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methanex the power of agility

Management's Discussion and Analysis for the Three Months and Year Ended December 31, 2016

At January 24, 2017 the Company had 89,825,838 common shares issued and outstanding and stock options exercisable for 1,711,564 additional common shares.

Share Information
Methanex Corporation's common shares are listed for trading on the Toronto Stock Exchange under the symbol MX and on the Nasdaq Global Market under the symbol MEOH.

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FOURTH QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

Except where otherwise noted, all currency amounts are stated in United States dollars.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- A reconciliation from net income (loss) attributable to Methanex shareholders to Adjusted net income (loss) and the calculation of Adjusted net income (loss) per common share is as follows:

	Three Months Ended			Years Ended	
($ millions except number of shares and per share amounts)	**Dec 31 2016**	Sep 30 2016	Dec 31 2015	**Dec 31 2016**	Dec 31 2015
Net income (loss) (attributable to Methanex shareholders)	**$ 24**	$ (11)	$ 10	**$ (13)**	$ 201
Mark-to-market impact of share-based compensation, net of tax	**17**	10	5	**19**	(34)
Argentina gas settlement, net of tax	**—**	—	—	**(21)**	—
Gain related to the termination of a terminal services agreement, net of tax	**—**	—	—	**—**	(57)
Adjusted net income (loss) [1]	**$ 41**	$ (1)	$ 15	**$ (15)**	$ 110
Diluted weighted average shares outstanding (millions)	**90**	90	90	**90**	91
Adjusted net income (loss) per common share [1]	**$ 0.46**	$ (0.01)	$ 0.16	**$ (0.17)**	$ 1.20

[1] The Company has used the terms Adjusted EBITDA, Adjusted net income, Adjusted net income per common share, Adjusted revenue, and operating income throughout this document. These items are non-GAAP measures that do not have any standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Refer to *Additional Information - Supplemental Non-GAAP Measures* on page 12 of the MD&A for reconciliations to the most comparable GAAP measures.

- We recorded net income attributable to Methanex shareholders of $24 million during the fourth quarter of 2016, compared to a net loss of $11 million in the third quarter of 2016. The increase in earnings is primarily due to an increase in our realized price during the fourth quarter which was partially offset by changes in the cost of methanol we purchase from others and lower sales of produced volume compared to the third quarter. Our average realized price increased to $278 per tonne for the fourth quarter of 2016 from $236 per tonne for the third quarter of 2016.
- We recorded Adjusted EBITDA of $139 million for the fourth quarter of 2016 compared with $74 million for the third quarter of 2016. Adjusted net income was $41 million for the fourth quarter of 2016, compared to Adjusted net loss of $1 million for the third quarter of 2016. The improvement in Adjusted EBITDA and Adjusted net earnings was primarily due to the increase in our average realized price.
- Production for the fourth quarter of 2016 was a record 1,859,000 tonnes compared with 1,749,000 tonnes for the third quarter of 2016. Refer to the *Production Summary* section on page 3 of the MD&A.
- Total sales for the fourth quarter of 2016 were a record 2,521,000 tonnes compared with 2,476,000 tonnes for the third quarter of 2016. Sales of Methanex-produced methanol were 1,750,000 tonnes in the fourth quarter of 2016 compared with 1,860,000 tonnes in the third quarter of 2016. Sales of Methanex-produced methanol were lower than production in the fourth quarter, which resulted in a build of our produced product inventory by approximately 100,000 tonnes during the quarter.
- During the fourth quarter of 2016 we paid a $0.275 per common share dividend to shareholders for a total of $25 million.

This Fourth Quarter 2016 Management's Discussion and Analysis dated January 25, 2017 for Methanex Corporation ("the Company") should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three months and year ended December 31, 2016 as well as the 2015 Annual Consolidated Financial Statements and MD&A included in the Methanex 2015 Annual Report. Unless otherwise indicated, the financial information presented in this interim report is prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Methanex 2015 Annual Report and additional information relating to Methanex is available on our website at www.methanex.com, the Canadian Securities Administrators' SEDAR website at www.sedar.com and on the United States Securities and Exchange Commission's EDGAR website at www.sec.gov.

FINANCIAL AND OPERATIONAL DATA

	Three Months Ended			Years Ended	
($ millions except per share amounts and where noted)	**Dec 31 2016**	Sep 30 2016	Dec 31 2015	**Dec 31 2016**	Dec 31 2015
Production (thousands of tonnes) (attributable to Methanex shareholders)	**1,859**	1,749	1,389	**7,017**	5,193
Sales volume (thousands of tonnes)					
Methanex-produced methanol	**1,750**	1,860	1,372	**6,828**	5,050
Purchased methanol	**526**	411	636	**1,892**	2,780
Commission sales	**245**	205	178	**758**	641
Total sales volume [1]	**2,521**	2,476	2,186	**9,478**	8,471
Methanex average non-discounted posted price ($ per tonne) [2]	**312**	272	327	**279**	374
Average realized price ($ per tonne) [3]	**278**	236	277	**242**	322
Revenue	**585**	510	484	**1,998**	2,226
Adjusted revenue	**635**	537	555	**2,118**	2,495
Adjusted EBITDA	**139**	74	80	**287**	401
Cash flows from operating activities	**72**	74	44	**250**	297
Adjusted net income (loss)	**41**	(1)	15	**(15)**	110
Net income (loss) (attributable to Methanex shareholders)	**24**	(11)	10	**(13)**	201
Adjusted net income (loss) per common share	**0.46**	(0.01)	0.16	**(0.17)**	1.20
Basic net income (loss) per common share	**0.28**	(0.12)	0.10	**(0.14)**	2.21
Diluted net income (loss) per common share	**0.28**	(0.12)	0.10	**(0.14)**	2.01
Common share information (millions of shares)					
Weighted average number of common shares	**90**	90	90	**90**	91
Diluted weighted average number of common shares	**90**	90	90	**90**	91
Number of common shares outstanding, end of period	**90**	90	90	**90**	90

1 Methanex-produced methanol represents our equity share of volume produced at our facilities and excludes volume marketed on a commission basis related to the 36.9% of the Atlas facility and 50% of the Egypt facility that we do not own. Methanex-produced methanol includes any volume produced by Chile using natural gas supplied from Argentina under a tolling arrangement ("Tolling Volume"). Tolling Volume was nil for the three months and year ended December 31, 2016 compared to 5,000 tonnes and 74,000 tonnes for the same periods in 2015.

