



A Responsible Care® Company

# **METHANEX CORPORATION**

## **ANNUAL INFORMATION FORM**

**[www.methanex.com](http://www.methanex.com)**

**March 13, 2013**

## TABLE OF CONTENTS

	<u>Page</u>
<b>REFERENCE INFORMATION .....</b>	<b>3</b>
<b>CAUTION REGARDING FORWARD-LOOKING STATEMENTS .....</b>	<b>4</b>
<b>THE COMPANY .....</b>	<b>6</b>
<b>BUSINESS OF THE COMPANY .....</b>	<b>7</b>
Overview of the Business .....	7
<b>DEVELOPMENT OF THE BUSINESS AND CORPORATE STRATEGY .....</b>	<b>7</b>
Our Strategy.....	7
Global Leadership.....	7
Low Cost .....	8
Operational Excellence.....	8
<b>METHANOL INDUSTRY INFORMATION .....</b>	<b>9</b>
General .....	9
Demand Factors.....	9
Supply Factors .....	12
Methanol Prices.....	12
<b>PRODUCTION .....</b>	<b>13</b>
Production Process .....	13
Operating Data and Other Information.....	13
<b>MARKETING.....</b>	<b>14</b>
<b>DISTRIBUTION AND LOGISTICS .....</b>	<b>14</b>
<b>NATURAL GAS SUPPLY .....</b>	<b>15</b>
General .....	15
New Zealand.....	15
Trinidad .....	16
Egypt .....	16
Canada .....	16
Chile .....	16
United States.....	17
<b>FOREIGN OPERATIONS AND GOVERNMENT REGULATION .....</b>	<b>17</b>
General .....	17
Chile .....	18
Trinidad .....	18
New Zealand.....	18
Egypt .....	18
<b>RESPONSIBLE CARE .....</b>	<b>18</b>
<b>ENVIRONMENTAL MATTERS .....</b>	<b>19</b>
Management of Emissions.....	20
<b>INSURANCE.....</b>	<b>21</b>
<b>COMPETITION .....</b>	<b>21</b>
<b>EMPLOYEES .....</b>	<b>21</b>
<b>RISK FACTORS.....</b>	<b>21</b>
<b>DIVIDENDS.....</b>	<b>21</b>
<b>CAPITAL STRUCTURE.....</b>	<b>22</b>
<b>RATINGS .....</b>	<b>22</b>
<b>MARKET FOR SECURITIES.....</b>	<b>23</b>
<b>DIRECTORS AND EXECUTIVE OFFICERS .....</b>	<b>24</b>
<b>INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....</b>	<b>25</b>
<b>EXPERTS.....</b>	<b>25</b>
<b>LEGAL PROCEEDINGS .....</b>	<b>25</b>
<b>AUDIT COMMITTEE INFORMATION .....</b>	<b>26</b>
The Audit Committee Charter .....	26
Composition of the Audit Committee.....	26
Relevant Education and Experience .....	26
Pre-Approval Policies and Procedures .....	27
Audit and Non-Audit Fees Billed by the Independent Auditors.....	27
<b>TRANSFER AGENT AND REGISTRAR.....</b>	<b>28</b>
<b>CONTROLS AND PROCEDURES .....</b>	<b>28</b>
<b>CODE OF ETHICS .....</b>	<b>28</b>
<b>ADDITIONAL INFORMATION.....</b>	<b>28</b>
<b>APPENDIX “A” .....</b>	<b>30</b>

## REFERENCE INFORMATION

In this Annual Information Form (“AIF”), a reference to the “Company” refers to Methanex Corporation and a reference to “Methanex,” “we,” “us,” “our” and similar words refers to the Company and its subsidiaries or any one of them as the context requires, as well as their respective interests in joint ventures and partnerships.

We use the United States dollar as our reporting currency. Accordingly, unless otherwise indicated, all dollar amounts in this AIF are stated in United States dollars.

In this AIF, unless the context otherwise indicates, all references to “methanol” are to chemical-grade methanol. Methanol’s chemical formula is CH<sub>3</sub>OH and it is also known as methyl alcohol.

**In this AIF, we incorporate by reference our 2012 Management’s Discussion and Analysis (“2012 MD&A”), which contains information required to be included in this AIF. The 2012 MD&A is publicly accessible and is filed on the Canadian Securities Administrators’ SEDAR website at [www.sedar.com](http://www.sedar.com) and on the United States Securities and Exchange Commission’s EDGAR website at [www.sec.gov](http://www.sec.gov).**

The approximate conversion of measurement used in this AIF is as follows:

1 tonne of methanol = 332.6 US gallons of methanol

Some of the historical price data and supply and demand statistics for methanol and certain other industry data contained in this AIF are derived by the Company from industry consultants or from recognized industry reports regularly published by independent consulting and data compilation organizations in the methanol industry, including IHS Inc., Jim Jordan & Associates, Tecnon OrbiChem Ltd., Argus DeWitt and Consensus Economics Inc. Industry consultants and industry publications generally state that the information provided has been obtained from sources believed to be reliable. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon in these reports.

Responsible Care<sup>®</sup> is a registered trademark of the Chemistry Industry Association of Canada and is used under license by us.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document contains 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, including, without limitation, those to support natural gas exploration and development for our plants and the restart of our idled methanol facilities,
- anticipated production 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,
- ability to meet covenants or obtain waivers associated with our long-term debt obligations, including, without limitation, the Egypt limited recourse debt facilities that have conditions associated with finalization of certain land title registration and related mortgages that require actions by Egyptian governmental entities,
- availability of committed credit facilities and other financing,
- 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, including the planned relocation of one of our idle Chile methanol plants to Geismar, Louisiana (“Geismar”) and certain initiatives in New Zealand and Canada,
- 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,
- expected actions of governments, government agencies, gas suppliers, courts, tribunals or other third parties, and
- expected impact on our operations in Egypt or our financial condition as a consequence of civil unrest or actions taken or inaction by the Government of Egypt and its agencies.

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:

- supply of, demand for, and price of, methanol, methanol derivatives, natural gas, coal, oil and oil derivatives,
- the success of our natural gas exploration and development in Chile and New Zealand and our ability to procure economically priced natural gas in Chile, New Zealand, Trinidad, Canada and the United States,
- production rates of our facilities,
- receipt of remaining required permits in connection with the Geismar project,
- receipt or issuance of third-party consents or approvals, including, without limitation, governmental registrations of land title and related mortgages in Egypt, governmental approvals related to natural gas exploration rights or rights to purchase natural gas,
- receipt of governmental approvals related to natural gas exploration rights,
- 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,
- timing of completion and cost of the Geismar project and our initiatives to increase production in New Zealand and Canada,
- 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,
- enforcement of contractual arrangements and ability to perform contractual obligations by customers, natural gas and other suppliers and other third parties, and
- satisfaction of conditions precedent contained in the Geismar project natural gas supply agreement.

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:

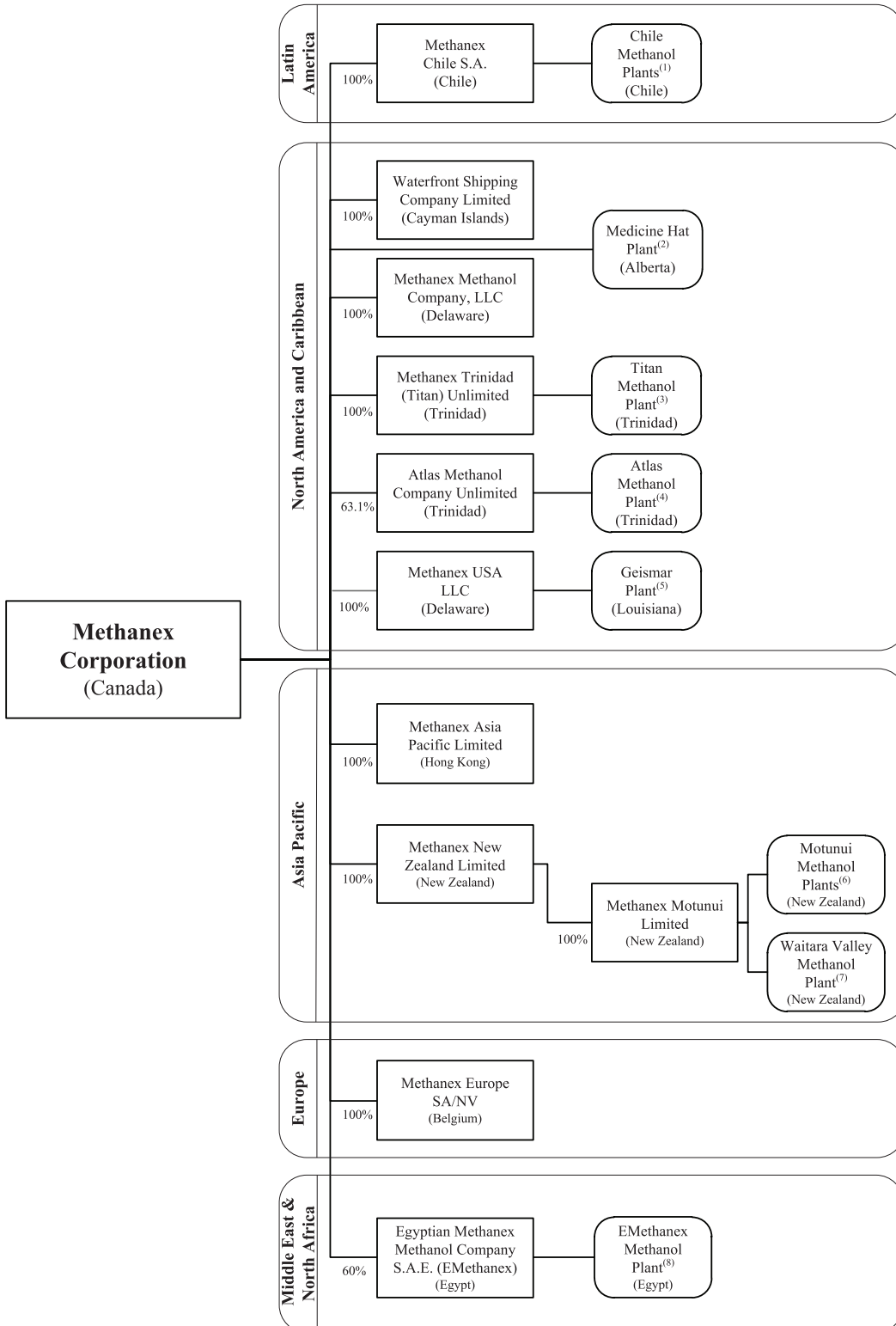
- conditions in the methanol and other industries including fluctuations in the supply, demand for and price of methanol and its derivatives, including demand for methanol for energy uses,
- the price of natural gas, coal, oil and oil derivatives,
- the success of natural gas exploration and development activities in southern Chile and New Zealand and our ability to obtain any additional gas in Chile and New Zealand on commercially acceptable terms,
- the ability to successfully 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, the 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,
- worldwide economic conditions,
- satisfaction of conditions precedent contained in the Geismar project natural gas supply agreement, and
- other risks described in the 2012 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 anticipated in forward-looking statements may not occur and we do not undertake to update forward-looking statements except as required by applicable securities laws.

## THE COMPANY

Methanex Corporation was incorporated under the laws of Alberta on March 11, 1968 and was continued under the *Canada Business Corporations Act* on March 5, 1992. Its registered and head office is located at 1800 Waterfront Centre, 200 Burrard Street, Vancouver, British Columbia, V6C 3M1 (telephone: 604-661-2600).

The following chart includes the Company's principal operating subsidiaries as of December 31, 2012 and, for each subsidiary, its place of organization and the Company's percentage of voting interests beneficially owned or over which control or direction is exercised. The chart also shows our principal production facilities and their locations.



(1) Our three plants in Chile represent 2.8 million tonnes of annual production capacity. Since 2007 we have operated the site significantly below capacity due to gas supply issues.

(2) Our 470,000 tonne per year plant in Medicine Hat was restarted in April 2011. We are currently debottlenecking the Medicine Hat facility which is expected to add a further 90,000 tonnes of annual production capacity by the end of the third quarter of 2013.

(3) The Titan plant represents 875,000 tonnes of annual production capacity.

(4) Our equity interest in the Atlas plant represents 1.1 million tonnes of annual production capacity.

(5) In July 2012 we reached a final investment decision to relocate the Chile II plant to Geismar, Louisiana. The relocated plant is expected to commence operations by the end of 2014 and will represent approximately 1.0 million tonnes of annual production capacity.

(6) We restarted one Motunui plant in 2008 and the second Motunui plant was restarted in July 2012. Due to current distillation capacity constraints at the Motunui site, the current operating capacity of both plants is approximately 1.5 million tonnes per year.

(7) In March 2013, we committed to the restart of our 530,000 tonne per year Waitara Valley plant by the end of 2013.

(8) Our equity interest in the EMethanex plant represents 760,000 tonnes of annual production capacity and commenced commercial operations in March 2011.

