping us move in the right direction. We're very satisfied with the technology in spite of the few improvements or the improvements that we needed to be made and we definitely look to methanol flex-fuel engines in the future.

So, on the emission side, here's a display of how we're performing today. We've equated it to heavy trucks off the road. So for every one hour that we're running on methanol, it's the equivalent of removing 33 heavy trucks from the road. You can see that it significantly reduced the SOx and particulate matter. SOx and particulate matter are almost directionally core-aligned or correlated. So, if you're using the low sulfur fuel, your particulate matter will be reduced accordingly.

NOx, we've seen a good result in the reduction of NOx as well. So compared to a heavy fuel oil the sulfur and – sulfur oxides and NOx and particulate matter are quite high in their emissions. MGO because it's 0.1% sulfur content, it's low on the SOx and it's also low on the particulate matter but as we said earlier, it doesn't do much for the NOx. Whereas methanol, we're seeing significant reductions in all three.

As you can imagine, there's been a lot of interest in these ships. We've been recognized – both Methanex, Waterfront have been recognized for leadership and innovation with regards to this technology. There was a Highly Commended Company of the Year award for the same. And then, a number of the ships had individual accolades. We had the Lindanger, one of the ships built in Korea and run by the Norwegians for us, was reported in a maritime magazine for Engineering News. And the three Japanese-built ships all won special technology awards over the course of the last year. So, continue to be interested in the technology.

For us, the next steps, we're pursuing and continue doing advance our learnings. We've got excellent partners in the owners that we've dealt with and the engine manufacturer. So any of the technological changes that need to be done have been dealt with as quickly as possible. Given the duration of some of the voyages that maybe takes a little bit longer to get spare parts or things like that on board, but that's the beauty of it being a flex-fuel engine. So, anytime we've had challenge with the secondary or methanol fuel system, the ships have been able to run on any of the other fuels that they can burn, fuel oil, gas oil, or diesel oil. So it's a great technology and flexibility. So, we'll continue to advance the learnings and collaborate with our partners on that.

The key takeaways from us in this experience, we're very happy with the technology. We knew with them being the first of their kind, there would be learnings and there would be modifications that would need to be made over the course of the first few years. But as I said, we're running on methanol as much as we can and the ships and the officers are gaining experience and will continue to do so.

For next generation ships, we've also – we are looking at methanol flex-fuel engines for those ships. So, I'll stop there, I think. Is there any questions related to the shipping side or – yeah?

QUESTION AND ANSWER SECTION

Michael J. Leithead
Analyst, Barclays Capital, Inc.

Q

Hi, Mike Leithead from Barclays.

Paul Hexter
President, Waterfront Shipping Company

A

Hello.

Michael J. Leithead
Analyst, Barclays Capital, Inc.

Q

How do you think about the conversion costs for ships to use these methanol engines? If I look at your cost competitive in this slide, it looks like methanol is roughly in line with traditional fuels, but I would assume there needs to be a certain level of discount in order to [indiscernible] (01:13:26) people to switch over. So kind of how do you think about that conversion cost for shippers?

Paul Hexter
President, Waterfront Shipping Company

A

Yeah. For us we haven't looked at converting any of our ships with the methanol engines that we have a role on newbuilds, and in the future for us it would be newbuild. I don't know in terms of conversion costs, it could be answered better by...

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

So the experience that we've had with Stena which is a 4-stroke engine from Wartsila were – are the 2-stroke engine, it was about a $4 million conversion cost to go from – to allow methanol to be used in those engines, and I think about what we're doing with newbuilds, as Paul's emphasized, the flexibility of using many different fuels and a ship of these types of size around 50,000 deadweight tonnes cost around $50 million give or take to build and the additional cost because of the flexibility around the engines around $2 million.

So it gives you order of magnitude of what you're facing to build from scratch or to convert, and I think conversion cost for things like LNG and scrubbers are much costlier. So it is competitive on a conversion cost, newbuild as well.

Cherilyn Radbourne
Analyst, TD Securities, Inc.

Q

Hi. Cherilyn Radbourne from TD Securities. I apologize if I missed this in your presentation, but I'm just curious what percentage of the time those seven vessels operate on methanol today, and how high you think you can get that?

Paul Hexter
President, Waterfront Shipping Company

A

So, today because of the ships have been brought into the fleet at different stages, they're not all running to the same level. But four of them are running basically on methanol at sea all of the time now. So, that would continue to improve with the other ships as well. In port, we're running on MGO because of the methanol engine runs at a high load.

And when you're in a stopping and starting environment for berthing and operations like that, the engines stop when they go from forward to reverse basically. So, that would kick the alarm or the safe-fail into consuming the previous fuel. So, when we're moving with import from berth to berth we're on MGO. So, that there's no – that the movement is seamless and no risk of stopping.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

Hi. This is Adam Starr, Gulfside Asset Management. Have your partners in the shipbuilding and ship owning side been making any efforts to market – the methanol-based fuel to third parties?

Paul Hexter
President, Waterfront Shipping Company

A

They're definitely supporting us in our efforts. So, we have, as we mentioned Swedish, Norwegian and Japanese partners. They've all been very helpful with us in terms of what we've done with INTERTANKO and some of the government bodies for submissions for the IGF Code. So, inclusion of methanol into those codes in the future.

We've also had meetings and methanol forum amongst those, where the improvements in the technology have been discussed with the engine manufacturer. And also, they've presented or been involved in other discussions with other shipping companies. But in terms of the marketing, the technology, it's more us that is doing that.

Adam Leon Starr
Managing Member, Gulfside Asset Management LLC

Q

Great. Thank you.

Paul Hexter
President, Waterfront Shipping Company

A

Yeah.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Thanks. Matthew Blair, Tudor, Pickering. The shipping aspect of Methanex seems relatively unique and I was hoping you could quantify the impact on your financials. So, if Methanex reports a realized price of say, $320 a tonne, how much of that comes from the shipping side of things?

Paul Hexter
President, Waterfront Shipping Company

A

That one, you want to?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

I think we publicly disclosed around our average shipping cost, it's around $50 a tonne when you average everything that we do around the globe. I'll remind you, about a third of what we carry today is not methanol, and it's done in a backhaul way. So, some routes are, obviously, very advantaged. For example, when we go from New Zealand to Korea or Northeast Asia with methanol, we're almost always coming back to Australia and New Zealand with some sort of clean petroleum product.

So, depending on what the prices per spot cargos are in the shipping tanker market at any given time, there had been times when the backhaul portion almost covers the whole value of even going with methanol to Korea or Northeast Asia. So, it's a little bit impacted by the third-party market and the spot market and the time charter market or COA markets. So, I'd say, it's been fairly depressed that there have been an overabundance of ships over the last three to four years. So, we would expect, as ships are retired and few and fewer come on in the newbuild that this market will improve and will positively impact our overall freight costs.

It's a unique thing that we do that our competitors don't do, this backhaul. And Paul mentioned briefly, we've been learning about this since we started about 15 years ago and we've really gotten good at cleaning, cleaning from – clean petroleum products back to methanol because the number one thing we want to do is deliver quality product to our customers on time. And with these new ships, Paul did mention, we've installed new types of cleaning equipment that reduce the amount of time it takes to go from cargo to cargo by quite a bit which allows us to keep the ships full on a more regular basis and have less time for cleaning.

So, a lot of learnings here that's proprietary to Methanex that we'll continue to learn and advance as we carry more and more different cargos.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Thank you.

Paul Hexter
President, Waterfront Shipping Company

A

One here.

Q

Hello. [ph] Jackson at (01:19:52) Bernstein. I'm just – do you have a sense for how much methanol, one of the 50 deadweight tonne vessels would consume in a year going back and forth to Asia?

Paul Hexter
President, Waterfront Shipping Company

A

Yeah. So, the ships today are at sea about 68% of the time and based on that in their daily consumption, they should consume about 12,000 tonnes a year each.

Q

Thanks.

Paul Hexter
President, Waterfront Shipping Company

A

Yeah.

Sarosh Hoshang Nanavati
Portfolio Manager, Scheer, Rowlett & Associates Investment Management Ltd.

Q

Hi. Over here. Sarosh Nanavati with Scheer, Rowlett. I'm just wondering is it only Methanex which is sort of aggressively promoting, sort of, the use of methanol in ships or other methanol producers involved in this at all.

Paul Hexter
President, Waterfront Shipping Company

A

As far as I know, it's [indiscernible] (01:20:40)...

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Other methanol producers are involved through the Methanol Institute. So, all of the work that we've done is being shared not only with the shipping industry but with the Methanol Institute, and whether they decide – what they decide to do with their ships as these new regulations come in play, methanol as an option, I haven't heard [indiscernible] (01:20:58) anybody making a commitment yet to a newbuild with methanol flex engine, but certainly something that the Methanol Institute self promoting as well, not just Methanex.

Sarosh Hoshang Nanavati
Portfolio Manager, Scheer, Rowlett & Associates Investment Management Ltd.

Q

Okay.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

It's really new. I mean, we took that – three years ago, this wasn't even conceived and here we are just some [indiscernible] (01:21:19) running seven ships now. So, there's a lot of anticipation. There's a lot of interest in what we've done and we'll share the results as we are today, and as we get more and more hours under our belt. I think it will be an option. We don't need very much adoption of this technology going forward to make a difference in the supply/demand balance. I personally think this is a next decade issue as far as demand because people don't really have to do anything today to meet the standards. And as Paul mentioned, MGO is an easy solution to meet the standards of 2020. New standards of particulate matter in SOx might even be more regulated or tighter regulated which MGO may or may not be able to meet.