2 Methanex average non-discounted posted price represents the average of our non-discounted posted prices in North America, Europe and Asia Pacific weighted by sales volume. Current and historical pricing information is available at www.methanex.com.

3 Average realized price is calculated as revenue, excluding commissions earned and the Egypt non-controlling interest share of revenue, but including an amount representing our share of Atlas revenue, divided by the total sales volume of Methanex-produced and purchased methanol, but excluding Tolling Volume.

PRODUCTION SUMMARY

(thousands of tonnes)	**Annual Operating Capacity[1]**	**2016 Production**	2015 Production	**Q4 2016 Production**	Q3 2016 Production	Q4 2015 Production
New Zealand [2]	**2,430**	**2,181**	1,856	**536**	559	412
Geismar (USA) [3]	**2,000**	**2,055**	959	**526**	519	244
Trinidad (Methanex interest) [4]	**2,000**	**1,605**	1,644	**455**	420	432
Egypt (50% interest)	**630**	**293**	74	**96**	69	58
Medicine Hat (Canada)	**600**	**488**	456	**92**	114	155
Chile [5]	**880**	**395**	204	**154**	68	88
	8,540	**7,017**	5,193	**1,859**	1,749	1,389

1 Operating capacity includes only those facilities which are currently capable of operating, but excludes any portion of an asset that is underutilized due to a lack of natural gas feedstock over a prolonged period of time. Our current annual operating capacity is 8.5 million tonnes, including 0.9 million tonnes related to our Chile operations. The operating capacity of our production facilities may be higher than original nameplate capacity as, over time, these figures have been adjusted to reflect ongoing operating efficiencies at these facilities. Actual production for a facility in any given year may be higher or lower than operating capacity due to a number of factors, including natural gas composition or the age of the facility's catalyst.

2 The operating capacity of New Zealand is made up of the two Motunui facilities and the Waitara Valley facility (refer to the *New Zealand* section below).

3 We commenced methanol production from Geismar 1 during the first quarter of 2015 and from Geismar 2 late in the fourth quarter of 2015.

4 The operating capacity of Trinidad is made up of the Titan (100% interest) and Atlas (63.1% interest) facilities (refer to the *Trinidad* section below).

5 The production capacity of our Chile I and IV facilities is 1.7 million tonnes annually assuming access to economical natural gas feedstock.

New Zealand

The New Zealand facilities produced 536,000 tonnes of methanol in the fourth quarter of 2016 compared with 559,000 tonnes in the third quarter of 2016. The New Zealand facilities are capable of producing up to 2.4 million tonnes annually, depending on natural gas composition.

United States

The Geismar facilities produced 526,000 tonnes during the fourth quarter of 2016 compared to 519,000 tonnes during the third quarter of 2016. During the fourth quarter of 2016, the plants continued to run at strong rates, reflecting, in part, the relatively new age of their catalyst.

Trinidad

The Trinidad facilities produced 455,000 tonnes (Methanex interest) in the fourth quarter of 2016 compared with 420,000 tonnes (Methanex interest) in the third quarter of 2016. Although we continue to experience gas curtailments in Trinidad, we had improved gas availability at both plants during the quarter.

Egypt

The Egypt facility produced 192,000 tonnes (Methanex share - 96,000 tonnes) in the fourth quarter of 2016 compared to 138,000 tonnes (Methanex share - 69,000 tonnes) in the third quarter of 2016. The plant was taken offline for planned maintenance activities for approximately 35 days during the fourth quarter of 2016 and has been running at high rates since mid-November.

The Egypt facility has experienced periodic natural gas supply restrictions since mid-2012 and gas restrictions worsened through 2014 and 2015. Gas deliveries for the year ended December 31, 2016 have improved significantly compared to the same period in 2015. It continues to be difficult to predict when the gas supply situation will be fully restored. However, we are optimistic that the strong efforts by Egyptian governmental entities to fast-track existing and new upstream gas supply in Egypt are leading to improved gas deliveries and an improved outlook for gas deliveries in the medium term.

Canada

The Medicine Hat facility produced 92,000 tonnes during the fourth quarter of 2016 compared with 114,000 tonnes during the third quarter of 2016. The plant was shut down for approximately 20 days for repairs during the fourth quarter and upon restart, operated at reduced rates for the remainder of the quarter, resulting in lost production of approximately 70,000 tonnes. We expect the plant to return to full operating rates during the first quarter of 2017 after a repair is executed.

Chile

The Chile facility produced 154,000 tonnes during the fourth quarter of 2016, 100% supported by natural gas supplies from Chile, compared to 68,000 tonnes during the third quarter of 2016. During the fourth quarter of 2016, we signed a tolling agreement with YPF SA in Argentina through April 2018 whereby natural gas received is converted into methanol and then re-delivered to Argentina. We have not yet received natural gas under this contract but expect the first volume to be delivered in the first quarter of 2017.

The future of our Chile operations is primarily dependent on the level of natural gas exploration and development in southern Chile and our ability to secure a sustainable natural gas supply to our facilities on economic terms from Chile and Argentina. We continue to be optimistic that our underutilized 1.7 million tonne Chile facilities represent a very low capital cost growth opportunity for Methanex due to the significant progress in developing natural gas reserves in the area.

FINANCIAL RESULTS

For the fourth quarter of 2016, we reported net income attributable to Methanex shareholders of $24 million ($0.28 income per common share on a diluted basis) compared with net loss attributable to Methanex shareholders for the third quarter of 2016 of $11 million ($0.12 loss per common share on a diluted basis).