## **BUSINESS OF THE COMPANY**

### **Overview of the Business**

Methanol is a clear liquid commodity chemical that is predominantly produced from natural gas and also, particularly in China, from coal. Approximately two-thirds of all methanol demand is used to produce traditional chemical derivatives, including formaldehyde, acetic acid and a variety of other chemicals that form the basis of a large number of chemical derivatives for which demand is influenced by levels of global economic activity. The remaining one-third of methanol demand comes from energy-related applications. There has been strong demand growth for direct methanol blending into gasoline, as a feedstock in the production of dimethyl ether (DME), which can be blended with liquefied petroleum gas for use in household cooking and heating, and in the production of biodiesel. Methanol is also used to produce methyl tertiary-butyl ether (MTBE), a gasoline component, and olefins. This latter use is emerging as a significant methanol demand driver.

We are the world's largest supplier of methanol to the major international markets in Asia Pacific, North America, Europe and Latin America. Our total annual production capacity, including Methanex equity interests in jointly owned plants, is currently 9.5 million tonnes and is located in New Zealand, Trinidad, Egypt, Canada and Chile. We are currently relocating one of our Chile facilities to Geismar, Louisiana and we expect the relocated facility will be operational by the end of 2014. We have marketing rights for 100% of the production from the jointly owned plants in Trinidad and Egypt and this provides us with an additional 1.2 million tonnes per year of methanol offtake supply when the plants are operating at full capacity. In addition to the methanol produced at our sites, we purchase methanol produced by others under methanol offtake contracts and on the spot market. This gives us flexibility in managing our supply chain while continuing to meet customer needs and support our marketing efforts.

Our operations consist of the production and sale of methanol, which constitutes a single operation segment. Revenue, sales volumes and production volumes for each of the last two years can be found under Financial Highlights in our 2012 MD&A.

## **DEVELOPMENT OF THE BUSINESS AND CORPORATE STRATEGY**

### **Our Strategy**

Our primary objective is to create value by maintaining and enhancing our leadership in the global production, marketing and delivery of methanol to customers. Our simple, clearly defined strategy – global leadership, low cost and operational excellence – has helped us achieve this objective.

### **Global Leadership**

Global leadership is a key element of our strategy. We are focused on maintaining and enhancing our position as the major supplier to the global methanol industry, enhancing our ability to cost-effectively deliver methanol supply to customers and supporting both traditional and energy-related global methanol demand growth.

We are the leading supplier of methanol to the major international markets in Asia Pacific, North America, Europe and Latin America. Our 2012 sales volumes of 7.5 million tonnes represented approximately 15% of global methanol demand. Our leadership position has enabled us to play an important role in the industry, which includes publishing Methanex reference prices that are generally used in each major market as the basis of pricing for most customer contracts.

The geographically diverse locations of our production sites allow us to deliver methanol cost-effectively to customers in all major global markets, while investments in global distribution and supply infrastructure, which include a dedicated fleet of ocean-going vessels and terminal capacity within all major international markets, enable us to enhance value to customers by providing reliable and secure supply.

A key component of our global leadership strategy is to strengthen our asset position and we have increased our operating capacity over the last two years. In 2011, we restarted our 0.5 million tonne per year Medicine Hat, Alberta facility and the 1.3 million tonne per year methanol plant in Egypt commenced operations. In 2012, we restarted a second facility in New Zealand and this increased our operating capacity in that country by 0.7 million tonnes. We have several other initiatives in progress in New Zealand that are expected to increase our operating capacity further and allow us to reach the site's full production capacity of 2.4 million tonnes. Our New Zealand facilities are ideally situated to supply the growing Asia Pacific market.

During 2012, we operated our Chile methanol facilities significantly below site capacity. We expect to idle our Chile operations in March 2013 due to insufficient natural gas feedstock to operate the plant through the southern hemisphere winter. We are in the process of relocating one of our four Chile facilities to Geismar, Louisiana. The Geismar facility will have an annual production capacity of approximately 1.0 million tonnes and is expected to be operational by the end of 2014. We are also considering other projects to increase the utilization of our Chile assets, including the potential to relocate an additional facility to the Geismar site.

Another key component of our global leadership strategy is our ability to supplement methanol production with methanol purchased from third parties to give us flexibility in our supply chain and continue to meet customer commitments. We purchase through a combination of methanol offtake contracts and spot purchases. We manage the cost of purchased methanol by taking advantage of our global supply chain infrastructure, which allows us to purchase methanol in the most cost-effective region while still maintaining overall security of supply.

The Asia Pacific region continues to lead global methanol demand growth and we have invested in and developed our presence in this important region. We have storage capacity in China, Korea and Japan that allows us to cost-effectively manage supply to customers and we have offices in Hong Kong, Shanghai, Beijing, Seoul and Tokyo to enhance customer service and industry positioning in the region. This enables us to participate in and improve our knowledge of the rapidly evolving and high growth methanol markets in China and other Asian countries. Our expanding presence in Asia has also helped us identify several opportunities to support the development of applications for methanol in the energy sector.

### **Low Cost**

A low cost structure is an important competitive advantage in a commodity industry and is a key element of our strategy. Our approach to major business decisions is guided by a drive to improve our cost structure, expand margins and create value for shareholders. The most significant components of total costs are natural gas for feedstock and distribution costs associated with delivering methanol to customers.

Our ownership interest in production facilities in Trinidad and Egypt represents 2.8 million tonnes per year of competitive-cost production capacity. These facilities are well located to supply global methanol markets and are underpinned by natural gas purchase agreements where the gas price varies with methanol prices. This pricing relationship enables these facilities to be competitive throughout the methanol price cycle.

In January 2013, we entered into a 10-year agreement to purchase all of the natural gas required for the methanol plant we are relocating to Geismar, Louisiana. The agreement is structured so that the natural gas price is linked to the methanol price, which will enable the project to be profitable across a broad range of methanol prices. We also have a 0.5 million tonne facility located in Medicine Hat, Alberta, and we believe that the long-term natural gas dynamics in North America will support the long-term operation of this facility.

The cost to distribute methanol from production locations to customers is also a significant component of total operating costs. These include costs for ocean shipping, in-market storage facilities and in-market distribution. We are focused on identifying initiatives to reduce these costs, including optimizing the use of our shipping fleet and taking advantage of prevailing conditions in the shipping market by varying the type and length of term of ocean vessel contracts. We are continuously investigating opportunities to further improve the efficiency and cost-effectiveness of distributing methanol from our production facilities to customers. We also look for opportunities to leverage our global asset position by entering into product exchanges with other methanol producers to reduce distribution costs.

### **Operational Excellence**

We maintain a focus on operational excellence in all aspects of our business. This includes excellence in the manufacturing and supply chain processes, marketing and sales, human resources, corporate governance practices and financial management.

To differentiate ourselves from competitors, we strive to be the best operator in all aspects of our business and to be the preferred supplier to customers. We believe that reliability of supply is critical to the success of our customers' businesses and our goal is to deliver methanol reliably and cost-effectively. We have a commitment to Responsible Care (a risk-minimization approach developed by the Chemistry Industry Association of Canada) and we use it as the umbrella under which we manage issues related to health, safety, the environment, community involvement, social responsibility, sustainability, security and emergency preparedness at each of our facilities and locations. We believe a commitment to Responsible Care helps us reduce the likelihood of unplanned events and achieve an excellent overall environmental and safety record.



Product stewardship is a vital component of a Responsible Care culture and guides our actions through the complete life cycle of our product. We aim for the highest safety standards to minimize risk to employees, customers and suppliers as well as to the environment and the communities in which we do business. We promote the proper use and safe handling of methanol at all times through a variety of internal and external health, safety and environmental initiatives, and we work with industry colleagues to improve safety standards. We readily share technical and safety expertise with key stakeholders, including customers, end-users, suppliers, logistics providers and industry associations in the methanol and methanol applications marketplace through active participation in local and international industry associations, seminars and conferences, and online education initiatives.

As a natural extension of the Responsible Care ethic, we have a Social Responsibility policy that aligns corporate governance, employee engagement and development, community involvement and social investment strategies with our core values and corporate strategy.

Our strategy of operational excellence also includes the financial management of the Company. We operate in a highly competitive commodity industry. Accordingly, we believe it is important to maintain financial flexibility and we have adopted a prudent approach to financial management. During 2012, we issued a total of \$600 million of unsecured notes and a portion of the proceeds was used to repay \$200 million of unsecured notes. Also during 2012, we extended the maturity on our undrawn revolving credit facility to 2016 and increased the amount to \$400 million. At December 31, 2012, we had a strong balance sheet with a cash balance of \$746 million, including \$36 million relating to the non-controlling interest in Egypt. We believe we are well positioned to meet our financial commitments and continue investing to grow the Company.

## **METHANOL INDUSTRY INFORMATION**

### **General**

In 2012, approximately 65% of all methanol was used to produce formaldehyde, acetic acid and a variety of other traditional chemical derivatives, for which demand is influenced by levels of global economic activity. These derivatives are used to manufacture a wide range of end products, including plywood, particleboard, foams, resins and plastics. The remainder of methanol demand comes from the energy sector, principally in fuels applications (direct blending into gasoline and cooking fuels), and as a feedstock in the production of DME, biodiesel and MTBE. We consider the emerging demand for methanol-to-olefins (MTO) to be another energy application of methanol as methanol can be cost competitive relative to the traditional production of olefins from naphtha. The demand for methanol into energy applications is primarily influenced by global energy prices.

The methanol market is global and, over the last several years, has become more complex and subject to increasingly diverse influences due to the expanding number of uses for methanol and its derivatives around the world, combined with volatile global energy prices and significant increases to capital costs for new methanol plants.

We estimate that 2012 demand for methanol was 51 million tonnes. See Demand Factors below for more information.

Refer to the Risk Factors and Risk Management section of our 2012 MD&A for more information regarding risks related to methanol demand.

### **Demand Factors**

Reflecting the diversity of its uses, methanol demand is influenced by a wide range of economic, industrial, environmental, legal, regulatory and other factors, including energy prices due to the growing use of methanol in energy applications.

We estimate that global demand for methanol in 2012, excluding methanol produced in integrated MTO facilities, increased by about 5% to approximately 51 million tonnes. This increase was driven primarily by growth in Asia, particularly in China, in both traditional chemical derivatives and energy applications.

Overall, energy demand accounted for nearly 60% of the annual 2012 growth and grew by 9% year-over-year, while traditional chemical derivatives accounted for the remainder of the annual 2012 growth and grew by 4% year-over-year.

### ***Traditional Chemical Derivative Demand***

Historically, demand growth for methanol in chemical derivatives has been closely correlated to economic and industrial production growth rates. The use of methanol derivatives such as formaldehyde and acetic acid in the building industry means that building and construction cycles and the level of wood products production, housing starts, refurbishments and consumer spending are important factors in determining demand for such derivatives. Demand is also affected by automobile production, durable goods production, industrial investment and environmental and health trends, as well as new product development. Historically, chemical derivative demand for methanol has been relatively insensitive to changes in methanol prices. We believe this demand inelasticity is due to the fact that there are few cost-effective substitutes for methanol-based chemical derivative products and because methanol costs in most cases account for only a small portion of the value of many of the end products. In 2012, chemical derivative demand represented approximately 65% of total global demand.

#### ***Formaldehyde Demand***

In 2012, methanol demand for the production of formaldehyde represented approximately 32% of global methanol demand. The largest use for formaldehyde is as a component of urea-formaldehyde and phenol-formaldehyde resins, which are used as wood adhesives for plywood, particleboard, oriented strand board, medium-density fibreboard and other reconstituted or engineered wood products. There is also demand for formaldehyde as a raw material for engineering plastics and in the manufacture of a variety of other products, including elastomers, paints, building products, foams, polyurethane and automotive products.

#### ***Acetic Acid Demand***

In 2012, methanol used to produce acetic acid was approximately 11% of global methanol demand. Acetic acid is a chemical intermediate used principally in the production of vinyl acetate monomer, acetic anhydride, purified terephthalic acid and acetate solvents, which are used in a wide variety of products, including adhesives, paper, paints, plastics, resins, solvents, pharmaceuticals and textiles.

#### ***Other Chemical Derivative Demand***

The remaining chemical derivative demand for methanol is in the manufacture of methylamines, methyl methacrylate and a diverse range of other chemical products that are ultimately used to make products such as adhesives, coatings, plastics, film, textiles, paints, solvents, paint removers, polyester resins and fibres, explosives, herbicides, pesticides and poultry feed additives. Other end uses include silicone products, aerosol products, de-icing fluid, windshield washer fluid for automobiles and antifreeze for pipeline dehydration.

### ***Energy and Other Chemical Demand***

There are several energy-related uses for methanol that have developed more recently and many of these have experienced substantial growth. We believe that these energy-related uses have significant potential to grow further, particularly in an environment of higher energy prices. These include direct blending of methanol into gasoline (primarily in China), DME and biodiesel. In addition, due to favourable economics, methanol-to-olefins (MTO) is rapidly emerging in China as a competitive alternative to naphtha for producing olefins. Methanol has also been used to make MTBE, a gasoline additive, for many years. While methanol demand in energy-related applications is strongest in China, an increasing number of countries around the world have projects in place or are considering adopting these applications on a wider scale. We believe demand potential into energy-related applications, including olefins production, will continue to grow.

