TITAN PHARMACEUTICALS INC
Form DEF 14A
July 20, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant x
Filed by a party other than the Registrant o
Check the appropriate box:

o Preliminary proxy statement
o Confidential, For use of the Commission only (as permitted by Rule 14a-6(e)(2))
x Definitive proxy statement
o Definitive additional materials
o Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12

Titan Pharmaceuticals, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

TITAN PHARMACEUTICALS, INC.
400 Oyster Point Boulevard, Suite 505
South San Francisco, California 94080

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be held August 24, 2015

To the Stockholders of Titan Pharmaceuticals, Inc.:

The annual meeting of stockholders of Titan Pharmaceuticals, Inc. (our company, Titan, we, our, or us) will be he our executive offices at 400 Oyster Point Boulevard, Suite 505, South San Francisco, California 94080 on Monday, August 24, 2015 at 9:00 a.m. local time for the following purposes:

to elect a board of eight directors;
to approve our 2015 Omnibus Equity Incentive Plan;
to approve an amendment to our certificate of incorporation to effect a reverse split of our common stock within a range from 1-for-3 to 1-for-8, with the exact ratio to be determined by our board of directors;
to ratify the appointment of OUM & Co. LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015;
to consider a non-binding advisory vote on executive compensation;
to consider a non-binding advisory vote on the desired frequency of future non-binding advisory votes on executive compensation; and
to consider and take action upon such other matters as may properly come before the meeting or any adjournment thereof.

The close of business on July 17, 2015 has been fixed as the record date for the determination of stockholders entitled to notice of, and to vote at, the meeting or any adjournment thereof.

You are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, please mark, sign, date and return the enclosed proxy as promptly as possible in the enclosed postage-prepaid envelope. If you attend the meeting you may vote in person, even if you returned a proxy.

Our proxy statement and proxy are enclosed, along with our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. These materials are also available on our website: *www.titanpharm.com*.

IMPORTANT

Please note, if your shares are held in street name, your broker, trust, bank or other nominee holder cannot vote your shares on the approval of the amendment of the certificate of incorporation to effect the reverse stock split unless you direct the nominee holder how to vote by marking your form of proxy and returning it as instructed.

By Order of the Board of Directors,

Marc Rubin, M.D.
Executive Chairman of the Board

July 20, 2015

TITAN PHARMACEUTICALS, INC.
400 Oyster Point Boulevard, Suite 505
South San Francisco, California 94080

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

We are furnishing this proxy statement to the holders of our common stock in connection with the solicitation of proxies on behalf of our board of directors (Board) for use at our annual meeting of stockholders to be held at our executive offices at 400 Oyster Point Boulevard, Suite 505, South San Francisco, California 94080 on Monday, August 24, 2015 at 9:00 a.m. local time, and any adjournment thereof. We will bear the cost of soliciting proxies. In addition to solicitation of proxies by mail, our employees, without extra remuneration, may solicit proxies personally or by telephone. We will reimburse brokerage firms and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy materials to beneficial owners and seeking instruction with respect thereto. If necessary, we may engage a third party proxy solicitor, in which event we may pay up to $15,000 plus expenses of such solicitation agent.

We mailed these proxy materials on or about July 20, 2015 to our stockholders of record and beneficial owners as of July 17, 2015, the record date for the meeting

Annual Report on Form 10-K

Our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the SEC (the 2014 10-K) is accessible free of charge on our website at *http://www.titanpharm.com.* It contains audited financial statements covering our fiscal years ended December 31, 2014 and 2013. You can request a copy of the 2014 10-K free of charge by calling 1-650-989-2268 or sending an e-mail to bcrowley@titanpharm.com. Please include your contact information with the request. The 2014 10-K, without exhibits, accompanies this proxy statement.

GENERAL INFORMATION ABOUT VOTING

Record Date

Only the holders of record of our common stock at the close of business on the record date, July 17, 2015 (the Record Date), are entitled to notice of and to vote at the meeting. On the Record Date, there were 110,327,707 shares of our common stock outstanding. Stockholders are entitled to one vote for each share of common stock held on the record date.

Quorum

Consistent with state law and our bylaws, the presence, in person or by proxy, of at least a majority of the shares entitled to vote at the annual meeting will constitute a quorum for purposes of voting on a particular matter at the annual meeting. Once a share is represented for any purpose at the annual meeting, it is deemed present for quorum purposes for the remainder of the meeting and any adjournment thereof unless a new record date is set for the adjournment. If a quorum is not present, the annual meeting will be adjourned until a quorum is obtained.