So, I think we have time to prove out the technology, and I think from a significant demand point of view, it's a next decade issue. And that's why we have very little in our demand forecast for this application.

Q

Hi. You made a comment that scrubbers are not the long-term solution. Could you dive a little more into that. It seems to be a really key point to this whole discussion.

Paul Hexter
President, Waterfront Shipping Company

A

Yeah. We said that may not be the long-term solution, so for us, John mentioned the cost of implementing or installing a scrubber, not all ships today are ready to receive a scrubber. The cost depends who you talk to but it's a couple of million dollars to install and really you're taking the emissions from the air and putting it someplace else.

So there's open loop which puts it straight into the ocean which isn't a viable solution long term. Closed loop or a hybrid, you have to land it ashore. So, between the installation cost, the equipment cost, and then the handling with the output from the scrubber, yeah, there's – we haven't seen many owners running out to put scrubbers in today.

Sandra Daycock
Director-Investor Relations, Methanex Corp.

Okay. Thank you very much. I'll start now to introduce Kevin Henderson who is our Senior Vice President of Manufacturing. Kevin is responsible for Methanex's with North American assets, as well as enhancing reliability, asset legalization and Responsible Care across our Manufacturing operations globally. He joined Methanex in 1994 and has more than 40 years' experience in the methanol industry including in manufacturing, operational management and leadership, and project leadership. So welcome, Kevin.

Kevin Henderson
Senior Vice President-Manufacturing, Methanex Corp.

Today, I'm going to talk about primarily Responsible Care and our commitment to Responsible Care a bit – but a little bit about our increasing production capacity and opportunities and then also a little bit on our global operations update. And I just want to cover off right away, John really does like me even regardless of what he said last night, because everybody has been asking me that, why does John hate you.

So, Methanex is really committed to Responsible Care. Responsible care is really an ethic and a way of doing business, and it covers off from the beginning of your process from R&D straight through to plant design and build, to manufacturing process, operations, through delivery to customers and then final use. So, it's about an ethic about doing it in a responsible manner. We've been verified as a Responsible Care company since 1997. And we are the first company in the world to verify all of our assets globally. So from a perspective of Responsible Care, we've been one of the leaders globally.

And no matter what country we operate in, we operate to the same ethic consistently around the world. Employee health and safety is fundamental to the core of our operating facilities. And we provide a standard of care beyond our legislative requirements. We provide a program that meets all the regulations in the U.S. and Canada, and also ones that are the high standard globally. We regularly benchmark ourselves against our peers in this area.

Our decision regarding plant design and operation take impact of community into our plants. So, we have community advisory panels in all locations, and we regularly share the risks of our plants with those community advisory panels, and we expect them to share those risks within the community.

We meet all environmental requirements and regulations at our locations, and we continue to upgrade our protection systems globally. So, our plants are older assets, but we continue to upgrade them to a more modern standards over the years.

We work hand in hand with our terminal and logistics providers to ensure safe transportation of our products. We regularly audit and vet our transportation providers to make sure that they're meeting our requirements. We look to reduce the exposure to the public and to our customers.

Our social responsibility program focuses on the communities in which we operate and to understand the needs of the community that we work in. Through our involvement, we maximize the use of our dollars to get the greatest impact to community. We encourage active volunteering by our employees in our communities and support them through our SR programs. The key areas of outreach for us that we're focused on education, health and safety, environment and community sustainability.

So, just looking at our Responsible Care metrics. Looking at our recordable injury frequency rate, we'd had a trend going down over a number of years. This year, we had a bit of an uptrend in the first half of 2017. Most of this had been primarily around slips, trips and falls this year, as we've had a lot of nagging injuries with people twisting ankles, recurring injuries to pre-existing conditions, cuts and bruises and things like that has impacted that number. We do expect that we're going to see an improvement in the second half of the year in this area. And overall, our number will come back down closer to what our normal has been in the last few years.

Although, we've had these injuries taking place, our significant injuries in our high-hazard incidents have been on a decline. So, we continue to see improvement in the areas that we could really hurt people. So, we're moving very well in that direction. We just have to pay more attention to these – the areas of slips, trips and falls. So, we're focused right now on identification and mitigation of these hazards in our job pre-planning. And we also have a program on having increased active and visible leadership in all of our locations. So, we're starting to see some benefits from that also.

With regard to environmental, we continually have good performance in this area. We've excellent in improving performance over the last four years. We've had one major leak this year which – or major incident this year, and it was a leak that was underground. And we've been able to isolate and mitigate that leak with no significant environmental impact.

You will see a number of minor injury or minor incidents, and that's really a good sign that we're getting good reportability on everything. So, we want to see numbers that are showing us in something that we can measure and analyze to continuously improve. So, if that number got down to low, we'd be concerned that we're not getting the data in order to analyze it.

So, as of now, you should know the Responsible Care is non-negotiable with Methanex. We remain focused on capturing hearts and minds to continuously improve in our RC performance. There will continually be targeted RC efforts, plans and training across the company to ensure that we have sustained our Responsible Care culture particularly as new employees come onboard, so we have a large growth in new employees and a big focus is on training them on Responsible Care.

Each year, the CEO sets Responsible Care targets, and he'll continue to do so in the future, he or she, which illustrates the critical importance of RC to our success. The CEO has KPIs in each of the continuous improvement areas. And any of you that have listened to John on any of his conversations, safety is certainly front – foremost in his mind. Working responsibly will help us meet our reliability goals and ultimately deliver on operational excellence.

So, as you can see, our production has doubled since 2010. And this growth has been in primarily North America and New Zealand. And also, we've been able to get better gas supply in some of our other regions. But the quality

of our asset portfolio continues to improve. And from a sustainability perspective, we've got more assets in OECD countries. Growth has been a huge impact on people and reliability and we continue to embed initiatives to improve operational excellence.

It's been a big task to bring on the number of people that we had as we've added these assets in such a short time, get them all trained up in order to meet our Responsible Care requirements but also to ensure we continue to have reliable assets. Looking to the future, we have opportunities to expand in our Chile operations. And also, we may have some slight debottlenecking opportunities at some of our other assets to add capacity.

So, on plant reliability, you can see that we're down a little bit this year in the first half versus where we were last year. Our target continues to be 97%. And we continue to be focused on getting that reliability up because that's the cheapest molecule that we can add to our supply.

And we have been making inroads. The impact this year on reliability in the first part of the year is we had some vulnerabilities in the few of our plants, Medicine Hat was one and Geismar and we knew we would have to take those plants down or remove those vulnerabilities to get the capacity back up. So we did that in the first half of the year and that's had an impact to our overall reliability.

Plus we've had a few outages at some of our other plants which has pulled our number down. But long term, we believe that using our global teams, our Global Expert team, which is a team of functional experts in different areas and the site teams, we're going to be able to continue to drive a reliability improvement across the organization.

So a little bit on the plant themselves. Our Geismar operation we have 2 million tonne plants there. So 2 million tonnes per year. These plants are operating extremely well. We've got an excellent safety record at our Geismar location. We're very comfortable with that site and with our gas supply arrangement that we have and it's been a seamless integration of that facility into our organization. Overall, very happy how those two plants have been brought in online as quickly as we did and how we are able to integrate those people into the rest of our organization.

Medicine Hat is 600,000 tonne capacity. Again, this plant continues to run well. we had some issues last year, with a legacy issue with our steam turbine and we resolved that this year. We think that we've got a permanent fix for that. So, we're expecting very good reliability from that plant going forward. We did do a major overhaul of that plant a couple of years ago. So, most of the vulnerabilities that we're aware of have been removed from that plant. So, it should be pretty reliable going forward.

In New Zealand, we have three facilities there. And we have two facilities on one site, and then we have a separate site that's about 5 miles away. The two facilities are pretty much identical, and then we had the third facility, it's actually a copy of the Medicine Hat plant as at one time it was a joint venture with Medicine Hat organization.

Right now, we're getting about 2.2 million tonnes out of that plant. It has a capacity of 2.4 million tonnes. If we can get additional CO2 in our gas. So, we continue to work on that, and looking for that opportunity to up our production once we get CO2 on board.

In Trinidad, we have two plants there. These two plants are oxygen-based plants. So, they have autothermal reforming process. They're both running quite well, but we have issues in Trinidad with gas supplies, so our guidance has been about 85% operating capacity from the Trinidad assets.

Our Egypt plant, again, is a oxygen-based plant. Our share is 630,000 metric tonnes. We'd had good operation of that and 100% gas supplies since November of 2016, and gas in the Egypt area continues to look positive with the Zohr Field scheduled to be online in late 2017. Then that will increase the country's gas supply. So, we're pretty happy with our plant's performance. In initial operation, we had a lot of ups and downs in that plant and that does take its toll on the plant. We have had a chance to have a look at the plant and change old catalyst and overall performance of that plant has been excellent since we've had full gas supply.

In Chile, we have two plants down there. We're currently operating our Chile I plant which is an older facility, 1988 construction, and we've been operating that one in limited rates but we have had been able to operate it full time this year. So, previously we've had to shut down during the Chile winter months and this year as gas continues to improve in Chile, we've been able to operate it straight through, through the winter. The other thing we're looking at is the restart of the Chile IV plant. We are continuing to explore that and if we can get gas contracts in place, our intention is that we would have that plant up and running at the end of the third quarter of next year.