For the fourth quarter of 2016, we recorded Adjusted EBITDA of $139 million and Adjusted net income of $41 million ($0.46 Adjusted net income per common share). This compares with Adjusted EBITDA of $74 million and Adjusted net loss of $1 million ($0.01 Adjusted net loss per common share) for the third quarter of 2016.

We calculate Adjusted EBITDA and Adjusted net income (loss) by including amounts related to our equity share of the Atlas facility (63.1% interest) and by excluding the non-controlling interests' share, the mark-to-market impact of share-based compensation as a result of changes in our share price and the impact of certain items associated with specific identified events. Refer to *Additional Information - Supplemental Non-GAAP Measures* on page 12 of the MD&A for a further discussion on how we calculate these measures. Our analysis of depreciation and amortization, finance costs, finance income and other expenses, and income taxes is consistent with the presentation of our consolidated statements of income and excludes amounts related to Atlas.

We review our financial results by analyzing changes in Adjusted EBITDA, mark-to-market impact of share-based compensation, depreciation and amortization, Argentina gas settlement, gain on terminal services agreement, finance costs, finance income and other expenses, and income taxes. A summary of our consolidated statements of income (loss) is as follows:

	Three Months Ended			Years Ended	
($ millions)	**Dec 31 2016**	Sep 30 2016	Dec 31 2015	**Dec 31 2016**	Dec 31 2015
Consolidated statements of income (loss):					
Revenue	**$ 585**	$ 510	$ 484	**$ 1,998**	$ 2,226
Cost of sales and operating expenses	**(480)**	(460)	(436)	**(1,774)**	(1,858)
Mark-to-market impact of share-based compensation	**19**	12	6	**22**	(43)
Adjusted EBITDA (attributable to associate)	**24**	18	30	**63**	108
Amounts excluded from Adjusted EBITDA attributable to non-controlling interests	**(9)**	(6)	(4)	**(22)**	(32)
Adjusted EBITDA (attributable to Methanex shareholders)	**139**	74	80	**287**	401
Mark-to-market impact of share-based compensation	**(19)**	(12)	(6)	**(22)**	43
Depreciation and amortization	**(55)**	(62)	(50)	**(228)**	(195)
Argentina gas settlement	**—**	—	—	**33**	—
Gain related to the termination of a terminal services agreement	**—**	—	—	**—**	65
Finance costs	**(24)**	(23)	(15)	**(90)**	(70)
Finance income and other expenses	**(1)**	2	—	**4**	(6)
Income tax recovery (expense)	**(11)**	10	14	**9**	(11)
Earnings of associate adjustment [1]	**(14)**	(10)	(15)	**(43)**	(56)
Non-controlling interests adjustment [1]	**9**	10	2	**37**	30
Net income (loss) (attributable to Methanex shareholders)	**$ 24**	$ (11)	$ 10	**$ (13)**	$ 201
Net income (loss)	**$ 25**	$ (15)	$ 11	**$ (28)**	$ 202

[1] These adjustments represent depreciation and amortization, finance costs, finance income and other expenses, and income taxes associated with our 63.1% interest in the Atlas methanol facility and the non-controlling interests.

Adjusted EBITDA (attributable to Methanex shareholders)

Our operations consist of a single operating segment - the production and sale of methanol. We review the results of operations by analyzing changes in the components of Adjusted EBITDA. For a discussion of the definitions used in our Adjusted EBITDA analysis, refer to *How We Analyze Our Business* on page 15 of the MD&A. Changes in these components - average realized price, sales volume, and total cash costs - similarly impact net income or loss attributable to Methanex shareholders.

The changes in Adjusted EBITDA resulted from changes in the following:

($ millions)	**Q4 2016 compared with Q3 2016**	**Q4 2016 compared with Q4 2015**	**2016 compared with 2015**
Average realized price	$ 96	$ 2	$ (693)
Sales volume	—	17	73
Total cash costs	(31)	40	506
Increase (decrease) in Adjusted EBITDA	$ 65	$ 59	$ (114)

Average realized price

	Three Months Ended			Years Ended	
($ per tonne)	**Dec 31 2016**	Sep 30 2016	Dec 31 2015	**Dec 31 2016**	Dec 31 2015
Methanex average non-discounted posted price	**312**	272	327	**279**	374
Methanex average realized price	**278**	236	277	**242**	322

Methanex's average realized price for the fourth quarter of 2016 increased compared to the third quarter of 2016, driven by stronger industry demand, particularly in Asia Pacific, and lower global inventories. The realized discount in the fourth quarter of 2016 was lower than in the third quarter of 2016. Our realized discounts tend to narrow in periods where methanol prices increase quickly, as was experienced during the fourth quarter. Non-discounted posted prices in the fourth quarter of 2016 increased in Asia Pacific, the United States, and Europe compared to the third quarter of 2016 (refer to *Supply/Demand Fundamentals* section on page 10 of the MD&A for more information). The increase in average realized price for the fourth quarter of 2016 compared with the third quarter of 2016, and fourth quarter of 2015, increased Adjusted EBITDA by $96 million and $2 million, respectively. The decrease in average realized price for the year ended December 31, 2016 compared with the same period in 2015 decreased Adjusted EBITDA by $693 million.

Sales volume

Methanol sales volume excluding commission sales volume in the fourth quarter of 2016 remained relatively unchanged compared with the third quarter of 2016 and was higher compared with the fourth quarter of 2015 by 268,000 tonnes. The increase compared to the fourth quarter of 2015 increased Adjusted EBITDA by $17 million. For the year ended December 31, 2016 compared with the same period in 2015, methanol sales volume excluding commission sales was higher by 890,000 tonnes resulting in higher Adjusted EBITDA by $73 million.

Total cash costs

The primary drivers of changes in our total cash costs are changes in the cost of Methanex-produced methanol and changes in the cost of methanol we purchase from others ("purchased methanol"). Most of our current production facilities are underpinned by natural gas purchase agreements with pricing terms that include base and variable price components linked to the price of methanol. We supplement our production with methanol produced by others through methanol offtake contracts and purchases on the spot market to meet customer needs and to support our marketing efforts within the major global markets.