In 2012, methanol demand for energy-related uses continued to grow in a favourable energy demand environment and represented approximately 35% of total global methanol demand. This demand was comprised of methanol for the production of MTBE, which represented about 12% of total 2012 demand, while other energy applications, including direct blending of methanol into gasoline, DME, biodiesel, and merchant MTO (i.e. non-integrated projects) accounted for approximately 23% of total 2012 demand. Merchant MTO and fuel blending were the fastest-growing end-use segments for methanol in 2012.

### *Methanol Demand for Fuel*

Methanol may be blended into gasoline for use as a transportation fuel to reduce reliance on imported oil products and due to its clean air benefits and competitive pricing relative to gasoline. Methanol-gasoline blending in China has grown rapidly over the last several years. In addition, smaller quantities of methanol are also used directly as a cooking fuel. In 2012, we estimate that methanol demand for these fuel applications in China was approximately 6.0 million tonnes. Chinese demand for methanol blending into gasoline has remained strong due to the favourable economics of methanol compared to other gasoline components. In addition, automobile sales in China and thus gasoline demand have remained healthy. China's federal and provincial governments have implemented a range of fuel-blending standards for methanol that promote the use of methanol as a fuel. Direct methanol blending into gasoline is being used in small quantities in the United Kingdom, Netherlands and Iceland, and other countries, including Australia and Israel, are conducting fuel-blending trials.

### *Methanol-to-Olefins (MTO) Demand*

Light olefins (ethylene and propylene) are the basic building blocks used to make many plastics that have wide application in packaging, textiles, plastic parts and containers and automotive components. Olefins can be produced from various feedstocks, including naphtha, LPG, ethane and methanol. In China, olefins have historically been produced using naphtha, an oil product. Over the past two years, methanol demand into olefins has emerged as a significant new energy derivative for methanol. China is leading the commercialization of MTO, and at current energy prices, the process is cost competitive relative to the traditional production of olefins from naphtha. The first MTO plant in China started up in 2010, and there are now five plants operating in China, with the capacity to consume over seven million tonnes of methanol annually. Three of these plants were not expected to impact the merchant methanol market as they are integrated coal-to-methanol-to-olefins projects. However, over the past two years, these integrated plants have purchased merchant methanol to supplement their own methanol production. The two non-integrated plants (representing over two million tonnes of total methanol demand annually) are dependent on merchant methanol supply. Several other integrated and non-integrated projects are currently under construction in China and the demand for MTO is anticipated to continue to grow.

### *DME Demand*

DME is a clean-burning fuel that can be stored and transported like liquefied petroleum gas (LPG) and is often described as "synthetic LPG". DME, which is typically produced from methanol, can be blended up to approximately 20% with LPG and used for household cooking and heating. We believe that DME demand for blending into LPG will remain steady in the coming years, particularly in China and in an environment of higher energy prices. DME can also be used as a clean-burning substitute for diesel fuel in transportation. However, while the technology for using DME as a diesel fuel substitute is well advanced, it has not yet entered widespread commercialization. In 2011, the new "DME as city gas" national standard was implemented in China to support the country's DME industry. In 2012, global methanol demand for use in DME was estimated at approximately 3.7 million tonnes. In addition to DME production in China, DME is being produced and DME projects are under development in other countries including Japan, Taiwan, Turkey, Trinidad, the United States, India and Indonesia.

### *Biodiesel Demand*

Biodiesel is a renewable fuel made from plant oils or animal fats that requires an alcohol, such as methanol, as part of the production process. In addition, methanol is used to manufacture the catalyst employed to produce biodiesel. In 2012, global demand for methanol use in biodiesel was estimated at 2.1 million tonnes. We expect future growth in biodiesel will be driven primarily by government programs to promote energy self-sufficiency and renewable alternatives to petroleum fuels.

### *MTBE Demand*

MTBE is used primarily as an oxygenate blended in gasoline to contribute octane and reduce the amount of harmful exhaust emissions from motor vehicles. MTBE is an efficient and cost-competitive gasoline component and, as such, is increasingly used in developing countries targeting gasoline pool extension and clean air benefits at a cost lower than that of alternatives. Asia represents the majority of global MTBE demand with China being a significant and growing market. China is now the world's largest automotive market and the combination of its growing gasoline demand as well as China's desire to reduce exhaust emissions is driving new MTBE capacity additions. In Europe, MTBE demand remains impacted by the promotion of alternative oxygenates such as ETBE. In the US, MTBE production continues to increase for export markets as idled assets are restarted to take advantage of competitive feedstock prices. We believe that global demand for MTBE will experience positive growth over the coming years.

## ***Regulatory Developments Affecting Demand***

There are various studies and legislative proposals currently under way in a number of countries with respect to the carcinogenicity classification of, and the reduction of permitted exposure levels for, methanol, formaldehyde and MTBE. Such studies and proposals could lead to regulatory or other actions that could materially reduce demand for methanol. Refer to the Risk Factors and Risk Management section of our 2012 MD&A for more information regarding risks to methanol demand related to regulatory developments.

## **Supply Factors**

While a significant amount of new methanol capacity has come on stream over the past several years, a large number of methanol producers with higher cost structures have shut down plants. Methanol is predominantly produced from natural gas and is also produced from coal, particularly in China. In addition, the industry has historically operated significantly below stated capacity on a consistent basis, even in periods of high methanol prices, due primarily to shutdowns for planned and unplanned repairs and maintenance as well as shortages of feedstock and other production inputs.

Newer world-scale methanol plants have generally been constructed in remote coastal locations with access to lower cost feedstock, although this advantage is sometimes offset by higher distribution costs due to their distance to major demand markets. As regional natural gas prices fluctuate and shipping costs escalate, there may be a greater incentive to build new methanol capacity closer to customers in major markets. There is typically a span of four to six years to plan and construct a new world-scale methanol plant. As well, additional methanol supply can potentially become available by restarting methanol plants whose production has been idled, relocating methanol plants to lower production cost locations, carrying out major expansions of existing plants and de-bottlenecking existing plants to increase their production capacity.

Typical of most commodity chemicals, periods of high methanol prices encourage high-cost producers to operate at maximum rates and also encourage the construction of new plants and expansion projects, leading to the possibility of oversupply in the market. However, historically, many of the announced capacity additions have not been constructed for a variety of reasons. There are significant barriers to entry in this industry. The construction of world-scale methanol facilities requires significant capital over a long lead time, a location with access to significant natural gas or coal feedstock with appropriate pricing, and an ability to cost-effectively and reliably deliver methanol to customers.

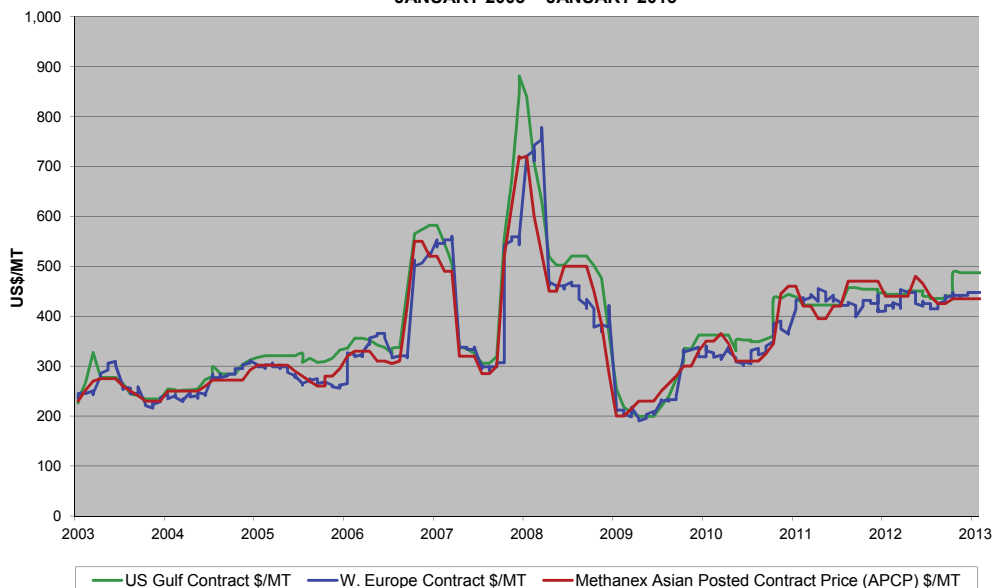
During 2012, there were two significant methanol production capacity additions outside of China that totalled approximately 1.4 million tonnes per year; our own Motunui plant restart in New Zealand (0.7 million tonnes) and the restart of a plant in Beaumont, Texas (0.7 million tonnes). Over the next two-year period to the end of 2014, it is projected that new methanol capacity, restarts and expansions outside of China will add approximately 3.0 million tonnes of annual capacity to the global industry.

With respect to China, we estimate that approximately 6.0 million tonnes of net new capacity was added in 2012. Over the next two-year period to the end of 2014, we anticipate that approximately 5.0 million tonnes of net new capacity (not including integrated MTO production) will be added to meet growing domestic methanol demand in China. The Chinese methanol industry has historically operated at low rates due to various constraints related to feedstock availability, weather restrictions (typically during winter) and technical/operational issues. Historically, there has been increasing pressure on the Chinese methanol industry's cost structure as a result of escalating feedstock costs for both coal and natural-gas-based producers, although coal prices in 2012 declined due to adequate supply and soft demand as a result of the general economic downturn. We believe that in an environment of high global energy prices and growing industrial production, methanol demand in China should continue to grow at healthy rates. We believe that this demand growth will more than offset increases of domestic production in China and thus anticipate that imports of methanol into China will continue to grow over the coming period.

## **Methanol Prices**

The methanol business is a highly competitive commodity industry and prices are affected by supply and demand fundamentals. Methanol prices have historically been, and are expected to continue to be, characterized by cyclicity. New methanol plants are expected to be built and this will increase overall production capacity. Additional methanol supply can also become available in the future by restarting idle methanol plants, carrying out major expansions of existing plants or debottlenecking existing plants to increase their production capacity. Historically, higher-cost plants have been shut down or idled when methanol prices are low, but there can be no assurance that this practice will occur in the future. Demand for methanol largely depends upon levels of global industrial production, changes in general economic conditions and energy prices.

IHS US GULF AND WESTERN EUROPE METHANOL CONTRACT PRICES AND  
METHANEX ASIAN POSTED CONTRACT PRICE (APCP)  
JANUARY 2003 - JANUARY 2013



We are not able to predict future methanol supply and demand balances, market conditions, global economic activity, methanol prices or energy prices, all of which are affected by numerous factors beyond our control. Since methanol is the only product we produce and market, a decline in the price of methanol would have an adverse effect on our results of operations and financial condition.

## PRODUCTION

### Production Process

The methanol manufacturing process used in our facilities typically involves heating natural gas, mixing it with steam and passing it over a nickel catalyst where the mixture is converted into carbon monoxide, carbon dioxide and hydrogen. This reformed gas (also known as synthesis gas or syngas) is then cooled, compressed and passed over a copper-zinc catalyst to produce crude methanol. Crude methanol consists of approximately 80% methanol and 20% water by weight. To produce chemical-grade methanol, crude methanol is distilled to remove water, higher alcohols and other impurities.

### Operating Data and Other Information

We endeavour to operate our production facilities around the world in an optimal manner to lower our overall delivered cost of methanol. Scheduled shutdowns of plants typically occur every three or more years and are necessary to change catalysts or perform maintenance activities that cannot otherwise be completed with the plant operating (a process commonly known as a turnaround), and these shutdowns typically take between three and five weeks. Catalysts generally need to be changed every three to six years depending on technology, although there is flexibility to extend catalyst life if conditions warrant. Careful planning and scheduling is required to ensure that maintenance and repairs can be carried out during turnarounds. In addition, both scheduled and unscheduled shutdowns may also occur between turnarounds. We prepare an eight-year turnaround plan that is updated annually for all of our production facilities.

The following table sets forth the annual production capacity and actual production for our facilities that operated for the last two years (in the case of Atlas and Egypt, the table reflects our equity interest share of 63.1% and 60%, respectively):

	<b>Year Built</b>	<b>Annual Production Capacity<sup>(1)</sup></b>	<b>2012 Production</b>	<b>2011 Production</b>
		(000 tonnes/year)	(000 tonnes)	(000 tonnes)
<b>Chile</b>				
Chile I	1988	882	–	–
Chile III	1999	1,088	313	554
Chile IV	2005	840	–	–
<b>Trinidad</b>				
Titan	2000	875	786	711
Atlas	2004	1,125	826	891
<b>New Zealand<sup>(2)</sup></b>				
Motunui 1	1985	950	377	–
Motunui 2	1985	950	731	830
Waitara Valley	1983	530	–	–
<b>Egypt</b>	2011	760	557	532
<b>North America</b>				
Medicine Hat, Canada <sup>(3)</sup>	1981	470	481	329
Geismar, United States <sup>(4)</sup>	–	990	–	–
<b>Total</b>		<b>9,460</b>	<b>4,071</b>	<b>3,847</b>

- (1) The annual production 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 annual production capacity due to a number of factors, including natural gas composition or the age of the facility's catalyst.
- (2) Due to the current distillation capacity constraints at the Motunui site, the current operating capacity of both plants is approximately 1.5 million tonnes, which is lower than the combined production capacity shown above of 1.9 million tonnes, depending on natural gas composition. We recently announced our commitment to debottleneck the Motunui facility and restart the Waitara Valley facility by the end of 2013.
- (3) The Medicine Hat facility was restarted in April 2011.
- (4) In July 2012, we reached a final investment decision to relocate the Chile II facility to Geismar, Louisiana in the United States. The Geismar facility is expected to commence operations by the end of 2014.