So the key manufacturing initiatives are to be safe, reliable and sustainable through our Responsible Care program, PSM programs, we're focused on ensuring we do no harm to people, our plants or the environment. Through our reliability programs, framework elements of reliability, risk-based inspection programs and plant turnarounds, we continue to focus on removing our plant vulnerabilities, improving our overall plant reliability. And through our sustained building program such as reducing energy, water use and our commitment to our local social responsibility programs, we want to be wanted and supported in the communities in which we operate. So, these are the key focus areas for us in Manufacturing.

So, in summary, Responsible Care is a core component of our Methanex strategy. And this is, as I've mentioned is from the top down. It's a high priority for John. We're focused on safe, reliable and sustainable operations. And as you've seen, our investments have more than doubled our production over the last six years. The quality of our asset base continues to improve and we continue to see an upside going forward with our current assets.

Thank you. Any questions?

QUESTION AND ANSWER SECTION

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Kevin, maybe you can address Jacob's question. You've been manufacturing methanol for over 40 years. And I think our steam reform technology hasn't changed all that much. So, maybe just comment on new technologies that you see for making methanol and specifically around catalysts. I know we watch this space on a regular basis and we get scientific articles all the time about the next wonder catalyst, the next new technology that could be disruptive. So, maybe just take a few minutes and talk about technology in the space.

Kevin Henderson
Senior Vice President-Manufacturing, Methanex Corp.

A

Sure. So, when you look at plants that were built in, say, the early 1980s, the plants that are built today, the technology improvement has been about 10% efficiency. That's it. So, this isn't step change technology. This really comes around design and build at the plant and heat integration.

And there's really two basic technologies, there's steam-methane reforming and then there's a combined reforming using either steam-methane reformer or pre-reformer with an autothermal reformer and that's basically the technology today.

The catalysts used in both types are very similar. You have a nickel catalyst in the reforming side and you have a copper catalyst in the conversion side to methanol. All these new technology and catalysts, you'll see an article come out on every so often and they're – basically they're a lab case or a lab study. We work very closely with our catalyst supplier. And right away when we see any of this information we're right on with our catalyst supplier to say, is this real, how long. Is it possible so that we can stay ahead of the game.

And it's critical to the catalyst suppliers because they need to be front and center. If there is a new catalyst then they're going to be monitoring it also. So, we work hand in hand in that. So far, we haven't seen anything that's been commercial and when we do talk to them it's typically 5 to 10 years to commercialization if it was feasible to do.

Q

[indiscernible] (01:41:25-01:41:32).

Kevin Henderson
Senior Vice President-Manufacturing, Methanex Corp.

A

Yeah. And that's really a question for the catalyst supplier. They'd have to see if it's feasible, could they make the catalyst itself, what's the longevity the catalyst. So, there's a lot of R&D would have to happen on their side before it ever come to fruition. So, I couldn't even speculate with the cost would be.

Cherilyn Radbourne
Analyst, TD Securities, Inc.

Q

Hi, Cherilyn Radbourne from TD Securities. Just wanted to ask, more and more companies are talking about using data analytics to do predictive maintenance. Is that something that's applicable to your business and something you're taking a look at?

Kevin Henderson
Senior Vice President-Manufacturing, Methanex Corp.

A

We continuously are upgrading our maintenance management program and do more analytics on our equipment. So we do have a program in place right now, where we're moving in that direction. We do analyze all of our failures already, but we are looking for [indiscernible] (01:42:33) step change to move forward.

So in that space I would say, we are improving. We're also using technology – smart technology on each individual control – control valve itself and its continuously analyzing the valve to see what's the condition of the valve. Is it a failure imminent? Is there problems? And that's to improve our reliability. So we are doing some of those things and are currently today.

Cherilyn Radbourne
Analyst, TD Securities, Inc.

Q

Thanks. Okay.

Q

Just a quick one on that bottleneck – debottlenecks which I think you mentioned at the outset. Just perhaps the quantum and cost estimate, timeframe, any sort of clarity around what that could be relative to the growth that you might see in Chile zone.

Kevin Henderson
Senior Vice President-Manufacturing, Methanex Corp.

A

Yeah, the debottleneck opportunities that we're looking at right now, there's some possible opportunities that all of our plants we look at, can we add a few tonnes here or there. But what we are looking at is our Geismar facility. So similar to what we did at Medicine Hat, we have excess hydrogen and steam-methane reforming process. So there is CO2 available in the Louisiana area that we could potentially inject into our process there and increase our production similar to what we did with Medicine Hat for debottleneck.

Q

On the debottlenecking side of things, can you talk a bit more about turnarounds? Typically, you guys don't really give much guidance around turnarounds. And again, there are certain companies that go through for a given year, very heavy turnaround schedule. Lyondell case in point last year was a very heavy turnaround schedule year for them and, thereafter it becomes quite lean. So, just broadly speaking, how should we think about this year and next year, obviously there were some outages in some of your facilities over the last couple of years, are the bulk of these turnarounds behind you?

Kevin Henderson
Senior Vice President-Manufacturing, Methanex Corp.

A

Yeah. So, we have 10 plants operating right now. And typically, a turnaround on the plant is every three to four years, so you can expect a turnaround – every year, we're going to have two to three turnarounds, and that's

driven primarily by catalyst replacement and statutory inspection. Those are probably the two things that are driving the cycle. Some facilities will turn around every year or every two years. But right now, we think optimum is in the three- to four-year timeframe for our facilities. So, that's the guidance I would give you every year – two to three turnarounds every year.

Q

So, the last few years have been quite difficult is what you're saying?

Kevin Henderson
Senior Vice President-Manufacturing, Methanex Corp.

A

Yes.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Maybe just comment on the length of turnaround, Kevin.

Kevin Henderson
Senior Vice President-Manufacturing, Methanex Corp.

A

Yeah. So, our turnarounds, it will depend on the plant and the amount of work that we have to do, but they typically run from one month to about 45 days, would be depending on the work that's going on.

Q

Maybe just one more. You talked about how the level of accidents and your downtime this year has been a little bit more than last year. I think just based on the slides, roughly 92%, 93% availability versus last year, around 95% availability. In terms of just figuring out the lost profit there, I mean, is it as simple as taking 2% off of your EBITDA this year or is there anything else to take into account there?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

I'll take that one. So, when we look at normal price for methanol over the cycle, last year the opportunity was about $50 million in EBITDA between what we target, 97% reliability, versus what we achieved. The challenging factor here is gas availability. So, even though our reliability this year is not where we want it to be, we've had more gas available than we planned in Egypt and Trinidad and Chile. So, net-net, we're pretty well on target for what we plan to produce, but that to me means the opportunity this year is probably in the order of magnitude of 300,000 tonnes and that's a quarter of a world-scale plant.

Depending on the price of methanol, we are making $50 a tonne or $150 a tonne on those tonnes. So, assuming it's $100 – no, it's a significant amount of money that's there, a $30 million opportunity. So, that will change with the price of methanol, but our target is 97%; and reliability, we believe we can meet that. We have had a lot of legacy issues in some of our older facilities that we started up recently and we're addressing those, and I think the turnarounds that we've talked about aren't only addressing catalyst, but addressing some of the known vulnerabilities. I'll remind you, we can double their capacities well and that means doubling our workforce. And it takes about five years to have a fully trained operator up to speed, so some of the issues we've been experiencing are operator issues as well, not just equipment.

So, all of these things are being worked on. To me, it's the lowest hanging fruit and I love Kevin, but I do keep him focused on getting those last tonnes out of those plants, because I know they're achievable.

And, I'll make the point again, our safest plants are also our most reliable plants. Where we have [ph] problems with (01:48:09) reliability, they go up and down, and that's when accident occurs, whether there's slips, trips and falls or other things. So, to me, reliability is important from an EBITDA perspective, but it's even more important from a safety perspective. As a CEO, the worst thing I can get is a call if we've hurt somebody or killed somebody. And every accident is preventable. We look at each and every one, and every time – we call it Swiss Cheese effect – the holes line up perfectly and something happens.

So, every one of these is preventable and, I think, as we address and get our safety performance on a continuous improvement, our reliability will follow. So, these are top priorities for me and I do want to see the plants run at better rates but I really want to see our safety record improve.

My personal target is zero injuries, and we put the same standards around the world. Most chemical companies don't. Most chemical companies have standards for North American operations and different standards for other operations. We put the same standards in Egypt or Trinidad that we put in North America. They're very tough to meet but, we think, they're achievable and we'll continue to be focused on those.

Sandra Daycock

Director-Investor Relations, Methanex Corp.

Thanks, John. I think we need to pause here and go to our next presentation. So, thank you very much, Kevin.

Okay, our next presenter is Mike Herz, who's our Senior Vice President of Corporate Development, and my new boss. Mike Herz was appointed Senior Vice President in 2013 and he's been with the company since 1995. He's had several roles, senior roles in Finance, Marketing and Corporate Development. Currently, he oversees Methanex's corporate strategy and the identification and development of growth opportunities. His responsibilities also include executive oversight of Methanex Egypt's operations.

So Mike, if you'd come up? Thanks.

Michael J. Herz

Senior Vice President-Corporate Development, Methanex Corp.

Hi, everybody, my pleasure to be here today to talk a bit about really two sides of what Corporate Development does at Methanex. Going to spend about half of this time on strategy and the other half on talking about our competitive advantage and some of the challenges to growth I will get to.

So, I've been asked to speak about how we go to market, and how that differentiates us from competition. And we like to think of that as our competitive advantage, and I'll take a few minutes to provide color on what goes into building and sustaining that, and how we got here. I'll try to focus here a little bit on how hard that is to replicate.