Voting

When a proxy is properly executed and returned (and not subsequently properly revoked), the shares it represents will be voted in accordance with the directions indicated thereon, or, if no direction is indicated thereon, it will be voted:

1) **FOR** the election of the eight director nominees identified therein;

2) **FOR** approval of our 2015 Omnibus Equity Incentive Plan (2015 Incentive Plan);

3) **FOR** approval of an amendment to our certificate of incorporation to effect a reverse split of our common stock, par value $0.001, within a range from 1-for-3 to 1-for-8, with the exact ratio to be determined by our Board;

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4) **FOR** ratification of the appointment of OUM & Co. LLP to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2015;
5) **FOR** approval, on an advisory basis, of the compensation paid to our named executive officers;
6) **FOR** a non-binding advisory vote on executive compensation to be held every two years; and
7) in the discretion of the proxies with respect to any other matters properly brought before the stockholders at the meeting.

Votes Required for Approval

Assuming the presence of a quorum at the annual meeting:

The election of directors will be determined by a plurality of the votes cast. This means that the eight nominees receiving the highest number of FOR votes will be elected as directors. Withheld votes and broker non-votes, if any, are not treated as votes cast, and therefore will have no effect on the proposal to elect directors.
The approval of our 2015 Incentive Plan, the ratification of the appointment of OUM & Co. LLP and the advisory approval of our executive compensation require the affirmative vote of the holders of a majority of the shares of our common stock present or represented and entitled to vote on the proposal. Abstentions and broker non-votes are not treated as votes cast, and therefore will have no effect on these proposals.
The approval of the amendment to our certificate of incorporation to effect a reverse stock split of our common stock requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to be voted at the meeting. Abstentions and broker non-votes are not treated as votes cast, and therefore will have the effect of a vote against these proposals.
The determination of the frequency with which future advisory votes on executive compensation will take place will be determined by the preference (either every one, two or three years) that receives the highest number of votes cast.

Broker Non-Votes

A broker non-vote occurs when a broker, bank, or other holder of record holding shares for a beneficial owner does not vote on a particular proposal because that holder (i) has not received instructions from the beneficial owner and (ii) does not have discretionary voting power for that particular item.

If you are a beneficial owner and you do not give instructions to your broker, bank, or other holder of record, such holder of record will be entitled to vote the shares with respect to routine items but will not be permitted to vote the shares with respect to non-routine items (those shares are treated as broker non-votes). If you are a beneficial owner, your broker, bank, or other holder of record has discretion to vote your shares on the proposal to ratify the appointment of OUM & Co. LLP as our independent registered public accounting firm if the holder of record does not receive voting instructions from you. However, such holder of record may not vote your shares on the election of directors or the proposals to approve the 2015 Incentive Plan, amend our certificate of incorporation to effect a reverse stock split, or the advisory resolutions regarding say-on-pay without your voting instructions on those proposals. Accordingly, without your voting instructions on those proposals, a broker non-vote will occur.

We encourage you to provide instructions to your bank, brokerage firm, or other nominee by voting your proxy. This action ensures that your shares will be voted in accordance with your wishes at the annual meeting.

Revocability of Proxies

You may revoke any proxy given in response to this solicitation by notifying the Company in writing at the above address, attention: Corporate Secretary by 5 p.m. on August 22, 2015, or by voting a subsequent proxy or in person at the annual meeting. Attendance by a stockholder at the meeting does not alone serve to revoke a proxy. If a broker, trust, bank or other nominee holds your shares, please follow the instructions you receive from that person.

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Delivery of Documents to Stockholders Sharing an Address

The SEC has adopted rules that permit companies to deliver a single Notice of Internet Availability or a single copy of proxy materials to multiple stockholders sharing an address unless a company has received contrary instructions from one or more of the stockholders at that address. Upon request, we will promptly deliver a separate Notice of Internet Availability or separate copy of proxy materials to one or more stockholders at a shared address to which a single Notice of Internet Availability or a single copy of proxy materials was delivered. Stockholders may request a separate Notice of Internet Availability or separate copy of proxy materials by contacting our Corporate Controller either by calling 1-650-989-2268 or by mailing a request to 400 Oyster Point Boulevard, Suite 505, South San Francisco, California 94080. Stockholders at a shared address who receive multiple Notices of Internet Availability or multiple copies of proxy materials may request to receive a single Notice of Internet Availability or a single copy of proxy materials in the future in the same manner as described above.