We have adopted the first-in, first-out method of accounting for inventories and it generally takes between 30 and 60 days to sell the methanol we produce or purchase. Accordingly, the changes in Adjusted EBITDA as a result of changes in Methanex-produced and purchased methanol costs primarily depend on changes in methanol pricing and the timing of inventory flows.

In a rising price environment, our margins at a given price are higher than in a stable price environment as a result of timing of methanol purchases and production versus sales. Generally, the opposite applies when methanol prices are decreasing.

The changes in our total cash costs were due to the following:

($ millions)		**Q4 2016 compared with Q3 2016**		**Q4 2016 compared with Q4 2015**		**2016 compared with 2015**
Methanex-produced methanol costs	$	(5)	$	21	$	188
Proportion of Methanex-produced methanol sales		(7)		18		157
Purchased methanol costs		(14)		10		175
Other, net		(5)		(9)		(14)
Decrease (increase) in total cash costs	$	(31)	$	40	$	506

Methanex-produced methanol costs

Natural gas is the primary feedstock at our methanol facilities and is the most significant component of Methanex-produced methanol costs. We purchase natural gas at most of our facilities under agreements where the unique terms of each contract include a base price and a variable price component linked to the price of methanol to reduce our commodity price risk exposure. The variable price component of each gas contract is adjusted by a formula related to methanol prices above a certain level. For the fourth quarter of 2016 compared with the third quarter of 2016, Methanex-produced methanol costs were higher by $5 million. For the three months and year ended December 31, 2016 compared the same periods in 2015, Methanex-produced methanol costs were lower by $21 million and $188 million, respectively. Changes in Methanex-produced methanol costs for all periods presented are primarily due to the impact of changes in realized methanol prices on the variable portion of our natural gas costs and changes in the mix of production sold from inventory.

Proportion of Methanex-produced methanol sales

The cost of purchased methanol is directly linked to the selling price for methanol at the time of purchase and the cost of purchased methanol is generally higher than the cost of Methanex-produced methanol. Accordingly, an increase in the proportion of Methanex-produced methanol sales results in a decrease in our overall cost structure for a given period. For the fourth quarter of 2016 compared with the third quarter of 2016, a lower proportion of Methanex-produced methanol sales decreased Adjusted EBITDA by $7 million. For the three months and year ended December 31, 2016 compared with the same periods in 2015, a higher proportion of Methanex-produced methanol sales increased Adjusted EBITDA by $18 million and $157 million, respectively.

Purchased methanol costs

Changes in purchased methanol costs for all periods presented are primarily a result of changes in methanol pricing.

Other, net

For all periods presented, other costs were higher primarily due to higher logistics costs from increased sales volume.

Mark-to-Market Impact of Share-based Compensation

We grant share-based awards as an element of compensation. Share-based awards granted include stock options, share appreciation rights, tandem share appreciation rights, deferred share units, restricted share units and performance share units. For all share-based awards, share-based compensation is recognized over the related vesting period for the proportion of the service that has been rendered at each reporting date. Share-based compensation includes an amount related to the grant-date value and a mark-to-market impact as a result of subsequent changes in the fair value of the share-based awards primarily driven by the Company's share price. The grant-date value amount is included in Adjusted EBITDA and Adjusted net income. The mark-to-market impact of share-based compensation as a result of changes in our share price is excluded from Adjusted EBITDA and Adjusted net income and analyzed separately.

	Three Months Ended			Years Ended	
($ millions except share share price)	**Dec 31 2016**	Sep 30 2016	Dec 31 2015	**Dec 31 2016**	Dec 31 2015
Methanex Corporation share price [1]	**$ 43.80**	$ 35.68	$ 33.01	**$ 43.80**	$ 33.01
Grant-date fair value expense included in Adjusted EBITDA and Adjusted net income	**2**	1	4	**11**	21
Mark-to-market impact due to change in share price	**19**	12	6	**22**	(43)
Total share-based compensation expense (recovery), before tax	**$ 21**	$ 13	$ 10	**$ 33**	$ (22)

[1] US dollar share price of Methanex Corporation as quoted on the NASDAQ Global Market on the last trading day of the respective period.

For all periods presented, the mark-to-market impact on share-based compensation is primarily due to changes in the Methanex Corporation share price.

Depreciation and Amortization

Depreciation and amortization was $55 million for the fourth quarter of 2016 compared with $62 million for the third quarter of 2016 and $50 million for the fourth quarter of 2015. For the year ended December 31, 2016 and December 31, 2015, depreciation and amortization was $228 million and $195 million, respectively. The increase in depreciation and amortization for the three months and year ended December 31, 2016 compared with the same periods in 2015 is primarily due to higher sales volume of Methanex-produced methanol. The decrease in depreciation and amortization for the fourth quarter of 2016 compared with the third quarter of 2016 is primarily due to lower sales volume of Methanex-produced methanol and mix of sales.

Finance Costs

	Three Months Ended			Years Ended	
($ millions)	**Dec 31 2016**	Sep 30 2016	Dec 31 2015	**Dec 31 2016**	Dec 31 2015
Finance costs before capitalized interest	**$ 24**	$ 23	$ 21	**$ 90**	$ 91
Less capitalized interest	**—**	—	(6)	**—**	(21)
Finance costs	**$ 24**	$ 23	$ 15	**$ 90**	$ 70

Finance costs primarily relate to interest expense on the unsecured notes, limited recourse debt facilities and finance leases. Capitalized interest relates to interest costs capitalized for the Geismar project which was completed in 2015.

Finance Income and Other Expenses

	Three Months Ended			Years Ended	
($ millions)	**Dec 31 2016**	Sep 30 2016	Dec 31 2015	**Dec 31 2016**	Dec 31 2015
Finance income and other expenses	**$ (1)**	$ 2	$ —	**$ 4**	$ (6)

The change in finance income and other expenses for all periods presented was primarily due to the impact of changes in foreign exchange rates.