I believe this will provide a perspective that is helpful to understanding how we view the importance of global leadership in this business and this year in our strategy process, we spent a lot of time as senior leaders with our board. I'm going to go through it quite quickly today, but I'll try to give you the [ph] closed notes (01:51:18) version of what's important there.

Then I'll talk about our approach to growth, our priority areas on growth; some of them been talked about already, and I'll talk about some of the challenges that are faced both by us and by others as they consider adding production capacity in this industry – I always hit the wrong button.

So, customers buy from us for a number of reasons – quality, secure, reliable supplies at the center of their thinking. And they tell us, they know that when they buy from Methanex, the supply will be there safely, meeting the quality requirements, and that gives them peace of mind or comfort. And how we create and maintain that preference with the customer is at the heart of our company and underlying that are a number of activities and capabilities represented at least partially by the bullets on this slide. So, I'll spend a few minutes talking about each one of them.

So, we have 10 plants operating in six countries around the world and in that respect, we're unique. I don't think we have any other competitor with plants in more than two or three countries. We share our best practices – Kevin talked about this. We have global experts around the world, sharing best practices among our facilities.

We learn from each other; that reinforces reliability, helps us to solve problems relatively quickly and cost effectively and we draw on that global expertise and best practice to design and execute our growth projects and we believe that proprietary know-how provides us with a competitive edge.

Safety, quality and a commitment to the environment are present in all aspects of our business, from prospecting for new facilities through the use of our product by our customers. You've heard a lot about that today. I guess I'll try to highlight to you that many of our customers share that commitment and that focus and a good portion of them are leading chemical companies themselves. So our leadership there is recognized and creates another degree of preference with our customers.

Where we do sell? We sell into about 33 countries, to about 150 customers. We have 200 ship-to locations. So, in many of those countries, we have a leading market share and we do it with local teams who are accessible in local language and local culture. So, to give you an example, if you buy from us in Korea, you have a local team on the ground in Korea who understands your culture and language. Same thing in Japan, same in Brussels, same in South America.

So that approach is a bit different from our competitors; sometimes, they're more centralized in how they go to market and service the market. So we tend to have long-term and deep relationships with our customers in those markets and that global reach that we have is a differentiator. It allows us to provide solutions to customers in many locations.

Our average customer relationship tenure is 14 years. So that deepens the understanding we have of our customer, their requirements and the competitive environment. It helps us to identify opportunities early and so we find that that leads to the generation of novel solutions, right? The opportunity to create value or to reduce cost for both the customer and for Methanex.

In a large number of cases, when we're preferred, that allows us to create efficiencies in one of the largest cost components; our shipping cost. We talked about that earlier. John mentioned $50 a tonne. So, by making efficient use of the ships, we reduce the number of ports we need to go to, we reduce the shipping costs relative to a competitor.

So, if a competitor is bringing a product to a region from far away, and they have a fragmented arrangement of customers and storage locations, they'll face a higher shipping cost than we do. Ships cost a lot each day, so each day we can take out of the rotation on ships, creates additional value and cost reduction for Methanex.

We've talked a bit about agility, but it's really how we knit together the global network of production facilities, ships, terminals, and in-region people; that adds further value to our customers by underpinning our increased reliability and flexibility. That makes us much less likely to pass problems on in one part of our organization to a customer.

So to contrast that, think of a customer with one plant and operating issues or shipping issues can quickly translate down the supply chain. So, our focus on this one business, methanol, also allows us to engage a team and to retain a talented team of team members across our global organization.

And we have experts, as Kevin mentioned, people with 40 years' experience; most of the people you've been introduced today with over 20 years of experience. It allows us to coordinate globally. It allows us to link all the pieces from production through to the customer and we operate as one team to deliver that quality reliable supply.

So, that's a quick snapshot how we create customer preference, while at the same time reducing costs, and we believe that provides access to leaders in the business segments we supply and access to opportunities we might otherwise miss.

A bit more on the same topic here, but I'm switching a bit more to leadership and sustainability. So, we focus on this one business and that's unique. A lot of our competitors have multiple businesses. I've talked about how that focus allows us to develop the differentiating capabilities and I've demonstrated, I think, that the capabilities we bring together in this global enterprise meet the customer preference and enhance value, either in the form of efficient costs, benefits to customer acquisition and retention or early opportunity identification.

So, on the right-hand side of the slide, you'll see the Ivey Business School logo and a label that comes off a business case that they wrote about us. So I wanted to highlight that I've talked about how we feel about this, but there's also third parties who have looked at this and used Methanex as a case study for competitive advantage in a commodity business. And I can't tell you everything they have in their case, but I can tell you that they highlight some of those things I've talked about, the advantage of a focused strategy and coherent set of capabilities, the way in which those capabilities drive both a preference from the customer and also help you to reduce costs creating a sustainable advantage from your competitors.

And they talk a lot about the difficulty, the time and cost to replicate the whole set of capabilities; we recognized that any component of this can be copied, but copying the whole set of capabilities to deliver that customer preference is more difficult. For us, it's been a journey of many years and we continue to evolve those capabilities every day. So, while it's possible to replicate part of it, it's quite challenging to replicate the whole system. So, with that, I'm going to shift on to growth and this slide really about our approach to growth. I know many of you have seen this before. Not new to you.

We target to grow our capacity in line with the industry in order to maintain our leadership and that leadership is key in our minds, but it's not the result of having a certain quantified market share. We've exceeded the goal of growing with the market in recent years and you've seen a number of slides already on the increase in our productive capacity.

And, we believe, it's best to have multiple opportunities moving forward at the same time so that we have options that are ready to execute when the time is right. Investing in growth here, it's always conditional, on very strict return targets and being able to mitigate key risks. And I'll discuss that a bit more on the next few slides, but it's not growth at any cost. It's deliberate.

We look globally and we take advantage of the fact that we have people in all of these geographies who are interacting in the marketplace to make sure that we're aware of all the opportunities out there. When something looks promising, we put focused resources on the ground. We know it's best to progress those opportunities from a location very close to where the opportunity is.

So, this slide is on challenges to growth. Some of you will recognize it from our Investor Day presentation and I'll just describe what's here. We thought one slide to talk about challenges to growth would be helpful. Vanessa has already talked about some of the projects that are being constructed or considered by competitors in North America, in Iran and elsewhere, and so, there's many challenges for these projects to de-risk and the way we think about it, we think about it like picking the right project, planning it very well, and then executing it very well. That's how we think of growth. So within that, execution remains a big challenge to mitigate.

And I have pulled a few words from the construction environment in the U.S. just to share with you here today; these are quotes from a recent petrochemical update poll; "The challenge isn't having enough bodies, it's having enough skills to get the job done on time, safely and productively." We've got more than 80% of petrochemical players believing that the labor shortage is serious – not the availability of people, but the availability of the skills you need. And so that's having a consequent impact on people's ability to plan a project well and to execute it well.

Long-term gas supply; having confidence in long-term economic gas supply is another risk that all of these projects need to mitigate and it's certainly something we look to mitigate as we look to growth projects. You see carbon pricing and other regulations up here, talk about taxes and permits; those are significant impact on projects and they can impact the viability and they can present a challenge to get visibility on for new projects.

And then methanol pricing. So the table there compares gas pricing on the left axis with methanol pricing along the top, and calculates a return for a typical project. And this one, in this case, in the U.S. Gulf. The assumptions are disclosed in our investor presentation, but you can see that to get a reasonable return on our project with $3 to $4 gas, you're looking at something like $400 long-run methanol price, and so making a commitment to a new project in this current environment is difficult.

So our focus, hopefully, this slide will give you a very high-level picture. I'll start on the left. So, our priority focus, and I can't emphasize that enough, is Chile. Kevin spoke a bit about that earlier. So, the opportunity to restart Chile IV which allows us to have two plants there ready to operate, and as the gas supply allows the potential to then ramp up or re-ramp the existing plants.

So, we've been fairly public about the numbers; about $55 million to restart Chile IV and another $50 million if the gas is there, to restart Chile I. Both are predicated and we need to get the [indiscernible] (02:02:42) to go forward with both of those. But for $100 million, the opportunity and the potential to add approximately 1 million tonnes of operating capacity. So, very focused on that value-generating opportunity and a lot of the resources in our company are focused on that right now.

Just moving to the right, we've talked about this and Kevin's highlighted it, and I'll just reinforce it, optimizing our plants. Two components to that. So, one, getting the reliability to where we want it to be. Those tonnes don't take

any additional costs and those are our most profitable tonnes. So, hitting our reliability targets provides a modicum of growth. I think John characterized it as a few 100,000 tonnes.

And then looking at debottlenecking opportunities. We've been asking ourselves, each one of our sites, what is possible? For a small amount of capital, what is possible to increase production capacity, and Kevin talked about one specific opportunity that's there. It's still early stages, but there's potential for additional debottlenecking and growth. If you put those two together and you kind of come up with something that's almost half a world-scale plant.

And then moving along, we always have our opportunities moving forward, and here, I show the ones we've been talking about for quite some time. We've been talking about a third plant in Geismar, that would have some integration to the existing facilities and thereby extract some of the brownfield advantages. And we've been talking about another plant at Medicine Hat, a conventional plant next to our existing facility which would take advantage of the existing infrastructure and operating experience and organization in the area.

We believe these present potentially significant advantages relative to greenfield projects that are out there and again, we're moving them forward, mainly with internal resources, in order to be able move them forward when the time is right. There's no significant capital that would go into growth beyond what I've laid out for Chile within the next 18 months.