Refer to the *Production Summary* section of our 2012 MD&A for more information.

## MARKETING

We sell methanol on a worldwide basis to every major market through an extensive marketing and distribution system with marketing offices in North America (Vancouver and Dallas), Europe (Brussels), Asia Pacific (Hong Kong, Shanghai, Tokyo, Beijing and Seoul), Latin America (Santiago), and the Middle East (Dubai). Most of our customers are large global or regional petrochemical manufacturers or distributors. Refer to the Risk Factors and Risk Management section of our 2012 MD&A for more information regarding customer credit risk.

We believe our ability to sell methanol from a number of geographically dispersed production sites enhances our ability to serve major chemical and petrochemical producers as customers for whom reliability of supply and quality of service are important.

In addition to selling methanol that we produce at our own facilities, we also sell methanol that we purchase from other suppliers through methanol purchase agreements and on the spot market. This provides us with flexibility in our supply chain and allows us to continue to meet customer commitments.

## DISTRIBUTION AND LOGISTICS

All of our methanol production facilities except Medicine Hat are located adjacent to deepwater ports. Methanol is pumped from our coastal plants by pipeline to these ports for shipping. We currently own or manage a fleet of 18 ocean-going vessels to ship this methanol. We lease or own in-region storage and terminal facilities in the United States, Canada, Europe, Latin America and Asia. We also use barge, rail and, to a lesser extent, truck transport in our delivery system.

To retain optimal flexibility in managing our shipping fleet, we have entered into short-term and long-term time charter agreements covering vessels with a range of capacities. We also ship methanol under contracts of affreightment and through spot arrangements. We use larger vessels as key elements in our supply chain to move product from our production facilities to storage facilities located in major ports and for direct delivery to some customers. We also use smaller vessels capable of entering into restricted ports to deliver directly to other customers.

The cost to distribute methanol to customers represents a significant component of our operating costs. These include costs for ocean shipping, storage and distribution. We are focused on identifying initiatives to reduce these costs and we seek to maximize the use of our shipping fleet to reduce costs. We take advantage of prevailing conditions in the shipping market by varying the type and length of term of ocean vessel charter contracts. We are continuously investigating opportunities to further improve the efficiency and cost-effectiveness of distributing methanol from our production facilities to customers. We also look for opportunities to leverage our global asset position by entering into product exchanges with other methanol producers to reduce distribution costs.

Our Atlas and Titan plants in Trinidad are ideally located to supply customers in the United States and Europe. Our plant in New Zealand supplies customers in the Asia Pacific region. Our production site in Chile can supply all global regions due to its geographic location. Our Egypt plant primarily services our European markets, but can also supply Asia and North America. Our Medicine Hat plant serves our customer base in North America.

## NATURAL GAS SUPPLY

### General

Natural gas is the principal feedstock for methanol at our production facilities and accounts for a significant portion of our total production costs. Accordingly, our profitability depends in large part on both the security of supply and the price of natural gas. An important part of our strategy is to ensure long-term security of supply of natural gas feedstock. If, for any reason, we are unable to obtain sufficient natural gas for any of our plants on commercially acceptable terms or there are interruptions in the supply of contracted natural gas to our facilities, we could be forced to curtail production or close such plants. Refer to the *Risk Factors and Risk Management – Security of Natural Gas Supply and Price* section of our 2012 MD&A.

Most of the natural gas supply contracts for our production facilities are “take-or-pay” contracts denominated in United States dollars. “Take-or-pay” means that we are obliged to pay for the gas supply regardless of whether or not we take delivery. Such commitments are typical in the methanol industry. These contracts generally provide for a quantity of gas that is subject to take-or-pay terms that is lower than the maximum quantity that we are entitled to purchase and for gas which is paid for but not taken to be taken at a subsequent point in time. For all of our production facilities except Medicine Hat, the natural gas supply contracts have pricing terms with base and variable price components that 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. We believe this pricing relationship enables these facilities to be competitive throughout the methanol price cycle and provides gas suppliers with attractive returns.

### New Zealand

We have three plants in New Zealand with a total production capacity of up to 2.4 million tonnes per year. Two plants are located at Motunui and the third is located at nearby Waitara Valley. In 2012, we restarted a second Motunui facility and we recently committed to debottleneck the Motunui site and restart the Waitara Valley facility. Upon completion of the current projects in New Zealand, we expect to be able to operate the sites at a total capacity of 2.4 million tonnes, depending on natural gas composition. We have entered into several agreements with various suppliers to underpin our New Zealand operations with terms that range in length up to ten years. All agreements in New Zealand are take-or-pay agreements and include base and variable price components where the variable price component is adjusted by a formula related to methanol prices above a certain level. Some of these contracts require the supplier to deliver a minimum amount of natural gas with additional volumes dependent on the success of exploring and developing the related natural gas field.

We continue to pursue opportunities to contract additional natural gas supply to our plants in New Zealand and are also pursuing natural gas exploration and development opportunities in that country. We have an agreement with Kea Petroleum (“Kea”), an oil and gas exploration and development company, to explore areas of the Taranaki basin, which is close to our plants. Under the agreement with Kea, funding is shared 50% by both parties, and we will be entitled to all natural gas deliveries from our participation at a price that is competitive to our other locations in Trinidad, Chile and Egypt. We can elect to provide funding on a project-by-project basis and we have agreed to jointly fund an onshore exploration well with Kea in which drilling commenced in early 2013.

The future operation of our New Zealand facilities depends on methanol industry supply and demand, the ability of our contracted suppliers to meet their commitments, and the success of ongoing exploration and development activities.

## **Trinidad**

Our equity interest in two methanol facilities in Trinidad (Titan and Atlas) represents approximately 2.0 million tonnes of annual production capacity. Natural gas for these facilities is supplied under long-term take-or-pay contracts with The National Gas Company of Trinidad and Tobago Limited (NGC), which purchases the natural gas from upstream gas producers. The contracts for Titan and Atlas expire in 2014 and 2024, respectively, and have base and variable price components where the variable component is determined with reference to methanol prices.

Since 2011, large industrial consumers in Trinidad, including our Titan and Atlas facilities, have experienced periodic curtailments of natural gas supply due to a mismatch between upstream commitments to supply NGC and downstream demand from NGC's customers which becomes apparent when an upstream supplier has a technical issue or planned maintenance that reduces gas delivery. We are engaged with key stakeholders to find a solution to this issue, but in the meantime expect to continue to experience some gas curtailments to our Trinidad facilities.

## **Egypt**

We have a 25-year, take-or-pay natural gas supply agreement for the 1.26 million tonne per year methanol plant in Egypt in which we have a 60% equity interest. The plant began commercial production in March 2011. The price paid for gas is based on a US dollar base price plus a variable price component that is determined with reference to methanol prices. Under the contract, the gas supplier is obligated to supply, and we are obliged to take-or-pay for, a specified annual quantity of natural gas. Gas paid for, but not taken, in any year may be received in subsequent years subject to limitations. In addition, the natural gas supply agreement has a mechanism whereby we are partially compensated when gas delivery shortfalls occur.

The Egypt facility experienced periodic natural gas supply constraints commencing in mid-2012 (refer to the Egypt section on page 18 for more information).

## **Canada**

We have a 0.5 million tonne per year plant in Medicine Hat, Alberta that returned to production in April 2011. We currently have a program in place to purchase natural gas for this facility on AECO – the Alberta gas trading market – and we believe that the long-term natural gas dynamics in North America will support the long-term operations of this facility.

## **Chile**

Since 2007, we have operated our methanol facilities in Chile significantly below site capacity primarily due to curtailments of natural gas supply from Argentina. In June 2007, our natural gas suppliers from Argentina curtailed all gas supply to our plants in Chile. Under the existing circumstances, we do not expect to receive any further natural gas supply from Argentina. As a result of the Argentinean natural gas supply issues, all of the methanol production at our Chile facilities since June 2007 has been produced with natural gas from Chile.

We continue to operate our Chile facilities significantly below site capacity. Our methanol facilities in Chile produced 0.3 million tonnes of methanol in 2012 compared to 0.55 million tonnes in 2011. During 2012, natural gas deliveries were lower than in 2011 primarily as a result of declines in deliverability from existing wells. While both Methanex and its natural gas suppliers have made significant investments in natural gas exploration and development in southern Chile and there have been new gas discoveries in the region, the potential for a significant increase in gas deliveries to our plants is more challenging than we originally anticipated. As we entered 2013, we were operating one plant at approximately 20% capacity and we expect to idle our Chile operations in March 2013 due to insufficient natural gas feedstock to keep the plant operating through the southern hemisphere winter, when residential energy demand is at its peak.

We are continuing to work with gas suppliers to secure sufficient natural gas to sustain our operations and while the restart of a Chile plant is possible later in 2013, the restart is dependent on securing a sustainable supply of natural gas to operate over the medium term.

We are also developing other projects to increase the utilization of our Chilean assets. In July 2012, we reached a final investment decision to proceed with the relocation of one of our four plants in Chile to Geismar, Louisiana. We are also evaluating the relocation of a second plant from Chile to Geismar and expect to make a final investment decision on this project by the middle of 2013.

Refer to the *Risk Factors and Risk Management – Chile* section of our 2012 MD&A for more information.



## United States

We are in the process of relocating one of our idled Chile methanol plants to Geismar, Louisiana. It is anticipated that this plant will have a production capacity of 1.0 million tonnes and commence operations by the end of 2014. We have recently entered into a ten-year natural gas agreement for the supply of all of the plant's natural gas requirements. Contractual deliveries and obligations commence on the first date of commercial operations. Once the contract is in effect, the supplier is obligated to supply, and we are obliged to take and pay for, a specified annual quantity of natural gas. The price to be paid for the gas is based on a US dollar base price plus a variable price component that is determined with reference to methanol prices.

## FOREIGN OPERATIONS AND GOVERNMENT REGULATION

### General

We have substantial operations and investments outside of North America, and as such we are affected by foreign political developments and federal, provincial, state and other local laws and regulations. We are subject to risks inherent in foreign operations, including loss of revenue, property and equipment as a result of expropriation; import or export restrictions; anti-dumping measures; nationalization, war, civil unrest, insurrection, acts of terrorism and other political risks; increases in duties, taxes and governmental royalties; renegotiation of contracts with governmental entities; as well as changes in laws or policies or other actions by governments that may adversely affect our operations.

We derive the majority of our revenue from production and sales by subsidiaries outside of Canada, and the payment of dividends or the making of other cash payments or advances by these subsidiaries to us may be subject to restrictions or exchange controls on the transfer of funds in or out of the respective countries or result in the imposition of taxes on such payments or advances. We have organized our foreign operations in part based on certain assumptions about various tax laws (including capital gains and withholding taxes), foreign currency exchange and capital repatriation laws and other relevant laws of a variety of foreign jurisdictions. While we believe that such assumptions are reasonable, we cannot provide assurance that foreign taxation or other authorities will reach the same conclusion. Further, if such foreign jurisdictions were to change or modify such laws, we could suffer adverse tax and financial consequences.

The dominant currency in which we conduct business is the United States dollar, which is also our reporting currency. The most significant components of our costs are natural gas feedstock and ocean-shipping costs and substantially all of these costs are incurred in United States dollars. Some of our underlying operating costs, capital expenditures and purchases of methanol, however, are incurred in currencies other than the United States dollar, principally the Canadian dollar, the Chilean peso, the Trinidad and Tobago dollar, the New Zealand dollar, the Euro and the Egyptian pound. We are exposed to increases in the value of these currencies that could have the effect of increasing the United States dollar equivalent of cost of sales, operating expenses and capital expenditures. A portion of our revenue is earned in Euros, Canadian dollars and British pounds. We are exposed to declines in the value of these currencies compared to the United States dollar, which could have the effect of decreasing the United States dollar equivalent of our revenue.

Trade in methanol is subject to duty in a number of jurisdictions. Methanol sold in China from any of our producing regions is currently subject to duties ranging from 0% to 5.5%. In 2010, the Chinese Ministry of Commerce investigated allegations made by domestic Chinese producers related to the dumping into China of imported methanol. In December 2010, the Ministry recommended that duties of approximately 9% be imposed on methanol imports from New Zealand, Malaysia and Indonesia for five years starting from December 24, 2010. However, citing special circumstances, the Customs Tariff Commission of the State Council, which is China's chief administrative authority, suspended enforcement of the recommended dumping duties with the effect that methanol will continue to be allowed to be imported from these three countries without the imposition of additional duties. If the suspension is lifted, we do not expect there to be a significant impact on industry supply/demand fundamentals and we would realign our supply chain.

Currently, the costs we incur in respect of duties are not significant. However, there can be no assurance that the duties that we are currently subject to will not increase, that the suspension of Chinese dumping duties will not be lifted, that duties will not be levied in other jurisdictions in the future or that we will be able to mitigate the impact of future duties, if levied.