CORPORATE GOVERNANCE

Independence of Directors

The following members of our Board meet the independence requirements and standards currently established by the NASDAQ: Joseph A. Akers, Victor J. Bauer, Eurelio M. Cavalier, M. David MacFarlane, James R. McNab, Jr. and Ley S. Smith.

Board Committees

Our Board has established the following three standing committees: audit committee; compensation committee; and nominating and governance committee, or governance committee.

The audit committee was formed in compliance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 (the Exchange Act) and consists of Joseph A. Akers, Ley S. Smith, M. David MacFarlane and Victor J. Bauer, each of whom meets the independence requirements and standards currently established by the NASDAQ and the SEC. In addition, the Board has determined that Mr. Akers is an audit committee financial expert and independent as defined under the relevant rules of the SEC and the NASDAQ. The audit committee assists the Board by overseeing the performance of the independent auditors and the quality and integrity of Titan s internal accounting, auditing and financial reporting practices. The audit committee is responsible for retaining (subject to stockholder ratification) and, as necessary, terminating, the independent auditors, annually reviewing the qualifications, performance and independence of the independent auditors and the audit plan, fees and audit results, and pre-approving audit and non-audit services to be performed by the auditors and related fees. During the fiscal year ended December 31, 2014, the audit committee met four times.

The compensation committee makes recommendations to the Board concerning salaries and incentive compensation for our officers, including our Principal Executive Officer, and employees and administers our stock option plans. The compensation committee consists of Victor J. Bauer and Eurelio M. Cavalier, each of whom meets the independence requirements and standards currently established by the NASDAQ. The compensation committee did not meet as a separate committee, but did take action by written consent one time during the fiscal year ended December 31, 2014.

The purpose of the governance committee is to assist the Board in identifying qualified individuals to become board members, in determining the composition of the Board and in monitoring the process to assess Board effectiveness. The governance committee consists of Eurelio M. Cavalier, M. David MacFarlane, James R. McNab, Jr. and Ley S. Smith, each of whom meets the independence requirements and standards currently established by the NASDAQ. The governance committee met two times as a separate committee and took action by written consent one time during the fiscal year ended December 31, 2014.

The charters for the audit, compensation and governance committees, which have been adopted by our Board, contain detailed descriptions of the committees duties and responsibilities and are available in the About Titan section of our website at *www.titanpharma.com*.

Board Leadership Structure

Currently, our principal executive officer and chairman of the Board positions are held separately by Sunil Bhonsle and Marc Rubin, respectively.

Role of the Board in Risk Oversight

Our audit committee is primarily responsible for overseeing our risk management processes on behalf of the full Board. The audit committee receives reports from management at least quarterly regarding our assessment of risks. In addition, the audit committee reports regularly to the full Board, which also considers our risk profile. The audit committee and the full Board focus on the most significant risks we face and our general risk management strategies. While the Board oversees our risk management, management is responsible for day-to-day risk management processes. Our Board expects management to consider risk and risk management in each business decision, to proactively develop and monitor risk management strategies and processes for day-to-day activities and to effectively implement risk management strategies adopted by the audit committee and the Board. We believe this division of responsibilities is the most effective approach for addressing the risks we face and that our Board leadership structure, which also emphasizes the independence of the Board in its oversight of its business and affairs, supports this approach.

Board Meetings

Our business affairs are managed under the direction of our Board, which is currently composed of eight members. The primary responsibilities of the Board are to provide oversight, strategic guidance, counseling and direction to our management. During the fiscal year ended December 31, 2014, the Board met nine times and no director attended fewer than 75% of the meetings of the Board and board committees of which the director was a member.

Code of Ethics

We adopted a Code of Business Conduct and Ethics (the Code) in February 2013 that applies to all directors, officers and employees. The Code was filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2012 and is available on our website at *www.titanpharm.com* as part of that report. A copy of the Code will also be provided to any person without charge, upon written request sent to us at our offices located at 400 Oyster Point Blvd, Suite 505, South San Francisco, California 94080.

Communications with the Board

Stockholders can mail communications to the Board, c/o Titan Pharmaceuticals, Inc., 400 Oyster Point Blvd, Suite 505, South San Francisco, California 94080, who will forward the correspondence to each addressee.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of the Record Date, the number of shares of our common stock beneficially owned by (i) each person who is known by us to be the beneficial owner of more than five percent of our common stock; (ii) each director and director nominee; (iii) each of the named executive officers in the Summary Compensation Table; and (iv) all directors and executive officers as a group. As of the Record Date, we had 110,327,707 shares of common stock issued and outstanding.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (the SEC) and generally includes voting or investment power with respect to securities. Unless otherwise indicated, the stockholders listed in the table have sole voting and investment power with respect to the shares indicated.