The slide mentions M&A. We get asked a lot about M&A, and it would be Corporate Development in Methanex who gets involved with that. There's not been a lot of activity in our industry recently. If it does happen, it's been part of our company's history. We came together through M&A and so – something we'd look at when it makes sense and when opportunities arrive, but it's often difficult to find buyers and sellers on the same page with respect to asset values. On the right-hand side here, we talk about the longer term; as a leader, we're always active, as I've talked about, looking around the globe for opportunities and I mentioned that when I talked about our approach.

So here in summary, hopefully, I've highlighted for you that we've put capabilities together differently from competitors, and doing so creates a level of preference, and that in turn, enhances value. Hopefully, you've seen the benefits that flow from having a leadership position, global reach, network of plants, ships, terminals and marketing offices; and I've talked about growth.

We approach growth methodically, to pick the right project, plan it very well, and execute it well when the time is right. Mainly internal resources dedicated to that and no significant growth capital beyond Chile for us over the next 18 months. Thank you.

QUESTION AND ANSWER SECTION

Q

Thanks for the presentation. So, CapEx, the new capacity for methanol seems to be 1,000 tonne, maybe higher in many parts of the world. In China, it seems like plants can go up for maybe less, 400, 500, 600 tonne, a little blurry. How do you think about that, where the incremental supply may come on down the road? If China is the cheapest CapEx, how that plays in your mind?

And second question, when you talk about a world-scale plant, are you talking about 1.8 million tonnes or what's in your math of [indiscernible] (02:06:53) realized methanol to justify?

A

So, the second question was...

Q

Your saying you need a [indiscernible] (02:07:00) realized methanol to justify a world-scale plant, which I think is 11% or 12% or 13% IRR. What's – is that a 1.8 million tonne plant that you're assuming or 2 million to 1 million or?

Michael J. Herz
Senior Vice President-Corporate Development, Methanex Corp.

A

World scale; the ones we've seen, that have been announced recently in the U.S. – OCI and Yuhuang, they're 1.7 million tonnes, that would be the world-scale size. Your first question, we spent a lot of time looking at reinvestment economics in our industry and like to understand what it costs to build a methanol plant anywhere in the world at any point in time, that's information is very helpful to us.

You see the likely places for capacity addition, Iran, China, and North America. The numbers you threw out for China – I was in China for many years and looked at investment opportunities there. I think that the numbers are higher, that we understand and they were close to $1,000 a tonne many years ago and our recent data point show that they haven't declined from that level. So we think it's similar range to what you have in North America and that reinvestment economics can even be higher, given the logistics costs Vanessa talked about where our resources are and where markets are when you factor in the logistics.

And when you factor in their operating rates are often not at the same level that you would get from an international facility. Similar for Iran. Iran does have advantages. Labor rates are much lower and productivity is lower so when we look at all that together, we can see perhaps a capital cost advantage, but there are some – number of other political and other uncertainties that factor into that equation.

But we don't get a significantly lower reinvestment economics or looking at it another way, what price would give you a return on a methanol investment whether we look at Iran, China, or North America significantly.

Q

With all the complications of maybe owning assets in China, but that's sort of where the market is going, I mean, have you looked into trying to get exposure, direct ownership, investment in some Chinese assets to sort of make sure that you remain equally relevant there?

Michael J. Herz
Senior Vice President-Corporate Development, Methanex Corp.

A

I mean, we have a really good set of relationships in China and quite a footprint. Today we interact with a number of different people. We have a sizeable market position; we have looked at investment, we look at partnership opportunities whenever that make sense for us and, right now, we think it would make sense and we'd like to have a partner on a North American project and it would make sense to have a partner. China is one of the opportunities where we might find partners for those.

Q

Like a Chinese partner maybe to help you do G3 and something like that potentially? Okay, thank you.

Q

Hi, Mike. How's it going? So I also have two questions. Sorry to monopolize the floor. So the first is, what gives you confidence that you can secure gas in Chile for the Chile IV restart and the eventual Chile I refurbishment? Is that more like local development in Punta Arenas or is that development of Argentine gas in the Vaca Muerta?

Michael J. Herz
Senior Vice President-Corporate Development, Methanex Corp.

A

There's positive developments in both. I'd like John to answer that question. I think he's got the most knowledge...

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yeah. So, all of the developments that have been ongoing in Chile are right next to our plant in the unconventional. So, if you look at Chile historically, it's been a conventional play and when there's cooperation between Argentina and Chile, starting in the 1970s and 1980s, all of the developments were on the Argentinean side of the border. When the gas was shut off in 2007, the Chilean ENAP started to explore the unconventional in the same play that the conventional was.

And not unlike we've seen in North America, success, mainly in the tight gas. So, all the gas that we are getting today is Chile gas and we – for the restart of Chile IV, its Chile gas. I'd say for the refurbishment and upgrade of Chile I, it would be a combination of Argentina and Chile gas.

Q

So, the Punta Arenas development that's happening now is mostly shale?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

It's tight gas.

Q

Okay.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Not shale.

Q

Yeah. Okay. Yeah. So, my second question is around customer preference. Is there a way that you can quantify the financial impact of that? Does it manifest itself in narrower discounts?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

I'll answer that one as well. So, it's a combination of a lot of factors; it's customer discounts, it's customer loyalties, so we can set up effective supply chains to manage things over time. It's things around not having a last look in many cases. So, the switching costs are very high in our business as far as if we lose a customer, we have to reconfigure our supply chain.

It could be rail cars, could be ships, could be barges that we make long-term commitments to. So, having stable, reliable shipping points and knowing where we're going to be shipping our products five years from now really allows us to optimize. So, there's a number of different factors, but to us, you know, we've had third parties look at what does that mean, and it's around 2% to 3% is what we see. And that can change depending on how much rivalry there is in any given market in any given time. So, difficult to actually quantify, but those are some of the things that we benefit from by having a supplier preference. And as well as credit risk, I think, for those of you that followed our company for many years, we haven't had a bad debt in this company I can remember since the last one. So, that is another advantage to get to pick the very best customers around the world who want to do business with us. So, there's a lot of advantages to having a preferential position.

Q

Great. Thanks.

Sandra Daycock
Director-Investor Relations, Methanex Corp.

Just to keep us on track during the rest of the questions here to the end. So, thank you very much, Mike.

Michael J. Herz
Senior Vice President-Corporate Development, Methanex Corp.

Thanks.

Sandra Daycock

Director-Investor Relations, Methanex Corp.

Great. So, I'll introduce to you, Ian Cameron, who's the Senior Vice President, Finance, and CFO of Methanex. Ian joined Methanex in 1993 and has been the company's Chief Financial Officer since 2003. He's focused on developing and implementing strategies that support the company's business and strategic goals. And, his responsibilities include corporate finance, treasury, tax, financial reporting and risk management. As well, he provides executive oversight to Methanex's operations in Trinidad. So, welcome, Ian.

Ian P. Cameron

Chief Financial Officer & Senior Vice President, Finance, Methanex Corp.

Thanks, Sandra, and good morning, everybody. So, I'm going to talk a little about our financial strategy, and as you've heard a lot today, we've made a real transformation change to our asset portfolio and improved our earnings power. So, I'm going to go through a couple of slides that will demonstrate the improvement to our business.

I know you're all interested in capital allocation, so I'll spend a little bit of time talking about our capital allocation philosophy and what our priorities in the near term are for cash. And then, I'll talk on a couple miscellaneous topics around governance and risk management, things like that.

So, I'm going to start with the financial strategy. And I think it's really key to focus on the first line in the slide, which is continued focus on methanol only, and the only is what's absolutely critical. And I think that that has a couple of implications in terms to how we manage our balance sheet and also our financial strategy.

So, first, the fact is that we're a single product company with a chemical commodity, has cycles and therefore you need to manage the balance sheet in a very conservative way. So, you'll see that we have a strong cash with that track record of managing the balance sheet conservatively and prudently, and I'll go through some of the philosophy around that, what that means practically in a few minutes.

I think the other part of that focus on methanol only is really important because it relates to how to think about capital allocation and the discipline we have around capital. So, when you think about it, if you can only focus on methanol, that means when someone knocks on the door and wants us to buy an asset that's outside of methanol, we automatically say, no. It's really simple.

So, you know that, when we do invest, it's going to be in what we know, which is methanol, and very focused. And we don't – and when we have excess cash in addition to our investment opportunities, there's nothing else for the cash, so the cash goes back to the shareholders. Very simple. So, very simple, disciplined capital allocation strategy, and I'll show you some numbers later, but we've had a very long and strong track record of returning excess cash to shareholders.

So, a little bit about our philosophy, given the fact we want to run a conservative balance sheet, what that means for us is, we want to have a strong liquidity, which means a backup facility in terms of bank lines, strong cash position, and in a few minutes, I'll show you what we mean by that. We target what we call prudent leverage and we define that as investment grade. An investment grade for us, the primary metric we work to is debt to EBITDA of approximately 3 times. And again, I'll show you some numbers later that shows what methanol price we need to achieve to get to the [ph] 3 times to 1 times (02:16:14).

We want to be very flexible so that when we do have opportunities, we can execute on those opportunities. And if you go back to what I think were tremendous investments in the Geismar assets, we financed those assets 100% off our balance sheet.

And as I said, when we don't have opportunities, all the cash goes back to shareholders. And, we return cash to shareholders in two ways. We have the dividend, and our philosophy around the dividends, we want it to be meaningful, sustainable, and grow over time. So, what we mean by meaningful, we've targeted a dividend yield range of 1.5 times to 2.5 times.