Income Taxes

A summary of our income taxes for 2016 compared to 2015 is as follows:

	Year Ended December 31, 2016		Year Ended December 31, 2015	
($ millions, except where noted)	**Net Loss**	**Adjusted Net Loss**	Net Income	Adjusted Net Income
Amount before income tax	**$ (37)**	**$ (26)**	$ 213	$ 133
Income tax (expense) recovery	**9**	**11**	(11)	(23)
	$ (28)	**$ (15)**	$ 202	$ 110
Effective tax rate	**25%**	**44%**	5%	17%

We earn the majority of our earnings in New Zealand, Trinidad, the United States, Egypt, Canada and Chile. In Trinidad and Chile, the statutory tax rate is 35%. The statutory rates in Canada and New Zealand are 26.5% and 28%, respectively. The United States statutory tax rate is 36% and the Egypt statutory tax rate is 22.5%. As the Atlas entity is accounted for using the equity method, any income taxes related to Atlas are included in earnings of associate and therefore excluded from total income taxes but included in the calculation of Adjusted net income.

The effective tax rate based on Adjusted net loss was 44% for the year ended December 31, 2016 compared to 17% on Adjusted net income for the year ended December 31, 2015. Adjusted net loss represents the amount that is attributable to Methanex shareholders and excludes the mark-to-market impact of share-based compensation and the impact of certain items associated with specific identified events. The effective tax rate differs from period to period depending on the source of earnings and the impact of foreign exchange fluctuations against the United States dollar on our tax balances. In periods with low income levels, the distribution of income and loss between jurisdictions can result in income tax rates that are not indicative of the longer term corporate tax rate.

SUPPLY/DEMAND FUNDAMENTALS

Demand

Methanol industry demand remains healthy. We estimate total methanol demand for the fourth quarter of 2016 of 17.3 million tonnes, which represents approximately 11% year-over-year growth when compared to the fourth quarter of 2015. The strong growth rate reflects the significant increase in methanol-to-olefins (“MTO”) related demand in 2016. We estimate that demand from MTO plants represented almost 20% of global methanol demand in the fourth quarter, compared to just over 10% in the same period of 2015. By the end of the fourth quarter, two new large MTO facilities had started operation. These two facilities have the combined capacity to purchase over three million tonnes of methanol annually at full operating rates. We continue to expect one other MTO plant to be completed later in 2017, with the capacity to consume an estimated 1.8 million tonnes annually at full operating rates. The future operating rates of MTO producers will depend on a number of factors, including pricing for their various final products, and the impact of the olefin industry feedstock costs, including naphtha, on relative competitiveness. Higher China olefins derivatives pricing in the fourth quarter of 2016 compared to the third quarter of 2016 helped methanol affordability for MTO producers, however margins have narrowed as methanol prices increased. Traditional chemical demand growth (which accounts for approximately 55% of global methanol demand) remains solid at an annualized growth rate of approximately 4%. We believe that growth in demand from traditional chemical applications is generally correlated to GDP and industrial production growth rates.

Supply

Supply was impacted in the fourth quarter by plant outages in all major global production regions. With respect to capacity additions, OCI N.V. and Consolidated Energy Limited (through its subsidiary G2X Energy) continue to progress their jointly owned Natgasoline project, a 1.8 million tonne plant under construction in Beaumont, Texas. There are a number of other projects under discussion in the United States, but we believe that there has been limited committed capital to date. In Iran, there are a number of plants at various stages of construction. We expect just over four million tonnes of capacity to come onstream in Iran over the next two years, however the start-up timing and future operating rates at these facilities will be dependent on various factors. To the end of 2018, we expect approximately four million tonnes of new capacity additions in China. Beyond 2018, we anticipate that new capacity additions in China will be modest due to an increasing degree of restrictions placed on new coal-based capacity additions. We expect that production from new methanol capacity in China will be consumed domestically.

Methanol Price

Methanol pricing improved sharply in the fourth quarter of 2016: our average realized price increased to $278 per tonne from $236 per tonne in the third quarter. Strong methanol industry demand coupled with low global methanol inventories contributed to the increase in prices.

Methanex posted prices moved higher in January to $416 per tonne and $430 per tonne in North America and Asia Pacific, respectively, and the European quarterly posted price also moved higher for the first quarter of 2017 by €120 to €370 per tonne. We also recently announced the February non-discounted posted price for Asia Pacific of $430 per tonne, which is unchanged from January. The methanol price will ultimately depend on the strength of the global economy, industry operating rates, global energy prices, new supply additions and the strength of global demand.

Methanex Non-Discounted Regional Posted Prices [1]

(US$ per tonne)	**Jan 2017**	**Dec 2016**	**Nov 2016**	**Oct 2016**
North America	416	366	319	293
Europe [2]	385	280	280	280
Asia Pacific	430	350	310	285

1 Discounts from our posted prices are offered to customers based on various factors.

2 €370 for Q1 2017 (Q4 2016 – €250) converted to United States dollars.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities in the fourth quarter of 2016 were $72 million compared with $74 million for the third quarter of 2016 and $44 million for the fourth quarter of 2015. Cash flows from operating activities for the year ended December 31, 2016 were $250 million compared with $297 million for the same period in 2015. The changes in cash flows from operating activities resulted from changes in the following:

($ millions)	**Q4 2016 compared with Q3 2016**	**Q4 2016 compared with Q4 2015**	**2016 compared with 2015**
Change in Adjusted EBITDA (attributable to Methanex shareholders)	$ 65	$ 59	$ (114)
Deduct change in Adjusted EBITDA of associate	(6)	6	45
Dividends received from associate	3	(10)	(29)
Cash flows attributable to non-controlling interests	3	5	(10)
Non-cash working capital	(54)	(31)	(12)
Income taxes paid	(7)	3	42
Argentina gas settlement	—	—	33
Share-based payments	(4)	(1)	5
Other	(2)	(3)	(7)
Increase (decrease) in cash flows from operating activities	$ (2)	$ 28	$ (47)

We generated cash from operating activities before changes in non-cash working capital of $125 million during the quarter, which exceeds our cash requirements related to debt service, the dividend, and maintenance capital. Partially offsetting this was an increase in non-cash working capital from operating activities in the fourth quarter compared to the third quarter, primarily the result of the impact of the increase in the realized price of methanol on trade receivables and inventory.