Name and Address of Beneficial Owner[1]	Shares Beneficially Owned[2]		Percent of Shares Beneficially Owned	
Joseph A. Akers	12,500	(3)		*
Victor J. Bauer, Ph.D.	321,144	(4)		*
Sunil Bhonsle	2,335,310	(5)	2.1	%
Eurelio M. Cavalier	432,500	(6)		*
M. David MacFarlane, Ph.D.	332,500	(7)		*
James R. McNab, Jr.	362,500	(8)		*
Marc Rubin, M.D.	2,742,200	(9)	2.4	%
Ley S. Smith	362,500	(10)		*
Braeburn Pharmaceuticals BVBA SPRL	9,650,000	(11)	8.7	%
Broadfin Capital, LLC	10,872,500	(12)	9.9	%
Robert E. Mead	6,377,885	(13)	5.8	%
All executive officers and directors as a group (6) persons	6,901,154		6.0	%

* Less than one percent.

(1) Unless otherwise indicated, the address of such individual is c/o Titan Pharmaceuticals, Inc., 400 Oyster Point Boulevard, Suite 505, South San Francisco, California 94080.

(2) In computing the number of shares beneficially owned by a person and the percentage ownership of a person, shares of our common stock subject to options held by that person that are currently exercisable or exercisable within 60 days of the Record Date are deemed outstanding. Such shares, however, are not deemed outstanding for purposes of computing the percentage ownership of each other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock.

(3) Includes 12,500 shares issuable upon exercise of outstanding options.

(4) Includes 285,000 shares issuable upon exercise of outstanding options.

(5) Includes (i) 1,603,053 shares issuable upon exercise of outstanding options and (ii) 300,757 shares held in a family trust for which he serves as trustee.

(6) Includes 250,000 shares issuable upon exercise of outstanding options.

(7) Includes 210,000 shares issuable upon exercise of outstanding options.

(8) Includes 12,500 shares issuable upon exercise of outstanding options.

(9) Includes 1,960,000 shares issuable upon exercise of outstanding options.

(10) Includes 250,000 shares issuable upon exercise of outstanding options.

(11) Derived from a Schedule 13D filed by Braeburn, Apple Tree Consolidated BVBA Sprl (ATC), Apple Tree Investments S.a.r.l (ATI), Apple Tree Partners IV, L.P. (ATP IV), ATP III GP, Ltd. (ATP GP) and Seth L. Harrison (Harrison). ATP GP is the sole general partner of ATP IV. Harrison is the sole owner and director of ATP GP. As the sole owner of Braeburn, ATC may be deemed to own beneficially such shares. As the sole owner of ATC, ATI may be deemed to own beneficially such shares. As the sole owner of ATI, ATP IV may be deemed to own beneficially such

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shares. As the sole general partner of ATP IV, ATP GP may be deemed to own beneficially such shares. As the sole owner and director of ATP GP, Harrison may be deemed to own beneficially such shares. Each of the foregoing persons except Braeburn, disclaims beneficial ownership of such shares except to the extent of their pecuniary interest therein, if any. The address of the principal business office of Braeburn is Brugmannlaan 147, 1190 Vorst, Belgium.

(12) Derived from a Schedule 13G filed by Broadfin Capital, LLC, Broadfin Healthcare Master Fund, Ltd. And Kevin Kotler. The address of the principal business office of Broadfin Capital, LLC is 237 Park Avenue, Suite 900, New York, New York 10017. Includes 4,500,000 shares issuable upon exercise of outstanding warrants.

(13) Derived from a Schedule 13G filed by Mr. Mead. The address of Mr. Mead s principal business office is 3653 Maplewood Ave., Dallas, TX 75205.

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PROPOSAL NO. 1

ELECTION OF DIRECTORS

At the meeting, eight directors will be elected by the stockholders to serve until the next annual meeting of stockholders or until their successors are elected and shall qualify. It is intended that the accompanying proxy will be voted for the election, as directors, of Marc Rubin, Sunil Bhonsle, Joseph A. Akers, Victor Bauer, Eurelio Cavalier, M. David MacFarlane, James R. McNab, Jr. and Ley Smith unless the proxy contains contrary instructions. We have no reason to believe that any of the nominees will not be a candidate or will be unable to serve. In the event that any of the nominees should become unable or unwilling to serve as a director, however, the persons named in the proxy have advised that they will vote for the election of such person or persons as shall be designated by the directors.