Today, we're comfortably in that range. Today, the yield is around 2.3%. We want it to be sustainable, so when we set the dividend, we want to be able to pay it at all points in the methanol cycle. And, you'll know that, when we implemented the dividend in 2003, we have increased it every year, except for two years, and we've never had to cut the dividend. So, I think it's very illustrative of the fact that we have a very sustainable dividend and we want to grow over time.

And so what's the criteria for growth? We grow it when we improve the EBITDA capability of the company and we'll also grow it when we buy back shares in proportion to the rate in terms of those number of shares that we repurchase shares. So, very committed to the dividend, and then we supplement the dividend with buybacks. And, we really like this model, normally through a normal course issuer bid because our business, and our business capital comes in big chunks, cash flows can be cyclical, and the normal course issuer bid share buybacks provide us with a tremendous amount of flexibility in returning excess cash. And again, I'll show you some slides later, but we've had a very strong record of buying back shares and returning excess cash to shareholders.

So, I thought I'd just go through our balance sheet really quickly and just point out some key things. So, first slide, I mentioned we wanted to have strong cash balances. Today, to operate the business, just to operate the business, we need about $100 million of cash. Today, our target is around $200 million, and the reason why it's $200 is because we don't have a lot of CapEx or commitments in front of us and so we think we can operate with fairly low cash balances.

The cash will fluctuate over time and often it will depend on what's in front of us in terms of capital commitments, et cetera. But as I say, today, we don't have very much in front of us.

I'll just go through our balance sheet. Most of our debt is what I'd call balance sheet debt. It's an encumbered debt, very light covenant structure. You'll see there's a nice spread of maturities and we don't have any commitments to refinance anything until our bond comes due in 2009 (sic) [2019], so really, really good shape there. We have small pieces of nonrecourse debt in Egypt attached to a couple of our ships.

We also put leases on here, so these are leases that are on our balance sheet today and leases that are off balance sheet today. So you heard Paul talk about our shipping portfolio, well, the vast majority of those ships are secured by long-term charter arrangements. And, the rating agencies, they view that as part of our debt structure and so they put those assets on our balance sheet for assessing our leverage. I should say that the accounting folks have caught up to this, and starting in 2009 (sic) [2019], they're going to force us to put those shipping leases on our balance sheet.

So, just want to make a couple of comments in terms of how our balance sheet interfaces with how you think about our targets around leverage. And what we've done here is, we've shown a pro forma of our debt structure,

which we define as approximately $2.1 billion, and then I've compared that with the EBITDA generation capability at various price points to illustrate what the leverage looks like.

So you can see that we're below 3 times at around $300 a tonne – $300 a tonne methanol. And, if you look at the five-year history of the methanol price – 10-year history, I should say, the methanol price, the average price has been about $360. So, you can take $350, you can see that our leverage is 2.1 times. So, people ask me from time-to-time when we do have excess cash, do you have any desire to repay debt? And the answer is, no. I think we're really in a good spot in terms of our balance sheet. I think we're just about right. And you should see, given the current asset portfolio, debt levels of approximately at this level.

So I'm going to turn now and discuss a little bit about improvement to our earnings capability. And I think this is a big deal. We put a lot of effort over the last two years in improving our asset portfolio, and we've – it has been shown a couple of times, we've doubled our production capability. But also, we're getting more – we're getting leverage on production per share through our share buyback programs. So, tremendous improvement in the quality of the business.

And this slide tries to illustrate this a little bit. And what we've done is we've shown a couple of comparative periods that have similar methanol price. So, we're comparing first half of 2015, which is only a couple of years ago to the first half of 2017, and you can see from the chart that the methanol price was about the same. It was very, very similar.

But, of course, in 2017, production levels were considerably higher and has had a huge impact on earnings power. And you can see that the EBITDA levels have almost doubled in just a very short period of time as a result of the improvement to our asset portfolio.

And I should say, we've added our assets. We haven't had to increase our fixed costs. So, we got tremendous leverage to the existing fixed costs that are inherent in the business. So, that's had an impact of lowering our overall delivered cash cost structure of the business.

I've also wanted to just give you a snapshot of the run rate, and Vanessa talked about – Okay, you guys have the slide, so I'll just keep going. So, I didn't see that the slides [ph] have gone up to the chart (02:22:53). So, wanted to show you a little bit of a snapshot of the earnings capability of the company. And as Vanessa said earlier, methanol prices are really hard to predict and we could see some price fluctuate between cost curve and energy affordability and oil prices and all those kind of good things.

So, we showed it under a few price decks and you can see that the EBITDA levels are very, very strong. So, even at $300 a tonne, the EBITDA is about $650 million. At the 10-year average price, EBITDA is over $900 million. So, really, really good cash flow generation. And, if you look at our free cash flow yield even at the $300 price, very healthy yield as well and this is all measured at today's stock price of around $50 a share. So, really, really, really attractive metrics we think in terms of cash flow and yield capability of the company.

So, I just want to sort of read a little bit of history and talk about capital. So, we have spent, as has been mentioned a couple of times, couple of billions dollars over the last couple of years and a lot of that has been growth, so that's New Zealand, Medicine Hat and Geismar. As has been mentioned before, we really think the asset is not just the quantity of the molecules that's improved, it's also the qualitative aspects of the portfolio, a much larger [ph] weighing to (02:24:23) OECD, much more stable gas supplies. So, we really think that the asset portfolio is probably in the best shape it's ever been in terms of the company's history.

So, this shows the capital spend over the last little bit. Most of that money went into growth [ph] across. The (02:24:43) other part of approach is maintenance capital. Our maintenance capital bill cycle is a little bit, but on an average, depending on the timing of turnarounds, you should think about $80 million to $90 million a year for maintenance capital. And if you compare that to our depreciation charge of $240 million, significantly lower than the depreciation charge you see on the earning statement.

So, if you – I think it's really interesting going forward. As we've said a few times, we don't have a lot spend on capital or we don't have any significant commitments in terms of debt maturities, et cetera. So, we should be – so, you should thank that free cash flow is going to – the project for free cash flow is going to be to return it to shareholders.

So this is a little slide on that. And I'm very proud of the fact the capital discipline this company undertakes, and we have a long, long history of returning cash and buying back a lot of shares. And a couple of metrics is that, in 2000 – since 2000, we've bought 40% of the company through share buybacks. So, very consistent and consistent repurchase of the company when we do have excess cash.

You can see in the chart that even over the period of 2014 to today, and this is while we were continuing to complete our capital build-out, we still have been able to return about $1 billion worth of cash. And that's on a pro forma basis, based on the assumption that we complete the outstanding normal course issuer bid.

Our intention today based on the price outlook is that, we will continue to [indiscernible] (02:26:37) the bid. And, our best guess today is that, we will likely be through the bid by the end of the year. So, a very long and consistent track record of returning excess cash to shareholder, [indiscernible] (02:26:54) that's our priority for free cash flow going forward.

So just to summarize this part of the presentation, I like to think of our company as being conservative but very shareholder-friendly. And I think it's kind of a nice mix when you're talking about a cyclical chemical commodity.

So, I'm going to turn now and just talk a couple of miscellaneous topics, and the first topic is risk management. This is more of an information for you. So, we are a U.S. dollar functional currency business. Substantially all our revenues and expenses are in U.S. dollars. We do have in Europe the quarterly prices set in euros. So, each quarter we hedge that, so it gets translated back to U.S. dollars for the euro. We have – on the cost side, we have about $150 million of non-U.S. dollar expenses. And we have chosen not to hedge that, so we leave that $150 million non-U.S. dollar exposure unhedged.

In terms of natural gas, I think it's been mentioned earlier in the presentation that we have a variable cost structure. So, a lot of our gas contracts – substantially all of the gas contracts outside of North America have a variable gas price. So, you have a base price, and we share the economics with the gas supplier when the methanol prices increase. And so, what that does for us from a treasury perspective, it allows us to have a very low cost structure when we need it, when methanol prices are low, and we have a bit of a higher cost structure when methanol prices are higher.

In terms of North America, North America, we have obviously two Geismar assets. We have about 70% of the gas fixed on forward contracts and fixed price contracts. We like that mix. It gives us a lot of flexibility in terms of having a little bit of open position but also, it allows us to potential shut down the plant to a lower operating rate, if we chose to. So, we're very comfortable there.

And then in terms of Medicine Hat, we have an active hedging program in Medicine Hat and we're hedging out to around, today, out to about 2023 and I should say that the gas prices out to sort of 2020 to 2023 are extraordinarily low. We've been able to secure gas in the $2 range, so very, very attractive.

So, that's all I want to say on risk management. Want to turn now to corporate governance. And there's always – there's been a lot of discussion, a lot of changes and regulations, et cetera, around corporate governance. We feel like we're pretty good here. I'm not going to go through this slide. But when you go through all the list of all the hot topics, we really feel we tick all the boxes.

I think more importantly, I think, is how the board interacts with management. We have a very good relationship with the board. There's lot of transparency. There's a lot of interaction between employees at quite a few levels down to the organization and the board. And I think what that allows, it builds a sense of trust, so it helps the board with its obligations around risk management, strategy and, of course, assessment of management's capability. So, I think it's in a really good spot, and I think we do a really good job of that.

So, last topic, I was just – miscellaneous topic I was going to mention is just how we're compensated and the alignment with shareholders. And we really think that the model we have is a good model and we think that the employees are very – the management is very much aligned, very well aligned, I should say, with the shareholders.