## **Chile**

Our wholly owned subsidiary Methanex Chile S.A. (“Methanex Chile”) owns three methanol plants on our Chilean production site. Chilean foreign investment regulations provide certain benefits and guarantees to companies that enter into a foreign investment contract (“DL 600 Contract”) with Chile. Methanex Chile has entered into DL 600 Contracts, substantially identical in all matters material for Methanex Chile, for each of the plants. Under the DL 600 Contracts, Methanex Chile is authorized to remit from Chile, in United States dollars or any other freely convertible currency, all or part of its profits and, after one year, its equity. As well, under the DL 600 Contracts, Methanex Chile has elected to pay income tax at the general applicable rate, currently 35%. The DL 600 Contracts provide that they cannot be amended or terminated except by written agreement.

Please also refer to the *Natural Gas Supply – Chile* section starting on page 16 for a discussion of the imposition of a significant increase to the duty on exports of natural gas from Argentina to Chile.

## **Trinidad**

Our Atlas plant was declared an approved enterprise under the *Fiscal Incentives Act* of Trinidad and was granted, for a ten-year period beginning in 2004, total relief from corporate income tax for the first two years of operation, a rate of 15% for the following five years and a rate of 20% for the following three years. Atlas also has total relief from income tax on dividends or other distributions out of profits or gains derived from the manufacture of methanol (other than interest) and has been granted import duty concessions on building materials, machinery and equipment imported into Trinidad and used in connection with the facility. The applicable corporate income tax rate without tax relief is currently 35%.

## **New Zealand**

New Zealand has enacted legislation to safeguard claims by Maori tribes (the indigenous people of New Zealand) against lands previously owned by state-owned enterprises and subsequently privatized. The land on which certain parts of the infrastructure for the Waitara Valley and Motunui plants are located (for example, a tank farm and various pipelines and pipeline valve and mixing stations) is subject to this legislation. There is a possibility that the tribunal that deals with Maori land claims could recommend the return of such land to Maori ownership. The New Zealand government would be required to comply with such a recommendation, subject to payment of compensation to the affected owner. We believe that, subject to receiving adequate compensation, such a forced divestment would not likely have a material adverse effect on our operations or financial condition. The land upon which the Waitara Valley and Motunui plants are located and the surrounding buffer zones of farmland owned by us are not subject to such forced divestment procedures.

## **Egypt**

Egypt’s government is currently in a transition that has resulted in ongoing civil unrest, political uncertainty and an adverse impact on the country’s economy. We believe that the political uncertainty is causing delays in decision-making within the Egyptian government including with respect to upstream natural gas development and this, as well as the economic situation in the country, is contributing to constraints in the development of new supplies of natural gas coming to market. In addition, domestically-produced natural gas is increasingly being used instead of more expensive imported energy for the purpose of generating domestic electricity. These factors have led to periodic natural gas supply restrictions to the EMethanex facility. This situation may persist in the future and become more acute during the summer months when electricity demand is at its peak.

## **RESPONSIBLE CARE**

As a member of the Chemistry Industry Association of Canada (“CIAC”), the American Chemistry Council, Asociacion Gremial de Industriales Quimicos de Chile, Responsible Care New Zealand and Gulf Petrochemicals and Chemicals Association, and as a signatory to the Association of International Chemical Manufacturers Responsible Care Manifesto (China), we are committed to the ethics and principles of Responsible Care.

Responsible Care is the umbrella under which we manage our business in relation to health, safety, the environment, community involvement, social responsibility, sustainability, security and emergency preparedness at each of our facilities and locations.

Accordingly, we have established policies, systems and procedures to promote and encourage the responsible development, introduction, manufacture, transportation, storage, handling, distribution and use of methanol and ultimate disposal of hazardous waste and residual chemical products so as to do no harm to human health and well-being, the environment and the communities in which we operate while striving to improve the environment and people’s lives.

Methanex's Responsible Care/Social Responsibility ("RC/SR") policies and programs are based on CIAC's RC Ethic and Principles for Sustainability and the CIAC RC Codes of Practice. Some of the countries where we operate have different standards than those applied in North America. Our policy is to adopt the more stringent of either Responsible Care practices or local regulatory or association requirements at each of our facilities.

Sound corporate governance is the foundation of our long-term success and the sustainability of our operations. Our corporate governance policies ensure that we have strong management and clear direction for all of Methanex's business affairs. The application of Responsible Care begins with our Board of Directors, which has appointed a Responsible Care Committee, and extends throughout our organization.

The Company's Board of Directors and senior management team establish the direction for Methanex's RC/SR practices. The Board's Responsible Care Committee oversees RC program performance and related matters at the policy level, while the Public Policy Committee provides focus on the SR program. The two committees consider ethics, accountability, governance, business relationships, products and services, community involvement and the protection of people and the environment. The senior management team has overall responsibility for Methanex's RC/SR policies and programs, ensuring that they align with the Board's requirements and the Company's business strategy. These programs are directed and managed by the Director, Responsible Care and the Director, Government & Public Affairs, who lead Methanex's Global Responsible Care Team and Global Public Policy Team, respectively.

Methanex evaluates the performance of its RC/SR management system through internal and third-party external audit and assessment programs. The internal program includes ongoing in-region self-audits as well as global audits conducted by Methanex subject matter experts. Third-party verification of the performance of Methanex's RC/SR program occurs every three years through the CIAC RC verification process. The most recent third-party verification was successfully completed in 2011.

We have an established Environment Policy that requires that our facilities have systems in place to monitor and comply with all local environmental regulations as well as internal standards, periodically audit environmental performance and compliance, measure environmental performance against key performance indicators, report incidents with the potential to cause environmental harm, and demonstrate continual improvement. A Greenhouse Gas ("GHG") Management Policy was introduced in 2010 in order to identify and address the risks associated with GHG emissions. The policy directs the Company to consider the GHG-related risks when assessing new investments, improve reliability and utilization performance, evaluate energy-efficiency improvement opportunities and keep an inventory of GHG emissions. These policies are reviewed at least biennially, are endorsed by the Board of Directors and approved by the Company's senior management team.

We have also adopted a number of risk assessment tools that are formally applied as part of our normal business processes to identify and mitigate current and future environmental and process safety-related risks. When incidents do occur, we have a formal incident investigation process that ensures effective mitigation as well as application of lessons learned throughout our organization.

As a natural extension of our RC ethic, we have a Social Responsibility Policy that aligns our corporate governance, employee engagement and development, community involvement and social investment strategies with our core values and corporate strategy. Specifically, our Social Responsibility Policy commits the Company to recognize and respond to community concerns about the manufacture, storage, handling, transportation and disposal of our products and promptly provide information concerning any potential health or environmental hazard to the appropriate authorities, employees and all stakeholders. Methanex's Social Responsibility Policy further commits the Company to have an open, honest, proactive relationship with the communities where we have a significant presence; to be accountable and responsive to the public; to have effective processes to identify and respond to community concerns; and to inform the community of risks associated with our operations.

We believe that Responsible Care helps us achieve safe and reliable operations, which in turn results in strong financial performance, effective and innovative minimization of environmental impacts and improved quality of life, particularly in communities where our employees reside.

## **ENVIRONMENTAL MATTERS**

The countries in which we operate all have laws and regulations to which we are subject governing the environment and the management of natural resources as well as the handling, storage, transportation and disposal of hazardous or waste materials. We are also subject to laws and regulations governing emissions and the import, export, use, discharge, storage, disposal and transportation of toxic substances. The products we use and produce are subject to regulation under various health, safety and environmental laws. Non-compliance with these laws and regulations may give rise to compliance orders, fines, injunctions, civil liability and criminal sanctions.

Laws and regulations protecting the environment have become more stringent in recent years and may, in certain circumstances, impose absolute liability rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. Such laws and regulations may also expose us to liability for the conduct of, or conditions caused by, others, or for our own acts even if we complied with applicable laws at the time such acts were performed. To date, environmental laws and regulations have not had a significant adverse effect on our capital expenditures, earnings or competitive position. However, operating petrochemical manufacturing plants and distributing methanol exposes us to risks in connection with compliance with such laws and we cannot provide assurance that we will not incur significant costs or liabilities in the future.

## **Management of Emissions**

We believe that minimizing emissions and waste from our business activities is good business practice. Carbon dioxide (“CO<sub>2</sub>”) is a by-product of the methanol production process. The amount of CO<sub>2</sub> generated by the methanol production process depends on the production technology (and hence often the plant age), the feedstock and any export of by-product hydrogen. We continually strive to increase the energy efficiency of our plants, which not only reduces the use of energy but also minimizes CO<sub>2</sub> emissions. We have reduced CO<sub>2</sub> emission intensity in our manufacturing operations by 30% between 1994 and 2012 through asset turnover, improved plant reliability and energy efficiency and emissions management. Plant efficiency, and thus CO<sub>2</sub> emissions, is highly dependent on the design of the methanol plant, so the CO<sub>2</sub> emission figure may vary from year to year depending on the asset mix that is operating. We also recognize that CO<sub>2</sub> is generated from our marine operations, and in that regard we measure the consumption of fuel by our ocean vessels based on the volume of product transported. Between 2002 and 2012, we reduced our CO<sub>2</sub> intensity (tonnes of CO<sub>2</sub> from fuel burned per tonne of product moved) from marine operations by nearly 27%. We also actively support global industry efforts to voluntarily reduce both energy consumption and CO<sub>2</sub> emissions.

We manufacture methanol in Chile, Trinidad, New Zealand, Canada and Egypt. All of these countries signed and ratified the Kyoto Protocol; however, Canada has since removed itself from that Agreement. We are not currently required to reduce GHGs in Trinidad, Egypt and Chile but our production in New Zealand and Canada is subject to GHG reduction regulations.

New Zealand passed legislation to establish an Emissions Trading Scheme (“ETS”) that came into force in 2010. The ETS imposes a carbon price on producers of fossil fuels, including natural gas, which is passed on to Methanex, increasing the cost of gas that Methanex purchases in New Zealand. However, as a trade-exposed company, Methanex is entitled to a free allocation of emissions units to partially offset those increased costs. Recently, the New Zealand government concluded that the legislation will continue providing further moderation and free allocation of any residual cost exposure until at least 2015. Consequently, our ETS-related costs are not expected to be significant to the end of 2015. However, after this date, the moderating features are expected to be removed and our eligibility for free allocation of emissions units may also be progressively reduced. As a consequence, we will likely incur increasing costs after 2015. It is impossible to accurately quantify the impact on our business of ETS-related costs after 2015 and therefore we cannot provide assurance that the ETS will not have a significant impact on our business beyond 2015.

Our Medicine Hat facility is located in the Canadian province of Alberta, which has an established GHG reduction regulation that applies to our plant. The regulation requires that facilities reduce emissions intensities by up to 12% of their established emissions intensity baseline. “Emissions intensity” means the quantity of specified greenhouse gases released per unit of production. In order to meet the reduction obligation, a facility can choose to make emissions reduction improvements or it can purchase either offset credits or “technology fund” credits for CDN\$15 per tonne of CO<sub>2</sub> equivalent. Financial obligations are set to begin in 2014, and based on the expected GHG baseline intensity, we do not believe that the cost will be material.

The federal government of Canada is in the process of developing a sector-by-sector approach to reduce GHG emissions in the chemical sector in support of its commitment to reduce GHGs from 2005 levels by 17% by 2020. Final proposed regulations are expected by the end of 2013. As the sole methanol producer in Canada, Methanex is engaged in a consultative process to ensure achievable performance standards are set and that these incorporate equivalency agreements to prevent the potential of paying for GHG emissions under both provincial and federal regimes.

We are currently in the process of relocating one of our idle methanol plants in Chile to Geismar, Louisiana. The reassembled plant in Geismar is expected to be operational by the end of 2014. Today, there is no GHG legislation that impacts us in the US. We continue to monitor the development of potential GHG legislation in the US and Louisiana to ensure compliance with any potential future requirements once the plant becomes operational. At this time, it is unknown what impact potential new GHG legislation or regulations could have on our operations in Geismar.

As part of our commitment to the ethic of Responsible Care, we believe it is important to promote renewable energy where it makes sense for our business. In this regard, we have constructed three wind turbines in southern Chile that were completed in late 2010 and are now supplying electricity to our nearby production facility. The wind power site has an installed generation capacity of 2.55 megawatts with an expected generation capacity of 1.28 megawatts based on a usage factor of approximately 50%. This project contributes to the diversification of energy resources in southern Chile.

Refer also to the *Risk Factors and Risk Management* section of our 2012 MD&A for more information regarding risks related to environmental regulations.

We have accrued \$23 million for site restoration costs related to the decommissioning and reclamation of our methanol production sites and oil and gas properties. During 2012, cash expenditures applied against the site restoration liability were \$2.4 million for completing remediation of the Kitimat site.