Our directors are appointed for a one-year term to hold office until the next annual meeting of our stockholders or until they resign or are removed from office in accordance with our bylaws. Set forth below are the respective principal occupations or brief employment histories of the eight nominees.

Marc Rubin, M.D. served as our President and Chief Executive from October 2007 until December 2008 and was re-engaged as our Executive Chairman in May 2009. Until February 2007, Dr. Rubin served as Head of Global Research and Development for Bayer Schering Pharma, as well as a member of the Executive Committee of Bayer Healthcare and the Board of Management of Bayer Schering Pharma. Prior to the merger of Bayer Pharmaceuticals and Schering AG in June 2006, Dr. Rubin was a member of the Executive Board of Schering AG since joining the Company in October 2003, as well as Chairman of Schering Berlin Inc. and President of Berlex Pharmaceuticals, a division of Schering AG. From 1990 until August 2003, Dr. Rubin was employed by GlaxoSmithKline where he held positions of increasing responsibility in global clinical and commercial development overseeing programs in the United States, Europe, Asia and Latin America. From 2001 through 2003, he was Senior Vice President of Global Clinical Pharmacology & Discovery Medicine. Dr. Rubin holds an M.D. from Cornell University Medical College. Dr. Rubin currently serves on the board of directors of Curis Inc. and Galectin Therapeutics. Based on Dr. Rubin s position as the executive chairman, his extensive senior management experience and service on boards of directors in the biotechnology and pharmaceutical industries and his medical background, our Board believes that Dr. Rubin has the appropriate set of skills to serve as a member of the Board.

Sunil Bhonsle served as our Executive Vice President and Chief Operating Officer from September 1995 until December 2008 and was re-engaged as our President in May 2009. Mr. Bhonsle served in various positions in financial and operations management, including Vice President and General Manager Plasma Supply and Manager Inventory and Technical Planning, at Bayer Corporation from July 1975 until April 1995. Mr. Bhonsle holds an M.B.A. from the University of California at Berkeley and a B.Tech. in chemical engineering from the Indian Institute of Technology. Based on Mr. Bhonsle s position as the president and his substantial experience in the pharmaceutical industry, particularly in the areas of product development, manufacturing operations and financial management, our Board believes that Mr. Bhonsle has the appropriate set of skills to serve as a member of the Board.

Joseph A. Akers was employed in various capacities by Bayer Corporation, Bayer Healthcare and certain related entities, including as president of the Hematology/Cardiology Business Unit from 2004 to 2007, president and chief executive officer of Bayer Business and Corporate Services from July 2002 through 2003 and executive vice president and chief administrative and financial officer from 1999 to July 2002. Mr. Akers received a B.S. in marketing and an M.B.A. in finance from the University of California at Berkeley. Based on Mr. Aker s extensive management experience in the pharmaceutical industry, particularly in the areas of administration and finance, our Board believes that Mr. Akers has the appropriate set of skills to serve as a member of the Board

Victor J. Bauer, Ph.D. serves as the President of Concordia Pharmaceuticals, LLC, a biopharmaceutical company he co-founded in 2004. From February 1997 through March 2003, Dr. Bauer was employed by Titan, most recently as our Executive Director of Corporate Development. From April 1996 until its merger into Titan, Dr. Bauer also served as a director and Chairman of Theracell. Since December 1992, Dr. Bauer has been a self-employed consultant to companies in the pharmaceutical and biotechnology industries. Prior to that time, Dr. Bauer was with Hoechst-Roussel Pharmaceuticals Inc., where he served as President from 1988 through 1992. Dr. Bauer holds an SB from MIT and a Ph.D. from the University of Wisconsin, and served as a Research Fellow at Harvard University. Based on Dr. Bauer s extensive management and consulting experience in the biotechnology and pharmaceutical industries, particularly in the areas of research and product development, our Board believes that Dr. Bauer has the appropriate set of skills to serve as a member of the Board.

Eurelio M. Cavalier was employed in various capacities by Eli Lilly & Co. from 1958 until his retirement in 1994, serving as Vice President Sales from 1976 to 1982 and Group Vice President U.S. Pharmaceutical Business Unit from 1982 to 1993. Based on Mr. Cavalier s management experience in the pharmaceutical industry, particularly in the area of sales and marketing, our Board believes that Mr. Cavalier has the appropriate set of skills to serve as a member of the Board.