And just to go through a couple of points, we all have shareholder requirements, shareholder ownership requirements. CEO is 5 times, the executive leadership team has 3 times, and the next 50 down below that have about 1 times.

And, if you go to the information circular, which describes the main five officers you'll see that all the officers of the company are well in excess of these guideline. So, there's a very significant commitment by management into the ownership of the company.

Our short-term incentive is based on return on capital employed. I really like that measure because it's a long-term measure in itself, and it's hard to manipulate. It's based on, are we doing a good job in terms of how we employ your capital into the business. And then we supplement it on a long-term basic, long-term compensation is based on a combination of PSUs, performance share units, which are tied to shareholders return, and stock appreciation rights, which are like stock options without issuing an option – without issuing a share. So, I think the conclusion here, we think it's a well-designed compensation package that ensures that when shareholders do well, management does well and vice versa, so very good alignment there.

So, I'm just going to conclude. I don't apologize for having a conservative, prudent solid balance sheet. I think it's what you need to have in a chemical commodity business where we've set ourselves up so we can – we're very strong at the bottom of the cycle, which allows us to pay the dividend, survive, et cetera. And we're really well-positioned to generate a lot of cash. And today, we don't have a lot of capital in front of us and our priority for excess cash is going to be returning it to shareholders.

So with that, I will stop and take any questions you might have.

Sandra Daycock

Director-Investor Relations, Methanex Corp.

Great. Well, if there's no questions, we'll just complete the day with John, and you'll have another opportunity to answer questions after that.

John Floren

President, Chief Executive Officer & Director, Methanex Corp.

Thank you again for listening to our presentation this morning. Today, you've seen the evidence of doubling of our company's earnings power over the last five years, discuss the considerable long-term growth drivers we see for the industry, including exciting developments in emerging methanol demand applications.

From an operational perspective, our relentless focus on safety and reliability is ongoing. We continue to look for ways to further improving operating performance of our assets. As a company, we have a number of near-term opportunities ahead of us to continue to expand our earnings capability and very minor capital investments including our planned Chile expansion and potential debottlenecking initiatives that are existing assets. We have an excellent longer term growth prospects. In the near term, we have no major – no planned growth capital projects. We have the capability to generate substantial cash flow at a wide range of methanol prices and are committed to returning all excess cash to shareholders.

I now like to turn the microphone over to the floor and ask for any further questions.

QUESTION AND ANSWER SECTION

Q

So, I meant to ask this during Mike's presentation, but we didn't get a chance. So you talked about the return profile you need for greenfield projects, but can you talk about the return profile you need to work on brownfield projects? What's sort of the [ph] (02:34:24) metrics and if you can quantify any other thing that you're looking at, that would be great. Thanks.

A

[indiscernible] (02:34:30).

A

Yeah, go ahead.

A

It's on? It's on?

A

Go ahead, just...

A

Yeah. Hi. So, that's a good question. When we look at brownfield, we're thinking about what are the advantages – come in...

A

It's on. Just keep going.

A

They come in two forms, right. So you have the ability to reduce your capital cost and reduce your operating cost. And so, it's too early for me to tell you what would happen from the brownfields we're looking at. It's not too early to say. We think those benefits could be significant. And, significant means that it moves the dial in terms of the price we would need to earn a return on those projects or move the needle on the expected return from those projects.

So when you build in a greenfield site, you have a bunch of things that quite often you need to build from scratch, you need to put in utilities, you need to put in additional infrastructure for shipping, you need to do everything from the beginning, you have a new organization, so you always add more people to a greenfield site than you add to a brownfield site.

In the case of Geismar, when you have some integration opportunities with something that already exists, it's almost like a debottlenecking and then you have a lower capital cost opportunity. So, too early to give you specifics, but it's always and should always be significantly better on a brownfield site than greenfield.

Q

Okay. And then, John, for you.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yeah.

Q

In a scenario in which maybe the market grows but maybe the prices aren't as high to justify an appropriate return on brownfield and greenfield expansion, how do you balance maintaining your market share and all the leadership that you want to provide and historically you've done in the industry versus sort of expanding and making sure you grow with the market over time? Thanks.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Well, yeah. So, good question. We have grown, and I think we've illustrated today, how much we have grown this decade, well in advance of how the market has grown. I think the other thing that's really important we try to stress is leadership. It's not just a market share number, but who's the clear leader in this industry. And it's clearly us, and we've expanded that position over the last five years.

We didn't point out, but none of our competitors have added any significant capacity and some have shrunk over the last five years. So, we are the clear leader. We have a long runway ahead of us for leadership, and what's important for us is to execute on that leadership position in the industry. We're not going to grow just for growth sake. If we can't find a way to get a return, that 12%, 13% that we highlight, then we will return cash to shareholders. And right now we think it's a much better use of our capital to return cash to shareholders in the way of share buy backs than to grow the company other than the growth projects we have in Chile and some of the debottlenecks and that's what we'll stay focused on. It's pretty hard to see $400 a tonne methanol price over the next 20 years since we've been experiencing much less than that in the last three years.

What's the oil price is going to do? Well, nobody really knows. There's lot of forecast out there but the best cure for oil price is low price. I think nobody knows when but we would expect oil to rebound above levels that is today and that will certainly impact the affordability of methanol. But we've lost about 6 million tonnes, 7 million tonnes of methanol demand over the last three years, four years due to the low oil price. So, that's worked its way through, and if we get back to a higher oil price environment, we could see some of that come back.

So, the market is always going to be balanced. We're going to be the leader for the foreseeable future and it's just a matter of what price. And I hope today we've illustrated that it's just about at any price of the methanol cycle we're going to do really well. And we really understand well the cost curve and we've tested that cost curve 3 times since 2009. And each and every time it was really in the range where we thought it was.

So, that gives me great satisfaction or confidence that, if it's in a $280 to $300 range today in China, then that means we're going to realize over $300. And that the cost curve has a way of moving around but that's okay, so is our cost structure. So, I'll remind you back to – it was second quarter last year when we realized, I think, it was around $230 a tonne, we still generated some positive cash.

So, that's the power of our company and it's – I hope Mike illustrated how we go to market and the competitive advantage that we bring is very hard to replicate. And it's not just about adding assets, it's about the whole package put together.

A

[ph] Steve? (02:39:24).

Q

Yeah. Just a quick one. If you're casting further out recognizing short-term capital deployment is low, but if you're looking out at Geismar 3 or Medicine Hat 2, site concentration, your production concentration has been a risk in the past to this company and some of the movements we've seen. And so, Geismar 3 strikes me as the natural choice when you've got all these capabilities and local skilled personnel, et cetera, and no carbon tax. But how do you think about concentration risk of putting another unit there, recognizing the growth is all Asia relative to perhaps Medicine Hat is trying to think what that longer term is dynamic?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yeah. So, I think Geismar gives us tremendous flexibility on where we take those molecules. So, any project, just like we did with Geismar 2, we're modeling it to 100% lean in the United States. And, I think, that's how you have to model these projects on a return point of view. So, what's important obviously is the return on capital employed, but delivered cash cost, it allows you to operate at the bottom end of the cycle. So, we have very stringent target for delivered cash cost to China for both Medicine Hat and Geismar.

So, I think, we are a low cost operator. We want to continue to be a low cost operator. I think Geismar has a lot of advantages, some that you've mentioned. And, I think, the political uncertainty a little bit here in Canada is worrying around carbon tax and even about the ability to move that product to Asia in the future. There's a lot of thing being said that gives me concerns about ability to move it through Western Canada and out of the Port of Vancouver.

So, I think, we're making 20-year bets here, so you got to think long-term of what the environment is going to look like. The nice thing about Geismar is that there's three pipelines of natural gas within 1 mile of our plant as well, and the amount of infrastructure down there is tremendous, where Medicine Hat probably doesn't have the same extent of infrastructure. And you've got things like readily made oxygen, redundant oxygen, if we were build an oxygen-based plant. One of the reliability factors we had over the years is, based on oxygen plant in a single unit, and when it goes down, we're down.

So I think there's a lot of capabilities in Geismar that aren't in Medicine Hat. On the other side, Medicine Hat has much cheaper gas than probably we'll have about $1 in mmbtu advantage for the foreseeable future. So I think it would be much easier to secure a long-term gas contract in Medicine Hat than we would in Geismar.

Mike and his team look at all these things and I think they're both privileged projects, but in the current environment, our preference is to execute on Chile, look at these debottlenecking projects and return excess cash to shareholders and that's what we'll do.

Q

I think this might be for Ian. Did anything change on our share repurchase targets? It looks like in the presentation, I think it was slide 81, was showing about $275 million for 2017. I think your last presentation had $300 million, what's the difference there?

Ian P. Cameron
Chief Financial Officer & Senior Vice President, Finance, Methanex Corp.

A

Yeah. The difference is we committed to an extension of the bid. So the first stage of the bid under [ph] paying rules (02:42:34), we execute a bid at 5% bid. And then you're allowed to also buy up to 10% of the shares, but you have to deduct out insiders or folks that have shareholder investments greater than 10%. So we extended the bid, and as a result of that extension, the commitment related to the share buyback went up.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

I think your question two, I think the price that we were using at $275 million was probably $45 a share, and the updated price $50. So that's a $25 million difference. Right? So just the share price has reacted since that first –

when we were buying back shares. I think on average, we've paid around $45 for all the shares that have been bought somewhere around there, so – in this recent NCIB.