We operate in a highly competitive commodity industry and believe it is appropriate to maintain a strong balance sheet and financial flexibility. At December 31, 2016, our cash balance was $224 million. We invest our cash only in highly rated instruments that have maturities of three months or less to ensure preservation of capital and appropriate liquidity.

During the fourth quarter of 2016 we paid a quarterly dividend of $0.275 per common share for a total of $25 million.

Certain conditions have not been met related to the Egypt limited recourse debt facilities, resulting in a restriction on shareholder distributions from the Egypt entity. As of December 31, 2016, the cash balance held in our Egypt entity on a 100% ownership basis was $46 million. The Egypt entity continues to be able to fully utilize its funds for operating, capital and financing needs, including the repayment of the Egypt limited recourse debt facilities. Refer to note 5 of the Company's unaudited condensed consolidated interim financial statements for further details.

We have an undrawn committed revolving credit facility with a syndicate of highly rated financial institutions that expires in December 2019. Refer to note 5 of the Company's unaudited condensed consolidated interim financial statements for further discussion of the terms of the credit facility. We do not have any debt maturities until 2019 other than normal course obligations for principal repayment related to our Egypt limited recourse debt facilities.

Our planned capital maintenance expenditure program directed towards maintenance, turnarounds and catalyst changes for operations, including our 63.1% share of Atlas and 50% of Egypt, is currently estimated to be approximately $80 million to the end of 2017.

We believe we are well positioned to meet our financial commitments, invest to grow the Company and return excess cash to shareholders.

ADDITIONAL INFORMATION – SUPPLEMENTAL NON-GAAP MEASURES

In addition to providing measures prepared in accordance with International Financial Reporting Standards ("IFRS"), we present certain supplemental non-GAAP measures throughout this document. These are Adjusted EBITDA, Adjusted net income (loss), Adjusted net income (loss) per common share, Adjusted revenue, and operating income (loss). These measures do not have any standardized meaning prescribed by generally accepted accounting principles ("GAAP") and therefore are unlikely to be comparable to similar measures presented by other companies. These supplemental non-GAAP measures are provided to assist readers in determining our ability to generate cash from operations and improve the comparability of our results from one period to another. We believe these measures are useful in assessing operating performance and liquidity of the Company's ongoing business on an overall basis. We also believe Adjusted EBITDA is frequently used by securities analysts and investors when comparing our results with those of other companies.

Adjusted EBITDA (attributable to Methanex shareholders)

Adjusted EBITDA differs from the most comparable GAAP measure, net income (loss) attributable to Methanex shareholders, because it excludes the mark-to-market impact of share-based compensation, depreciation and amortization, Argentina gas settlement, gain on terminal services agreement, finance costs, finance income and other expenses, and income taxes. Adjusted EBITDA includes an amount representing our 63.1% share of the Atlas facility and excludes the non-controlling shareholders' interests in entities which we control but do not fully own.

Adjusted EBITDA and Adjusted net income exclude the mark-to-market impact of share-based compensation related to the impact of changes in our share price on SARs, TSARs, deferred share units, restricted share units and performance share units. The mark-to-market impact related to share-based compensation that is excluded from Adjusted EBITDA and Adjusted net income is calculated as the difference between the grant-date value and the fair value recorded at each period-end. As share-based awards will be settled in future periods, the ultimate value of the units is unknown at the date of grant and therefore the grant-date value recognized in Adjusted EBITDA and Adjusted net income may differ from the total settlement cost.

The following table shows a reconciliation from net income (loss) attributable to Methanex shareholders to Adjusted EBITDA:

	Three Months Ended			Years Ended	
($ millions)	**Dec 31 2016**	Sep 30 2016	Dec 31 2015	**Dec 31 2016**	Dec 31 2015
Net income (loss) (attributable to Methanex shareholders)	**$ 24**	$ (11)	$ 10	**$ (13)**	$ 201
Mark-to-market impact of share-based compensation	**19**	12	6	**22**	(43)
Depreciation and amortization	**55**	62	50	**228**	195
Argentina gas settlement	**—**	—	—	**(33)**	—
Gain related to the termination of a terminal services agreement	**—**	—	—	**—**	(65)
Finance costs	**24**	23	15	**90**	70
Finance income and other expenses	**1**	(2)	—	**(4)**	6
Income tax expense (recovery)	**11**	(10)	(14)	**(9)**	11
Earnings of associate adjustment [1]	**14**	10	15	**43**	56
Non-controlling interests adjustment [1]	**(9)**	(10)	(2)	**(37)**	(30)
Adjusted EBITDA (attributable to Methanex shareholders)	**$ 139**	$ 74	$ 80	**$ 287**	$ 401

[1] These adjustments represent depreciation and amortization, finance costs, finance income and other expenses, and income tax expense associated with our 63.1% interest in the Atlas methanol facility and the non-controlling interests.

Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Common Share

Adjusted net income (loss) and Adjusted net income (loss) per common share are non-GAAP measures because they exclude the mark-to-market impact of share-based compensation and the impact of certain items associated with specific identified events. The following table shows a reconciliation of net income (loss) attributable to Methanex shareholders to Adjusted net income (loss) and the calculation of Adjusted net income (loss) per common share:

	Three Months Ended			Years Ended	
($ millions except number of shares and per share amounts)	**Dec 31 2016**	Sep 30 2016	Dec 31 2015	**Dec 31 2016**	Dec 31 2015
Net income (loss) (attributable to Methanex shareholders)	**$ 24**	$ (11)	$ 10	**$ (13)**	$ 201
Mark-to-market impact of share-based compensation, net of tax	**17**	10	5	**19**	(34)
Argentina gas settlement, net of tax	**—**	—	—	**(21)**	—
Gain related to the termination of a terminal services agreement, net of tax	**—**	—	—	**—**	(57)
Adjusted net income (loss)	**$ 41**	$ (1)	$ 15	**$ (15)**	$ 110
Diluted weighted average shares outstanding (millions)	**90**	90	90	**90**	91
Adjusted net income (loss) per common share	**$ 0.46**	$ (0.01)	$ 0.16	**$ (0.17)**	$ 1.20

Adjusted Revenue (attributable to Methanex shareholders)

Adjusted revenue differs from the most comparable GAAP measure, revenue, because it excludes revenue relating to 50% of the Egypt methanol facility that we do not own and includes an amount representing our 63.1% share of Atlas revenue. It also includes commission earned on volume marketed on a commission basis related to both the 36.9% of the Atlas methanol facility and the 50% of the Egypt methanol facility that we do not own. A reconciliation from revenue to Adjusted revenue is as follows:

	Three Months Ended			Years Ended	
($ millions)	**Dec 31 2016**	Sep 30 2016	Dec 31 2015	**Dec 31 2016**	Dec 31 2015
Revenue	**$ 585**	$ 510	$ 484	**$ 1,998**	$ 2,226
Methanex share of Atlas revenue [1]	**73**	47	79	**190**	308
Non-controlling interests' share of revenue [1]	**(22)**	(19)	(4)	**(67)**	(27)
Other adjustments	**(1)**	(1)	(4)	**(3)**	(12)
Adjusted revenue (attributable to Methanex shareholders)	**$ 635**	$ 537	$ 555	**$ 2,118**	$ 2,495

[1] Excludes intercompany transactions with the Company.

Operating Income (Loss)

Operating income (loss) is reconciled directly to a GAAP measure in our consolidated statements of income.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Our operations consist of a single operating segment - the production and sale of methanol. Quarterly results vary due to the average realized price of methanol, sales volume, and total cash costs. A summary of selected financial information is as follows:

	Three Months Ended			
($ millions except per share amounts)	**Dec 31 2016**	**Sep 30 2016**	**Jun 30 2016**	**Mar 31 2016**
Revenue	$ 585	$ 510	$ 468	$ 435
Adjusted EBITDA	139	74	38	36
Net income (loss)	24	(11)	(3)	(23)
Adjusted net income (loss)	41	(1)	(31)	(24)
Basic net income (loss) per common share	0.28	(0.12)	(0.03)	(0.26)
Diluted net income (loss) per common share	0.28	(0.12)	(0.08)	(0.26)
Adjusted net income (loss) per common share	0.46	(0.01)	(0.34)	(0.27)

	Three Months Ended			
($ millions except per share amounts)	**Dec 31 2015**	**Sep 30 2015**	**Jun 30 2015**	**Mar 31 2015**
Revenue	$ 484	$ 527	$ 638	$ 577
Adjusted EBITDA	80	95	129	97
Net income	10	78	104	9
Adjusted net income	15	23	51	21
Basic net income per common share	0.10	0.87	1.15	0.09
Diluted net income per common share	0.10	0.54	1.15	0.09
Adjusted net income per common share	0.16	0.26	0.56	0.23

HOW WE ANALYZE OUR BUSINESS

Our operations consist of a single operating segment – the production and sale of methanol. We review our results of operations by analyzing changes in the components of Adjusted EBITDA (refer to *Additional Information - Supplemental Non-GAAP Measures* section on page 12 of the MD&A for a description of each non-GAAP measure and reconciliations to the most comparable GAAP measures).

The Company has used the terms Adjusted EBITDA, Adjusted net income (loss), Adjusted net income (loss) per common share, Adjusted revenue, and operating income throughout this document. These items are non-GAAP measures that do not have any standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Refer to *Additional Information - Supplemental Non-GAAP Measures* section on page 12 of the MD&A for a description of each non-GAAP measure and reconciliations to the most comparable GAAP measures.

In addition to the methanol that we produce at our facilities, we also purchase and re-sell methanol produced by others and we sell methanol on a commission basis. We analyze the results of all methanol sales together, excluding commission sales volume. The key drivers of changes in Adjusted EBITDA are average realized price, cash costs and sales volume which are defined and calculated as follows:

PRICE The change in Adjusted EBITDA as a result of changes in average realized price is calculated as the difference from period to period in the selling price of methanol multiplied by the current period total methanol sales volume, excluding commission sales volume and Tolling Volume, plus the difference from period to period in commission revenue.

CASH COSTS The change in Adjusted EBITDA as a result of changes in cash costs is calculated as the difference from period to period in cash costs per tonne multiplied by the current period total methanol sales volume, excluding commission sales volume and Tolling Volume in the current period. The cash costs per tonne is the weighted average of the cash cost per tonne of Methanex-produced methanol and the cash cost per tonne of purchased methanol. The cash cost per tonne of Methanex-produced methanol includes absorbed fixed cash costs per tonne and variable cash costs per tonne. The cash cost per tonne of purchased methanol consists principally of the cost of methanol itself. In addition, the change in Adjusted EBITDA as a result of changes in cash costs includes the changes from period to period in unabsorbed fixed production costs, consolidated selling, general and administrative expenses and fixed storage and handling costs.

SALES VOLUME The change in Adjusted EBITDA as a result of changes in sales volume is calculated as the difference from period to period in total methanol sales volume, excluding commission sales volume and Tolling Volume, multiplied by the margin per tonne for the prior period. The margin per tonne for the prior period is the weighted average margin per tonne of Methanex-produced methanol and margin per tonne of purchased methanol. The margin per tonne for Methanex-produced methanol is calculated as the selling price per tonne of methanol less absorbed fixed cash costs per tonne and variable cash costs per tonne. The margin per tonne for purchased methanol is calculated as the selling price per tonne of methanol less the cost of purchased methanol per tonne.