## **INSURANCE**

The majority of our revenues are derived from the sale of methanol produced at our plants. Our business is subject to the normal hazards of methanol production operations that could result in damage to our plants. Under certain conditions, prolonged shutdowns of plants due to unforeseen equipment breakdowns, interruptions in the supply of natural gas or oxygen, power failures, loss of port facilities or any other event, including any event of force majeure, could adversely affect our revenues and operating income. We maintain operational and construction insurance, including business interruption insurance and delayed start-up insurance, subject to certain deductibles, that we consider to be adequate under the circumstances. However, there can be no assurance that we will not incur losses beyond the limits or outside the coverage of such insurance. From time to time, various types of insurance for companies in the chemical and petrochemical industries have not been available on commercially acceptable terms or, in some cases, have been unavailable. There can be no assurance that in the future we will be able to maintain existing coverage, or that premiums will not increase substantially.

## **COMPETITION**

The methanol industry is highly competitive. Methanol is a global commodity and customers base their purchasing decisions primarily on the delivered price of methanol and reliability of supply. The relative cost and availability of natural gas or coal feedstock and the efficiency of production facilities and distribution systems are also important competitive factors. Some of our competitors are not dependent on a single product for revenues, some have greater financial resources and some are state-owned enterprises. These competitors may be better able than we are to withstand price competition and volatile market conditions. However, given our ability to service our customers globally, the reliability and cost-effectiveness of our distribution system and the enhanced service we provide customers, we believe we are well positioned to compete in each of the major international methanol markets.

## **EMPLOYEES**

As of December 31, 2012, we had 1,051 employees (including the employees at the EMethanex and Atlas facilities).

## **RISK FACTORS**

The risks relating to our business are described under the heading *Risk Factors and Risk Management* in our 2012 MD&A, and are incorporated in this document by reference. Any of those risks, as well as risks and uncertainties currently not known to us, could adversely affect our business, financial condition, results of operations or the market price of our securities.

## **DIVIDENDS**

Dividends are payable to the holders of common shares of the Company (“Common Shares”) if, as and when declared by our Board of Directors and in such amounts as the Board of Directors may, from time to time, determine. The Company’s current dividend policy is designed so that the Company maintains conservative financial management appropriate to the historically cyclical nature of the methanol industry to preserve financial flexibility and creditworthiness.

We pay a quarterly dividend on the Common Shares. The first quarterly dividend of \$0.05 per share was paid on September 30, 2002 and the dividend amount has been increased every year since then with the exception of 2009 and 2010. The table below shows the amount and percentage increases to the dividend since its inception in 2002:

<b>Date</b>	<b>Quarterly Dividend Amount</b>	<b>% Increase</b>
September 30, 2002	\$0.050	n/a
September 30, 2003	\$0.060	20%
September 30, 2004	\$0.080	33%
June 30, 2005	\$0.110	37.5%
June 30, 2006	\$0.125	14%
June 30, 2007	\$0.140	12%
June 30, 2008	\$0.155	11%
June 30, 2009	\$0.155	0%
June 30, 2010	\$0.155	0%
June 30, 2011	\$0.170	10%
June 30, 2012	\$0.185	9%

The following table sets out the total amount of regular dividends per share paid on the Common Shares in each of the last three most recently completed financial years:

<b>Financial Year Ended</b>	<b>Regular Dividend Paid per Share</b>
December 31, 2010	\$0.620
December 31, 2011	\$0.665
December 31, 2012	\$0.725

## **CAPITAL STRUCTURE**

We are authorized to issue an unlimited number of Common Shares without nominal or par value and 25,000,000 preferred shares without nominal or par value.

Holders of Common Shares are entitled to receive notice of and attend all annual and special meetings and to one vote in respect of each Common Share held; receive dividends if, as and when declared by our Board of Directors; and participate in any distribution of the assets of the Company in the event of liquidation, dissolution or winding up.

Preferred shares may be issued in one or more series and the directors may fix the designation, rights, restrictions, conditions and limitations attached to the shares of each such series. Currently, there are no preferred shares outstanding.

Our bylaws provide that at any meeting of our shareholders a quorum shall be two persons present in person, or represented by proxy, holding shares representing not less than 20% of the votes entitled to be cast at the meeting. NASDAQ's listing standards require a quorum for shareholder meetings to be not less than 33-1/3% of a company's outstanding voting shares. As a foreign private issuer and because our quorum requirements are consistent with practices in Canada, our home country, under NASDAQ rules we are not subject to NASDAQ's quorum requirement.

## **RATINGS**

The following information relating to the Company's credit ratings is provided as it relates to the Company's financing costs, liquidity and operations. Specifically, credit ratings affect the Company's ability to obtain short-term and long-term financing and the cost of such financing. Additionally, the ability of the Company to engage in certain collateralized business activities on a cost-effective basis depends on the Company's credit ratings. A reduction in the current rating on the Company's debt by its rating agencies, or a negative change in the Company's ratings outlook could adversely affect the Company's cost of financing and its access to sources of liquidity and capital. In addition, changes in credit ratings may affect the Company's ability to, and the associated costs of: (i) entering into ordinary course derivative or hedging transactions that may require the Company to post additional collateral under certain of its contracts, and (ii) entering into and maintaining ordinary course contracts with customers and suppliers on acceptable terms.

The following table sets forth the ratings assigned to the Company's unsecured debt by Standard & Poor's Financial Services LLC ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings, Inc. ("Fitch").

Security	S&P <sup>(1)</sup>	Moody's <sup>(2)</sup>	Fitch <sup>(3)</sup>
Unsecured Notes	BBB- (stable outlook)	Ba1 (positive outlook)	BBB- (stable outlook)

- (1) S&P credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. According to the S&P rating system, debt securities rated BBB exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments on the securities. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.
- (2) Moody's credit ratings are on a long-term debt rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. According to the Moody's rating system, debt securities rated Baa are subject to moderate risk. They are considered as medium-grade obligations and, as such, may possess certain speculative characteristics. Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through Caa in its corporate bond rating system. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.
- (3) Fitch credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. According to the Fitch rating system, debt securities rated BBB indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity. The ratings from AA to B may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

The rating agencies regularly evaluate the Company, and their ratings of the Company's long-term and short-term debt are based on a number of factors, including the Company's financial strength as well as factors not entirely within the Company's control, including conditions affecting the methanol industry generally and the wider state of the economy.

Credit ratings are intended to provide investors with an independent measure of the quality of an issue of securities. The foregoing ratings should not be construed as a recommendation to buy, sell or hold the securities, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant. If any such rating is so revised or withdrawn, we are under no obligation to update this Annual Information Form.

#### MARKET FOR SECURITIES

Our Common Shares are listed on the Toronto Stock Exchange in Canada (trading symbol: MX), on the NASDAQ Global Market in the United States (trading symbol: MEOH) and on the Foreign Securities Market of the Santiago Stock Exchange of Chile (trading symbol: Methanex). The following table sets out the market price ranges and trading volumes of our Common Shares on the Toronto Stock Exchange as well as on the NASDAQ Global Market for each month of our most recently completed financial year (January 1, 2012 through December 31, 2012).

2012 Trading Volumes							
The Toronto Stock Exchange Trading Symbol: MX				NASDAQ Global Market Trading Symbol: MEOH			
	High (CDN\$)	Low (CDN\$)	Volume		High (US\$)	Low (US\$)	Volume
January	28.55	23.66	5,983,245	January	28.48	23.17	2,429,940
February	31.25	27.21	7,634,522	February	31.61	27.28	2,012,711
March	33.92	29.44	9,298,763	March	34.37	29.36	2,659,427
April	34.97	30.06	5,443,497	April	35.47	29.96	2,993,238
May	35.00	28.16	6,125,729	May	35.41	27.56	3,446,883
June	31.30	26.19	6,349,713	June	30.62	25.58	3,793,255
July	30.25	26.55	5,125,976	July	30.01	26.30	2,104,285
August	29.57	26.04	4,240,797	August	29.83	25.87	2,188,513
September	29.53	26.15	4,934,035	September	30.12	26.59	2,099,892
October	30.60	27.79	4,571,418	October	30.56	28.20	1,925,138
November	30.87	28.54	4,387,963	November	31.02	28.49	1,160,497
December	31.91	30.11	4,833,981	December	32.38	30.34	1,153,736

## DIRECTORS AND EXECUTIVE OFFICERS

As at December 31, 2012, the directors and executive officers of the Company owned, controlled or directed, directly or indirectly, 506,618 Common Shares representing approximately 0.54% of the outstanding Common Shares as at December 31, 2012.

The following tables set forth the names and places of residence of the current directors and executive officers of the Company, the offices held by them in the Company, their current principal occupations, their principal occupations during the last five years and, in the case of the directors, the month and year in which they became directors:

Name and Municipality of Residence	Office	Principal Occupations and Positions During the Last Five Years	Director Since <sup>(11)</sup>
AITKEN, BRUCE <sup>(4)(5)</sup> Vancouver, British Columbia Canada	Director	Corporate Director. President and Chief Executive Officer of the Company from May 2004 to December 31, 2012.	July 2004
BALLOCH, HOWARD <sup>(1)(4)</sup> Beijing China	Director	Corporate Director. Chairman of Canaccord Genuity Asia Limited <sup>(6)</sup> from January 2011 to March 2013; prior thereto President of The Balloch Group since July 2001.	December 2004
COOK, PHILLIP <sup>(4)(5)</sup> Austin, Texas USA	Director	Corporate Director.	May 2006
FLOREN, JOHN Eastham, Massachusetts USA	Director, President and Chief Executive Officer	President and Chief Executive Officer of the Company since January 1, 2013; prior thereto Senior Vice President, Global Marketing & Logistics of the Company since June 2005.	January 2013
HAMILTON, THOMAS Houston, Texas USA	Director and Chairman of the Board	Corporate Director. Co-owner of Medora Investments, LLC <sup>(7)</sup> since April 2003.	May 2007
KOSTELNIK, ROBERT <sup>(2)(5)</sup> Corpus Christi, Texas USA	Director	Corporate Director. Since February 2012, principal in GlenRock Recovery Partners, LLC <sup>(8)</sup> . President and Chief Executive Officer of Cinatra Clean Technologies, Inc. from 2008 to May 2011.	September 2008
MAHAFFY, DOUGLAS <sup>(2)(3)</sup> Toronto, Ontario Canada	Director	Corporate Director. Chairman of McLean Budden Limited <sup>(9)</sup> from February 2008 until March 2010.	May 2006
POOLE, A. TERENCE <sup>(1)(4)</sup> Calgary, Alberta Canada	Director	Corporate Director.	February 1994 except for June – September 2003
REID, JOHN <sup>(1)(3)</sup> Vancouver, British Columbia Canada	Director	Corporate Director.	September 2003
RENNIE, JANICE <sup>(1)(3)</sup> Edmonton, Alberta Canada	Director	Corporate Director.	May 2006
SLOAN, MONICA <sup>(2)(5)</sup> Calgary, Alberta Canada	Director	Corporate Director. Chief Executive Officer of Intervera Ltd. <sup>(10)</sup> from January 2004 to December 2008.	September 2003

(1) Member of the Audit, Finance and Risk Committee.

(2) Member of the Corporate Governance Committee.

(3) Member of the Human Resources Committee.

(4) Member of the Public Policy Committee.

(5) Member of the Responsible Care Committee.

(6) Canaccord Genuity Asia Limited is an investment banking firm specializing in China and international firms active in the Chinese market.

(7) Medora Investments, LLC is a private investment firm.

(8) GlenRock Recovery Partners, LLC is a company that facilitates the sale of non-fungible hydrocarbons in the United States.

(9) McLean Budden Limited (currently MFS McLean Budden) is an investment management firm that manages over \$30 billion in assets for pension, foundation and private clients in Canada, the United States, Europe and Asia.

(10) Intervera Ltd. provided data quality products and services to the energy industry.

(11) The Directors of the Company are elected each year at the Annual General Meeting of the Company and hold office until the close of the next Annual General Meeting or until their successors are elected or appointed.



<b>Name and Municipality of Residence</b>	<b>Office</b>	<b>Principal Occupations and Positions During the Last Five Years</b>
BACH, WENDY L. West Vancouver, British Columbia Canada	Vice President, Human Resources	Vice President, Human Resources of the Company since July 2012; prior thereto Director, Human Resources of the Company since June 2010; prior thereto Senior Counsel of the Company since October 2007.
CAMERON, IAN P. Vancouver, British Columbia Canada	Senior Vice President, Finance and Chief Financial Officer	Senior Vice President, Finance and Chief Financial Officer of the Company since January 2013; prior thereto Senior Vice President, Corporate Development and Chief Financial Officer of the Company since November 2010; prior thereto Senior Vice President, Finance and Chief Financial Officer of the Company since January 1, 2003.
HERZ, MICHAEL J. Hong Kong (SAR) People's Republic of China	Senior Vice President, Corporate Development	Senior Vice President, Corporate Development of the Company since January 2013; prior thereto Vice President, Marketing and Logistics, Asia Pacific of the Company since August 2008; prior thereto Director, Marketing and Logistics, Asia Pacific of the Company since August 2004.
JAMES, VANESSA L. New Plymouth New Zealand	Senior Vice President, Global Marketing and Logistics	Senior Vice President, Global Marketing and Logistics of the Company since January 2013; prior thereto Vice President, Marketing and Logistics, North America of the Company since August 2008; prior thereto Director, Global Supply Chain and Market Planning of the Company since January 2008.
MACDONALD, MICHAEL G. Vancouver, British Columbia Canada	Senior Vice President, Global Operations	Senior Vice President, Global Operations of the Company since November 2010; prior thereto Senior Vice President, Corporate Development of the Company since January 2004.
MILNER, RANDALL M. Vancouver, British Columbia Canada	Senior Vice President, General Counsel and Corporate Secretary	Senior Vice President, General Counsel and Corporate Secretary of the Company since October 2002.
SCHIODTZ, PAUL Santiago Chile	Senior Vice President, Latin America	Senior Vice President, Latin America of the Company since January 1, 2006.
WEAKE, HARVEY Auckland New Zealand	Senior Vice President, Asia Pacific	Senior Vice President, Asia Pacific of the Company since December, 2005.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Since the start of our most recently completed financial year, and for the three most recently completed financial years, no director or executive officer of the Company, and no person or company that beneficially owns, controls or directs, directly or indirectly, more than 10% of the Company's voting securities or any associate or affiliate of such persons, has had any material interest in any transaction involving the Company.