Q

John, I don't know whether you'd want to take this or Mike. You guys touched on M&A or the lack thereof but what about stake sales. I mean could you guys give us an update on the Egypt status, right, obviously you lessened your stake over there. But, obviously, a couple of puts and takes, gas supply seems to have improved for the country. So, how are you guys thinking about that strategically going forward?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

We're always looking to create shareholder value, not that all of our assets, the company. If we see at the right price, we'd sell it. I mean, it's a matter of getting the right price and creating shareholder value. Whether you look at replacement cost or EBITDA multiples that normal pricing through the cycle, we're tremendously undervalued. But most CEOs will say that about their shares. But we have some metrics that show that. We're going to continue to focus on executing our strategy and returning cash to shareholders.

If we have assets that people would want to pay reasonable prices for, we'll consider that as well. But we try to illustrate today the strength of our company as everything that we do as a whole. So, if Egypt was to leave us, we'd have a huge hole in the Mediterranean. We have a huge hole of how we service customers that we've been servicing a long time.

So, they're not just about selling assets. We sold part of Egypt. We sold 10% for $1,200 a tonne. That was a good business. That was a good thing to do. But if we sell assets, we have to have a view that we can replicate those assets somewhere else. And I think Mike tried to illustrate in this environment, it's really hard to execute on projects and road projects.

We'll have a good view here as OCI completes there, not gas. It's the first one that's been built in North America for a long time. And the numbers I see on a capital cost per tonne for 1.7-million-tonne plant without an oxygen plant are not that attractive.

If you're going to spend $2 billion to $2.5 billion on a project, how do you see a return in the current environment? So, we'll be very disciplined and we'll consider everything. I mean, we've talked about our shipping company. Could we unlock value by selling that? Well, there would be lots of buyers for that company, but we think it's very strategic to what we do overall. And we think we deliver more value by having it inside and outside the company. So, we look at these things all the time and when we come across an opportunity that we think is going to deliver long-term shareholder value, we'll execute on it.

Q

Perfect. Thanks.

Q

You mentioned the loss volume due to the current level of oil prices. DME was a significant portion of your growth a number of years ago. And I guess that stand at virtually zero today. What price do you think it takes to get DME to come back and how big a market would that be?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Well, the DME operating rates today, the only people that are operating are integrated to methanol. And so if you look at the installed capacity versus operating, it's about 20%. And it's not so much the oil price is to propane price. I think what's interesting, not only has oil come down but the traditional ratios of oil to things like propane, and other products like naphtha have been broken as well. Naphtha today is $400 a tonne. When oil was $80 to $100, it was $1,200 a tonne. So, you can see the historical ratios and many of these things are broken.

So, assuming oil comes back to $80 and the normal ratios come back for propane, which is a big assumption, you could see operating rates go back to the 60%, 70% in that industry, provided that the plants could be restarted. We don't a keep a running file on how much money would have to be invested.

The bigger one, I think, is methanol-to-propylene. There were four plants built on purpose just propylene and then none of those have operated for the last three years. That's [indiscernible] (02:47:27) 4 million tonnes, 5 million tonnes there. So, you'd have to see again the historical ratio of oil to propylene through naphtha again because that's what the marginal cost was at the time. Like naphtha was $1,200 at that time when oil was at $100. Nobody was making much money. Everybody was trying to sell those assets. Now, those assets in Asia are the stars of those companies. So, the world has a way of changing and you don't really know what's the next change is going to be.

What I would say is the market is always going to be balanced. There wouldn't be enough supply to react to an oil price going that high and incentivizing all this demand. So, it will be at what price. And so, we always look at the cost curve, where does the intersection happen to keep the world balanced. And, I would say, at a higher oil price environment, that would be shifted to the right end of the cost curve, which mean a higher price for methanol.

Q

And the leverage would be in the substitutes like propane?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

That's right. That's right. The ones that can be substituted. So, if you look back four or five years ago, we are probably trading fairly close to oil. We don't do that anymore. We trade pretty close to methanol price and that's why there's a change in demand. Cycles are good. I mean, I don't mind cycles were the low cost – a low cost position. I think if you had higher prices forever, you might get a whole bunch of production coming on that may be difficult to manage. So, cycles are good.

Q

Thank you very much.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Thanks.

Michael J. Herz
Senior Vice President-Corporate Development, Methanex Corp.

A

Any other questions? Yeah?

Q

One more. So, next year, and Vanessa's slide deck talked about global ethylene operating rates it might going down because we have a lot ethylene capacity going on next year. If you think about just maybe 2018, how do you think about the various factors from MTO affordability versus higher oil prices?

So, if higher oil prices historically have lifted ethylene production operating rates cost, which should be good for MTO affordability. But on the flipside, you're having all this ethylene capacity coming online next year. So, can you just maybe flesh out your views on, maybe just for next year, the sensitivity for those two factors?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Well, if higher oil prices lead to higher naphtha prices, which is a big if, then you'll see them become the high cost producers again, assuming methanol prices stay in at $300 to $400 range. But nobody is predicting that. I think as new supply comes on in the olefins market, a big impact would be how much new methanol supply comes on in the same period and when do those plants run, how do they run, do they get gas? So, there's a lot of variables here.

But, I think, what I've tried to illustrate today is there's a very solid, assuming nothing changes, which is a big assumption on a cost curve, that we're in that $280 million to 300 million range, and there's a lot of production in that range. So, assuming that is the cost curve in 2018, then we'll realize somewhere around $320 a tonne globally.

It's not as nice as $400 but it's not $230. And if oil was to go up, naphtha was to become a high cost producer again, you're going to touch into that $400-plus range. And that's why we've tried to illustrate a band of pricing between $300 and $400. That's where, we think, based on $50 oil, we're going to be trading it.

Doesn't mean we won't get a little bit lower sometimes or a little bit higher sometimes. We've seen a recent spike here of $70 a tonne in China in a matter of weeks. I think that's the new reality, volatility. And that's why we're being very cautious about what we do as far as growing and spending capital until we get some more clarity.

I mean, people are predicting high oil prices now for the last three years and here we are, right? So I remember when it started in the fall of 2014, is it going to be only a year or two? We're coming up to 2018 here pretty soon and it doesn't look like it's about to end. So, nobody really knows so we'll remain cautious, remain prudent, and at any price that we can see, we're going to return excess cash to shareholders. So, we think we're in a really strong position because of the investments we've made and because we haven't had to build any real greenfield kind of projects. So, we're really happy with our position we are in today.

[ph] Chris (02:51:43), I think you had a question. I saw you get up here. It's hard to miss you.

Q

You just touched on it, with the recent spike in Chinese prices and I'm just going to ask about the near term since we had you, I mean, is that spike sustainable, I mean, is that a supply driven event, just sort of your opinion on a short term?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

Yeah. So I was out and about in the last four or five months and visiting most of our large shareholders and most of the analysts, and what I said was, you can't predict the future, but when we're in that pricing environment, I said, we see conditions coming back similar to what we saw in February of this year once the MTO technical issues had been worked through.

And I also said that we had, on the supply side, a really good industry operating performance in Q2. You normalized what we're seeing today, a normal industry operating rate, and the return of the MTO demand and healthy demand as we saw earlier this year in the traditional chemical derivatives. We're back to those conditions where the affordability on MTO is spiked up and nobody was predicting ethylene and propylene prices to spike like they have. And that happened before Harvey, I know Harvey is getting blamed for some of it, but this phenomenon was happening already.

So, we are in the same conditions that we were in earlier this year, assuming the MTO do not have any further technical operating issues. Until some new methanol supply comes on, we would expect to be in a healthy pricing environment. There's a lot of ifs there. A lot of ifs.

A lot of moving parts. This business is a lot more complicated today than 20 years ago or even 10 years ago because of this energy aspect and all these substitutes and all these new end uses and now being driven by environmental concerns, not just the economics.

So, I prefer these new applications than the traditional DME or MTP because they're a little bit more predictable and they should grow in a little bit more regular way based on regulations and are a bit easier to track. But I think we are a different company today. We're going to have to accept a bit more volatility. But having our strategy of low-cost leadership and operational excellence and service well to do well at any price point that we may see in the future.

And we'll do really well when prices are high, and we'll do okay when prices are low. And I think we'll be disciplined on how we invest. And we've returned 12% on capital employed in the last 15 years. I'm very proud of that, and I think we'll continue to be disciplined going forward.

Q

Just a quick one, too, on the CapEx, I think, slide, the Chile was still the potential [indiscernible] (02:54:31) potential CapEx spend. I thought that was sort of decided, or is it just the flex part [indiscernible] (02:54:36)?

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

A

No. The board has approved the capital, they approved it. What I said was, we need to have a gas contract executed beyond what we have today in order to commit all of that capital. So, we're spending some money today to be ready to operate the plant, as Kevin said, in the Q3 of next year, and we're hiring people, et cetera. So, we're getting ready but we're not going to execute on the full $50 million if we don't have a gas contract.

So, stay tuned. We're working hard on that. It's a complicated negotiation. I think the good news is, the volumes there, it's not a volume issue, it's about a price issue, and we want to make sure that whatever we sign up to is sustainable over the price cycle. So, we're working hard on it, but we're not going to spend the $50 million unless we secure the gas.

Q

Got it. Thanks.

John Floren
President, Chief Executive Officer & Director, Methanex Corp.

Okay. So, it looks like we have no further questions. Please join us for some lunch and drinks in the foyer outside. I encourage you to take this opportunity to meet our executive leadership team who'll be able to address any informal follow-up questions you may have. And, thanks very much for your interest in the company, and have a good rest of the day.