We own 63.1% of the Atlas methanol facility and market the remaining 36.9% of its production through a commission offtake agreement. A contractual agreement between us and our partners establishes joint control over Atlas. As a result, we account for this investment using the equity method of accounting, which results in 63.1% of the net assets and net earnings of Atlas being presented separately in the consolidated statements of financial position and consolidated statements of income, respectively. For purposes of analyzing our business, Adjusted EBITDA, Adjusted net income, Adjusted net income per common share, and Adjusted revenue include an amount representing our 63.1% equity share in Atlas.

We own 50% of the 1.26 million tonne per year Egypt methanol facility and market the remaining 50% of its production through a commission offtake agreement. We account for this investment using consolidation accounting, which results in 100% of the revenues and expenses being included in our financial statements. We also consolidate less than wholly-owned entities for which we have a controlling interest. Non-controlling interests are included in the Company's consolidated financial statements and represent the non-controlling shareholders' interests in the Egypt methanol facility and any entity where we have control. For purposes of analyzing our business, Adjusted EBITDA, Adjusted net income, Adjusted net income per common share, and Adjusted revenue exclude the amounts associated with non-controlling interests.

FORWARD-LOOKING INFORMATION WARNING

This Fourth Quarter 2016 Management's Discussion and Analysis ("MD&A") as well as comments made during the Fourth Quarter 2016 investor conference call contain forward-looking statements with respect to us and our industry. These statements relate to future events or our future performance. All statements other than statements of historical fact are forward-looking statements. Statements that include the words "believes," "expects," "may," "will," "should," "potential," "estimates," "anticipates," "aim," "goal" or other comparable terminology and similar statements of a future or forward-looking nature identify forward-looking statements.

More particularly and without limitation, any statements regarding the following are forward-looking statements:

- expected demand for methanol and its derivatives,
- expected new methanol supply or restart of idled capacity and timing for start-up of the same,
- expected shutdowns (either temporary or permanent) or restarts of existing methanol supply (including our own facilities), including, without limitation, the timing and length of planned maintenance outages,
- expected methanol and energy prices,
- expected levels of methanol purchases from traders or other third parties,
- expected levels, timing and availability of economically priced natural gas supply to each of our plants,
- capital committed by third parties towards future natural gas exploration and development in the vicinity of our plants,
- our expected capital expenditures,
- anticipated operating rates of our plants,
- expected operating costs, including natural gas feedstock costs and logistics costs,
- expected tax rates or resolutions to tax disputes,
- expected cash flows, earnings capability and share price,
- availability of committed credit facilities and other financing,
- our ability to meet covenants or obtain or continue to obtain waivers associated with our long-term debt obligations, including, without limitation, the Egypt limited recourse debt facilities that have conditions associated with the payment of cash or other distributions and the finalization of certain land title registrations and related mortgages which require actions by Egyptian governmental entities,
- expected impact on our results of operations in Egypt or our financial condition as a consequence of civil unrest or actions taken or inaction by Egyptian governmental entities,
- our shareholder distribution strategy and anticipated distributions to shareholders,
- commercial viability and timing of, or our ability to execute, future projects, plant restarts, capacity expansions, plant relocations or other business initiatives or opportunities,
- our financial strength and ability to meet future financial commitments,
- expected global or regional economic activity (including industrial production levels),
- expected outcomes of litigation or other disputes, claims and assessments, and
- expected actions of governments, government agencies, gas suppliers, courts, tribunals or other third parties.

We believe that we have a reasonable basis for making such forward-looking statements. The forward-looking statements in this document are based on our experience, our perception of trends, current conditions and expected future developments as well as other factors. Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections that are included in these forward-looking statements, including, without limitation, future expectations and assumptions concerning the following:

- the supply of, demand for and price of methanol, methanol derivatives, natural gas, coal, oil and oil derivatives,
- our ability to procure natural gas feedstock on commercially acceptable terms,
- operating rates of our facilities,

- receipt or issuance of third-party consents or approvals, including, without limitation, governmental registrations of land title and related mortgages in Egypt and governmental approvals related to rights to purchase natural gas,
- the establishment of new fuel standards,
- operating costs, including natural gas feedstock and logistics costs, capital costs, tax rates, cash flows, foreign exchange rates and interest rates,
- the availability of committed credit facilities and other financing,
- global and regional economic activity (including industrial production levels),
- absence of a material negative impact from major natural disasters,
- absence of a material negative impact from changes in laws or regulations,
- absence of a material negative impact from political instability in the countries in which we operate, and
- enforcement of contractual arrangements and ability to perform contractual obligations by customers, natural gas and other suppliers and other third parties.

However, forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. The risks and uncertainties primarily include those attendant with producing and marketing methanol and successfully carrying out major capital expenditure projects in various jurisdictions, including, without limitation:

- conditions in the methanol and other industries including fluctuations in the supply, demand and price for methanol and its derivatives, including demand for methanol for energy uses,
- the price of natural gas, coal, oil and oil derivatives,
- our ability to obtain natural gas feedstock on commercially acceptable terms to underpin current operations and future production growth opportunities,
- the ability to carry out corporate initiatives and strategies,
- actions of competitors, suppliers and financial institutions,
- conditions within the natural gas delivery systems that may prevent delivery of our natural gas supply requirements,
- competing demand for natural gas, especially with respect to domestic needs for gas and electricity in Chile and Egypt,
- actions of governments and governmental authorities, including, without limitation, implementation of policies or other measures that could impact the supply of or demand for methanol or its derivatives,
- changes in laws or regulations,
- import or export restrictions, anti-dumping measures, increases in duties, taxes and government royalties, and other actions by governments that may adversely affect our operations or existing contractual arrangements,
- world-wide economic conditions, and
- other risks described in our 2015 Annual Management's Discussion and Analysis and this Fourth Quarter 2016 Management's Discussion and Analysis.

Having in mind these and other factors, investors and other readers are cautioned not to place undue reliance on forward-looking statements. They are not a substitute for the exercise of one's own due diligence and judgment. The outcomes implied by forward-looking statements may not occur and we do not undertake to update forward-looking statements except as required by applicable securities laws.