## **EXPERTS**

KPMG LLP are the auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia and within the meaning of the US Securities Act of 1933 and the applicable rules and regulations thereunder adopted by the Securities and Exchange Commission and the Public Company Accounting Oversight Board (United States).

## **LEGAL PROCEEDINGS**

The Board of Inland Revenue of Trinidad and Tobago has issued assessments against our 63.1% owned joint venture, Atlas Methanol Company Unlimited ("Atlas"), in respect of the 2005 and 2006 financial years. All subsequent tax years remain open to assessment. The assessments relate to the pricing arrangements of certain long-term fixed-price sales contracts that extend to 2014 and 2019 related to methanol produced by Atlas. The impact of the amounts in dispute for the 2005 and 2006 financial years is not significant. Atlas has partial relief from corporation income tax until 2014.

The Company has lodged an objection to the assessments. Based on the merits of the case and legal interpretation, management believes its position should be sustained.

## AUDIT COMMITTEE INFORMATION

### The Audit Committee Charter

The Audit, Finance and Risk Committee (“Committee”) is appointed by the Board to assist the Board in fulfilling its oversight responsibility relating to: the integrity of the Company’s financial statements; the financial reporting process; the systems of internal accounting and financial controls; the professional qualifications and independence of the external auditors; the performance of the external auditors; risk management processes; financing plans; pension plans; and compliance by the Company with ethics policies and legal and regulatory requirements.

The Committee’s mandate sets out its responsibilities and duties. A copy of the Committee’s mandate is attached here as Appendix “A”.

### Composition of the Audit Committee

The Committee is comprised of four directors: A. Terence Poole (Chair), Howard Balloch, John Reid and Janice Rennie. Each Committee member is independent and financially literate. Mr. Poole is designated as the “audit committee financial expert”. The U.S. Securities and Exchange Commission has indicated that the designation of Mr. Poole as an audit committee financial expert does not make Mr. Poole an “expert” for any other purpose, impose any duties, obligations or liability on Mr. Poole that are greater than those imposed on members of the Committee and Board who do not carry this designation or affect the duties, obligations or liability of any other member of the Committee.

### Relevant Education and Experience

The following is a brief summary of the education and experience of each member of the Committee that is relevant to the performance of his or her responsibilities as a member of the Committee, including any education or experience that has provided the member with an understanding of the accounting principles we use to prepare our annual and interim financial statements.

#### *Mr. A. Terence Poole*

Mr. Poole is a corporate director. Prior to his retirement in June 2006, he was Executive Vice President, Corporate Strategy and Development of NOVA Chemicals Corporation (“NOVA”), a commodity chemical company with international operations. Prior to that position, Mr. Poole was the Executive Vice President, Finance and Strategy of NOVA from 1998 to 2000; Senior Vice President and Chief Financial Officer of NOVA from 1994 to 1998; and held other senior financial positions with NOVA from 1988. He has worked at other large public companies in various financial and business management capacities since 1971.

Mr. Poole is a Chartered Accountant and holds a Bachelor of Commerce degree from Dalhousie University in Halifax, Nova Scotia. Mr. Poole is a member of the Canadian, Quebec and Ontario Institutes of Chartered Accountants and is also a member of Financial Executives International.

Mr. Poole serves on the board of Pengrowth Energy Corporation and chairs its Audit Committee.

Mr. Poole has served on the Committee since September 2003, as well as from February 1994 to June 2003. Mr. Poole has chaired the Committee since May 2006.

#### *Mr. Howard Balloch*

From January 2011 until March 2013, Mr. Balloch was Chairman of Canaccord Genuity Asia Limited, an investment banking firm specializing in China and international firms active in China. Prior to this Mr. Balloch was President of The Balloch Group for 10 years, a private investment advisory and merchant banking firm specializing in China and other Asian markets. Both these positions were based in Beijing, China.

Through Mr. Balloch’s 12 years’ experience leading private investment banking firms, he has a deep understanding of finance and capital markets.

Mr. Balloch holds a Bachelor of Arts (Honours) in Political Science and Economics and a Master’s degree in International Relations, both from McGill University, Montreal.

Mr. Balloch also serves on the board of Ivanhoe Energy Inc. and on the board of a private company, BeiKai Capital.

Mr. Balloch has served on the Committee since January 2013.

***Mr. John Reid***

Mr. Reid is a corporate director. He held the position of President and Chief Executive Officer of Terasen Inc., an energy distribution and transportation company, from November 1997 to November 2005 and prior to that was Executive Vice President and Chief Financial Officer of Terasen. Prior to joining Terasen, Mr. Reid was the President and Chief Executive Officer of Scott Paper. He also held various other senior positions at Scott Paper, including Corporate Vice President, Finance and Controller.

Mr. Reid is a Chartered Accountant, holds an economics degree from Newcastle University and is a Fellow of the British Columbia, England and Wales Institutes of Chartered Accountants.

Mr. Reid also serves on the board of Finning International Inc. as the Lead Director, is a member of its Audit Committee and in the past was designated as its “financial expert.” Mr. Reid also sits on the board of the private company Corix Infrastructure Inc.

Mr. Reid has served on the Committee since September 2003.

***Ms. Janice Rennie***

Ms. Rennie is a corporate director. From 2004 to 2005, Ms. Rennie was Senior Vice President, Human Resources and Organizational Effectiveness for EPCOR Utilities Inc. At that time, EPCOR built, owned and operated power plants, electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure in Canada and the United States. Prior to 2004, Ms. Rennie held senior management positions in a number of private firms, including Principal of Rennie & Associates, which provided investment and related advice to small and mid-sized companies.

Ms. Rennie holds a Bachelor of Commerce degree from the University of Alberta and is a Fellow of the Institute of Chartered Accountants of Alberta and the Institute of Corporate Directors.

Ms. Rennie serves on the boards of Teck Resources Limited, Major Drilling Group International Inc., WestJet Airlines Ltd. and West Fraser Timber Co. Ltd and is a member of all their Audit Committees, as well as Chair of the Audit Committee of West Fraser Timber Co. Ltd. In addition, Ms. Rennie serves on the board and chairs the Audit Committee of Greystone Capital Management Inc., a private company.

Ms. Rennie has served on the Committee since May 2006.

**Pre-Approval Policies and Procedures**

The Committee annually reviews and approves the terms and scope of the external auditors’ engagement. The Committee oversees the Audit and Non-Audit Pre-Approval Policy, which sets forth the procedures and the conditions by which permissible services proposed to be performed by KPMG LLP are pre-approved. The Committee has delegated to the Chair of the Committee pre-approval authority for any services not previously approved by the Committee. All such services approved by the Chair of the Committee are subsequently reviewed by the Committee.

All non-audit service engagements, regardless of the cost estimate, must be coordinated and approved by the Chief Financial Officer to further ensure that adherence to this policy is monitored.

**Audit and Non-Audit Fees Billed by the Independent Auditors**

KPMG’s global fees relating to the years ended December 31, 2012 and December 31, 2011 are as follows:

<b>US\$000s</b>	<b>2012</b>	<b>2011</b>
Audit Fees	1,913	1,827
Audit-Related Fees	31	116
Tax Fees	103	99
<b>Total</b>	<b>2,047</b>	<b>2,042</b>

Each fee category is described below.

### ***Audit Fees***

Audit fees for professional services rendered by the external auditors for the audit of the Company's consolidated financial statements; statutory audits of the financial statements of the Company's subsidiaries; quarterly reviews of the Company's financial statements; consultations as to the accounting or disclosure treatment of transactions reflected in the financial statements; and services associated with registration statements, prospectuses, periodic reports and other documents filed with securities regulators.

Audit fees for professional services rendered by the external auditors for the audit of the Company's consolidated financial statements were in respect of an "integrated audit" performed by KPMG globally. The integrated audit encompasses an opinion on the fairness of presentation of the Company's financial statements as well as an opinion on the effectiveness of the Company's internal controls over financial reporting.

### ***Audit-Related Fees***

Audit-related fees for professional services rendered by the auditors for financial audits of employee benefit plans; procedures and audit or attest services not required by statute or regulation; and consultations related to the Company's transition to international financial reporting standards (IFRS) and the accounting or disclosure treatment of other transactions.

### ***Tax Fees***

Tax fees for professional services rendered for tax compliance and tax advice. These services consisted of: tax compliance, including the review of tax returns; assistance in completing routine tax schedules and calculations; and advisory services relating to domestic and international taxation.

## **TRANSFER AGENT AND REGISTRAR**

Our principal transfer agent is CIBC Mellon Trust Company at its offices in Vancouver, British Columbia. Our co-transfer agent in the United States for our Common Shares is American Stock Transfer & Trust Company LLC at its offices in New Jersey.

## **CONTROLS AND PROCEDURES**

Our disclosure controls and procedures are described under the heading *Controls and Procedures* in our 2012 MD&A and are incorporated in this AIF by reference.

## **CODE OF ETHICS**

We have a written code of ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. A copy of our code, entitled "Code of Business Conduct", can be found on our website at [www.methanex.com](http://www.methanex.com) or upon request from the Corporate Secretary at the address below under the heading *Additional Information*.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in our Information Circular dated March 8, 2013 relating to our Annual General Meeting that will be held on April 25, 2013.

Additional financial information about the Company is provided in the Company's financial statements for the year ended December 31, 2012 and in our 2012 MD&A.

Copies of the documents referred to above are available on the Canadian Securities Administrators' SEDAR website at [www.sedar.com](http://www.sedar.com) and may also be obtained upon request from:

Methanex Corporation  
Randy Milner  
Senior Vice President, General Counsel and Corporate Secretary  
1800 Waterfront Centre  
200 Burrard Street  
Vancouver, British Columbia V6C 3M1  
Telephone: 604 661 2600  
Facsimile: 604 661 2602  
E-mail: [rmilner@methanex.com](mailto:rmilner@methanex.com)

Additional information relating to the Company may be found on the Canadian Securities Administrators' SEDAR website at [www.sedar.com](http://www.sedar.com), on the United States Securities and Exchange Commission's EDGAR website at [www.sec.gov](http://www.sec.gov) and on our website at [www.methanex.com](http://www.methanex.com).

**APPENDIX “A”**  
**METHANEX CORPORATION**  
**AUDIT, FINANCE AND RISK COMMITTEE MANDATE**

**1. Creation**

A committee of the directors to be known as the “Audit, Finance and Risk Committee” (hereinafter referred to as the “Committee”) is hereby established.

**2. Purpose and Responsibility**

The Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibility relating to: the integrity of the Corporation’s financial statements; the financial reporting process; the systems of internal accounting and financial controls; the professional qualifications and independence of the external auditors; the performance of the external auditors; risk management processes; financing plans; pension plans; and compliance by the Corporation with ethics policies and legal and regulatory requirements.

The Committee’s role is one of oversight. It is the responsibility of the Corporation’s management to plan audits and to prepare consolidated financial statements in accordance with generally accepted accounting principles (“GAAP”), and it is the responsibility of the Corporation’s external auditor to audit these financial statements. Therefore, each member of the Committee, in exercising his or her business judgment, shall be entitled to rely on the integrity of those persons and organizations within and outside the Corporation from whom he or she receives information, and on the accuracy of the financial and other information provided to the Committee by such persons or organizations. The Committee does not provide any expert or other special assurances as to the Corporation’s financial statements or any expert or professional certification as to the work of the Corporation’s external auditor. In addition, all members of the Committee are equally responsible for discharging the responsibilities of the Committee and the designation of one member as an “audit committee financial expert” pursuant to the Applicable Rules (as defined below) is not a statement of intention by the Corporation to impose upon such designee duties, obligations or liability greater than those imposed on such a director in the absence of such designation.

**3. Committee Membership**

- |                                     |  |
|-------------------------------------|--|
| Composition of the Committee        | a) The Committee must be composed of a minimum of three directors.   |
| Appointment and Term of Members     | b) The members of the Committee must be appointed or reappointed at the organizational meeting of the Board concurrent with each Annual General Meeting of the shareholders of the Corporation. Each member of the Committee continues to be a Committee member until a successor is appointed, unless he or she resigns or is removed by the Board or ceases to be a director of the Corporation. Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board and shall be filled by the Board if the membership of the Committee is less than three directors as a result of the vacancy. |
| Financial Literacy and Independence | c) Each member of the Committee shall meet the independence and experience requirements, and at least one member of the Committee shall qualify as an “audit committee financial expert.” These requirements shall be in accordance with the applicable rules and regulations (the “Applicable Rules”) of the Canadian Securities Administrators, the U.S. Securities and Exchange Commission, the Toronto Stock Exchange and the NASDAQ Stock Market.   |

- Appointment of Chair and Secretary      d) The Board or, if it does not do so, the members of the Committee, must appoint one of their members as Chair. If the Chair of the Committee is not present at any meeting of the Committee, the Chair of the meeting must be chosen by the Committee from the Committee members present. The Chair presiding at any meeting of the Committee has a deciding vote in case of deadlock. The Committee must also appoint a Secretary who need not be a director.
- Use of Outside Experts      e) Where Committee members believe that, to properly discharge their fiduciary obligations to the Corporation, it is necessary to obtain the advice of independent legal, accounting or other experts, the Chair shall, at the request of the Committee, engage the necessary experts at the Corporation's expense. The Board must be kept apprised of both the selection of the experts and the experts' findings through the Committee's regular reports to the Board.

#### 4. Meetings

- Time, Place and Procedure of Meetings      a) The time and place of Committee meetings, and the procedures for the conduct of such meetings, shall be determined from time to time by Committee members, provided that:
- Quorum      i) a quorum for meetings must be two members, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to communicate with each other;
- Quarterly Meetings      ii) the Committee must meet at least quarterly;
- Notice of Meetings      iii) notice of the time and place of every meeting must be given in writing or by electronic transmission to each member of the Committee and the external auditors of the Corporation at least 24 hours prior to the Committee meeting;
- Waiver of Notice      iv) a member may waive notice of a meeting, and attendance at the meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called;
- Attendance of External Auditors      v) the external auditors are entitled to attend each meeting at the Corporation's expense;
- Meeting with Financial Management      vi) the Committee will, at least annually, meet with senior financial management, including the Chief Financial Officer and the Corporate Controller, without other members of management present;
- Meeting without Management      vii) each regular meeting of the Committee will conclude with a session without any management personnel present;

- |                                |  |
|--------------------------------|--|
| Calling a Meeting              | viii) a meeting of the Committee may be called by the Secretary of the Committee on the direction of the Chair or Chief Executive Officer of the Corporation, by any member of the Committee or the external auditors; and   |
| Committee Determines Attendees | (ix) notwithstanding the provisions of this paragraph, the Committee has the right to request any officer or employee of the Corporation or the Corporation's outside counsel or external auditor to be present or not present at any part of the Committee meeting. |
| Reports to the Board           | b) The Committee shall make regular reports to the Board.  |

**5. Duties and Responsibilities of the Committee**

**1) Financial Statements and Disclosure**

- |   |   |
|---|---|
| Annual Report and Disclosures             | a) Review and discuss with management and the external auditor, and recommend for approval by the Board, the Corporation's annual report, Annual Information Form, audited Annual Consolidated Financial Statements, annual Management's Discussion and Analysis, Management Information Circular, any reports on adequacy of internal controls, and all financial statements in prospectuses or other disclosure documents.  |
| Prospectuses                              | b) Review and recommend for approval by the Board all prospectuses and documents that may be incorporated by reference into a prospectus, including without limitation, material change reports and proxy circulars.  |
| Quarterly Interim Reports and Disclosures | c) Review, discuss with management and the external auditor, and approve the Corporation's interim reports, including the quarterly financial statements, interim Management's Discussion and Analysis and press releases on quarterly and year-end financial results, prior to public release.   |
| Accounting Policies and Estimates         | d) Review and approve all accounting policies and estimates that would have a significant effect on the Corporation's financial statements, and any changes to such policies. This review will include a discussion with management and the external auditor concerning: <ul style="list-style-type: none"> <li>i) any areas of management judgment and estimates that may have a critical effect on the financial statements;</li> <li>ii) the effect of using alternative accounting treatments that are acceptable under GAAP;</li> <li>iii) the appropriateness, acceptability and quality of the Corporation's accounting policies; and</li> <li>iv) any material written communication between the external auditor and management, such as the annual management letter and the schedule of unadjusted differences.</li> </ul> |



- Non-GAAP Financial Information e) Discuss with management the use of “pro forma” or “non-GAAP information” in the Corporation’s continuous disclosure documents.
- Regulatory and Accounting Initiatives f) Discuss with management and the external auditor the effect of regulatory and accounting initiatives as well as the use of off-balance sheet structures on the Corporation’s financial statements.
- Litigation g) Discuss with the Corporation’s General Counsel, and with external legal counsel if necessary, any litigation, claim or other contingency (including tax assessments) that could have a material effect on the financial position or operating results of the Corporation, and the manner in which these matters have been disclosed in the financial statements.
- Financing Plans h) Review the financing plans and objectives of the Corporation, as received from and discussed with management.

**2) Risk Management and Internal Control**

- Risk Management Policies a) Review and recommend for approval by the Board changes considered advisable, after consultation with management, to the Corporation’s policies relating to:
  - i) the risks inherent in the Corporation’s businesses, facilities and strategic direction;
  - ii) financial risks, including foreign exchange, interest rate and investment of cash;
  - iii) overall risk management strategies and the financing of risks, including insurance coverage in the context of competitive and operational considerations;
  - iv) the risk retention philosophy and the resulting uninsured exposure of the Corporation; and
  - v) shipping risk.
- Risk Management Processes b) Review with management at least annually the Corporation’s processes to identify, monitor, evaluate and address important enterprise-wide strategic and business risks.
- Adequacy of Internal Controls c) Review, at least quarterly, the results of management’s evaluation of the adequacy and effectiveness of internal controls within the Corporation in connection with the certifications signed by the CEO and CFO. Management’s evaluation will include a review of:
  - i) policies and procedures to ensure completeness and accuracy of information disclosed in the quarterly and annual reports, prevent earnings management and detect material financial statement misstatements due to fraud and error; and

- ii) internal control recommendations of the external auditors and arising from the results of the internal audit procedures, including any special steps taken to address material control deficiencies and any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal controls.

Financial Risk Management

- d) Review with management activity related to managing financial risks to the Corporation, including hedging programs.

### 3) *External Auditors*

Appointment and Remuneration

- a) Review and recommend to the Board:
  - i) the selection, evaluation, reappointment or, where appropriate, replacement of external auditors; and
  - ii) the nomination and remuneration of external auditors to be appointed at each Annual General Meeting of Shareholders.

Resolving Disagreements

- b) Resolve any disagreements between management and the external auditor regarding financial reporting.

Direct Reporting to Committee

- c) The external auditors shall report directly to the Committee and the Committee has the authority to communicate directly with the external auditors.

Quality Control and Independence

- d) Review a formal written statement requested at least annually from the external auditor describing:
  - i) the firm's internal quality control procedures;
  - ii) any material issues raised by the most recent internal quality control review, peer review of the firm or any investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits of the Corporation carried out by the firm;
  - iii) any steps taken to deal with any such issues; and
  - iv) all relationships between the external auditors and the Corporation.

The Committee will actively engage in a dialogue with the external auditor with respect to whether the firm's quality controls are adequate, and whether any of the disclosed relationships or non-audit services may impact the objectivity and independence of the external auditor based on the independence requirements of the Applicable Rules. The Committee shall present its conclusion with respect to the independence of the external auditor to the Board.

- External Audit Plan e) Review and approve the external audit plan and enquire as to the extent the planned audit scope can be relied upon to detect weaknesses in internal control or fraud or other illegal acts. Any significant recommendations made by the auditors for strengthening internal controls will be reviewed.
- Rotation of Senior Audit Partner f) Ensure the rotation of senior audit personnel who have primary responsibility for the audit work, as required by law.
- Remuneration of External Auditors g) Review and approve (in advance) the scope and related fees for all auditing services and non-audit services permitted by regulation that are to be provided by the external auditor in accordance with the Corporation's Audit and Non-Audit Services Pre-Approval Policy, which is to be annually reviewed and approved by the Committee.
- Restrictions on Hiring Employees of External Auditor h) Ensure the establishment of policies relating to the Corporation's hiring of employees of or former employees of the external auditor, if such individuals have participated in the audit of the Corporation, as required by law.
- Report from the External Auditors i) Prior to filing the Quarterly Consolidated Financial Statements and the Annual Consolidated Financial Statements, the Committee should receive a report from the external auditors on the results of their review or audit.
- Meeting with Auditors and Management j) The Committee should meet with the external auditors without management present and discuss any issues related to performance of the audit work, any restrictions and any significant disagreement with management. The Committee should also meet separately with management to discuss the same matters as those discussed with the external auditors.

**4) Internal Audit**

- Internal Audit Plans a) Review and approve the annual Internal Audit Plan and objectives.
- Audit Findings and Recommendations b) Review the significant control issues identified in internal audit reports issued to management and the responses and actions taken by management to address weaknesses in controls.
- Meeting with Auditors c) The Committee will meet, without management present, with representatives of the accounting firm and/or the Corporation's Internal Auditor that executed the annual Internal Audit Plan.

## 5) *Pension Plans*

With respect to all investing and funding aspects of all defined benefit corporate sponsored pension plans of the Corporation and its wholly owned subsidiaries that have estimated actuarial liabilities in excess of US\$10 million (collectively the "Retirement Plans"):

- |  |  |
|--|--|
| Constitute Pension Committees                              | a) Annually constitute Committees (the "Pension Committees") with responsibility for the investment activities of the Retirement Plans' trust funds.   |
| Statements of Pension Investment Policy and Procedures     | b) Review the Corporation's Statement of Pension Investment Policy for the Retirement Plans' trust funds whenever a major change is apparent or necessary.   |
| Amendments to Retirement Plans and Material Agreements     | c) Review and recommend to the Board any amendments to the Retirement Plans' trust agreements and any material document written or entered into pursuant to the Retirement Plans' trust agreements.  |
| Appointment of Auditors, Actuaries and Investment Managers | d) Approve the recommendations of the officers of the Corporation regarding the reappointment or appointment of auditors and recommendations of the Pension Committees regarding appointment of investment managers and actuaries of the Retirement Plans. |
| Retirement Plan Financial Statements                       | e) Review and approve the annual financial statements of the Retirement Plans, and related trust funds, and the auditors' reports thereon.   |
| Retirement Plan Report                                     | f) Review and recommend for approval by the Board, the annual report on the operation and administration of the Retirement Plans and related trust funds.  |
| Terms of Reference of the Pension Committees               | g) Review and recommend to the Board for approval the Terms of Reference of the Pension Committees (to be approved jointly with the Human Resources Committee of the Board) and any material amendments thereto.   |
| Delegation to the Pension Committees                       | h) Approve the delegation of certain responsibilities to members of the Pension Committees.  |
| Actuarial Reports and Funding Assumptions                  | i) Review the actuarial reports on the Retirement Plan as required by applicable regulations and any special actuarial reports.  |

With respect to all investing and funding aspects of all defined contribution pension plans and defined benefit pension plans that have estimated actuarial liabilities of less than US\$10 million of the wholly owned subsidiaries of the Corporation ("other Retirement Plans"):

- |                               |   |
|-------------------------------|---|
| Other Retirement Plans Report | j) Receive from management and review with the Board, at least annually, a report on the operation and administration of other Retirement Plans' trust funds, including investment performance.   |
| Delegation of Authority       | k) Administer and delegate to management-committees as considered advisable all other matters related to other Retirement Plans' trust funds to which the Committee has been delegated authority. |

**6) General Duties**

- |                                     |   |
|-------------------------------------|---|
| Code of Business Conduct Compliance | a) Obtain a report at least annually from the Senior Vice President, General Counsel & Corporate Secretary on the Corporation's and its subsidiary/foreign-affiliated entities' conformity with applicable legal and ethical compliance programs (e.g., the Corporation's Code of Business Conduct).  |
| Code of Ethics                      | b) Review and recommend to the Board for approval a code of ethics for senior financial officers.   |
| Compliance Reporting Process        | c) Ensure that a process and procedure has been established by the Corporation for receipt, retention, and treatment of complaints regarding non-compliance with the Corporation's Code of Business Conduct, violations of laws or regulations, or concerns regarding accounting, internal accounting controls or auditing matters. The Committee must ensure that procedures for receipt of complaints allow for confidential and anonymous submission of complaints from employees. |
| Regulatory Matters                  | d) Discuss with management and the external auditor any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Corporation's compliance policies.   |
| Disclosure Policy                   | e) Review annually and recommend to the Board for approval, the Corporation's Disclosure policies. In particular, the Committee will review annually the Corporation's procedures for public disclosure of financial information extracted or derived from the Corporation's financial statements.  |
| Related-Party Transactions          | f) Review and approve all related-party transactions.   |
| Mandate Review                      | g) Review and recommend to the Board for approval changes considered advisable based on the Committee's assessment of the adequacy of this Mandate. Such review will occur on an annual basis and the recommendations, if any, will be made to the Board for approval.  |
| Annual Evaluation                   | h) The Committee will conduct an annual evaluation to ensure that it has satisfied its responsibilities in the prior year in compliance with this Mandate.  |