M. David MacFarlane, Ph.D. served as Vice President and Responsible Head of Regulatory Affairs of Genentech, Inc. from 1989 until his retirement in August 1999. Prior to joining Genentech, Inc., he served in various positions with Glaxo Inc., last as Vice President of Regulatory Affairs. Based on Dr. MacFarlane s management experience in the pharmaceutical industry, particularly in the area of clinical and regulatory affairs, our Board believes that Dr. MacFarlane has the appropriate set of skills to serve as a member of the Board.

James R. McNab, Jr. has served since 1998 as chief executive officer and chairman of Palmetto Pharmaceuticals, Inc., a privately-held drug discovery company he founded. He has been a chairman of the board of directors of Curis, Inc. (Nasdaq:CRIS), an oncology focused biotechnology company, since May 2002. Since 2009, Mr. McNab has served as executive chairman of FirstString Research, Inc., a privately-held biopharmaceutical company, and as chief executive officer of JT Pharmaceuticals, Inc., a privately-held drug discovery company. Mr. McNab has co-founded several privately-held companies, including Sontra Medical Corporation, a drug delivery company, and Parker Medical Associates, a manufacturer and worldwide supplier of orthopedic and sports-related products. He received a B.A. in economics from Davidson College and an M.B.A. from the University of North Carolina at Chapel Hill. Based on Mr. McNab s extensive management experience in the pharmaceutical industry, our Board believes that Mr. McNab has the appropriate set of skills to serve as a member of the Board.

Ley S. Smith served in various positions with The Upjohn Company and Pharmacia & Upjohn from 1958 until his retirement in November 1997. From 1991 to 1993, he served as Vice Chairman of the Board of The Upjohn Company, and from 1993 to 1995 he was President and Chief Operating Officer of The Upjohn Company. At the time of his retirement, Mr. Smith was Executive Vice President of Pharmacia & Upjohn, and President of Pharmacia & Upjohn s U.S. Pharma Product Center. Based on Mr. Smith s management experience in the pharmaceutical industry, our Board believes that Mr. Smith has the appropriate set of skills to serve as a member of the Board.

As indicated above, each of our directors has extensive management and operational experience in one or more facets of the pharmaceutical industry, including research, product development, clinical and regulatory affairs, manufacturing and sales and marketing, providing our company with the leadership needed by a biotechnology company in all stages of its development.

Directors hold office until the next annual stockholders meeting or until their death, resignation, retirement, removal, disqualification, or until their successors have been elected and are qualified.

THE BOARD RECOMMENDS A VOTE FOR THE ELECTION OF THE DIRECTOR NOMINEES LISTED ABOVE.

DIRECTOR COMPENSATION

The following table summarizes compensation that our non-employee directors earned during 2014 for services as members of our Board.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Options Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Joseph A. Akers[(1)]	$12,500	$	$10,863	$	$	$	$23,363
Victor J. Bauer, Ph.D.	55,000		15,953				70,953
Eurelio M. Cavalier	62,500		15,953				78,453
M. David MacFarlane, Ph.D.	55,000		15,953				70,953
James R. McNab, Jr.[(1)]	12,500		10,863				23,263
Ley S. Smith	62,500		15,953				78,453

(1) Mr. Akers and Mr. McNab joined the Board on November 10, 2014.

EXECUTIVE COMPENSATION

Overview

During 2014, Dr. Rubin and Mr. Bhonsle continued as our Executive Chairman and President, respectively, with compensation packages structured to reflect our current level of operations and resources. The FDA issued a complete response letter (CRL) to the Probuphine new drug application (NDA) on April 30, 2013 thereby delaying potential approval of Probuphine until additional clinical and other requirements are met. Efforts subsequent to receipt of the CRL have focused on working with Braeburn and the FDA to establish a path forward for potential resubmission of the NDA with the additional information requested by the FDA. The key objectives for 2014 were to support the completion of the ongoing Probuphine development plans, including the PRO 814 clinical study, and evaluate additional opportunities for use of the ProNeura technology platform. This compensation discussion describes the material elements of compensation awarded to, earned by, or paid to each of our executive officers who served as named executive officers during the year ended December 31, 2014. This compensation discussion focuses on the information contained in the following tables and related footnotes and narrative for primarily the last completed fiscal year; however, we also describe compensation actions taken before or after the last completed fiscal year to the extent it enhances the understanding of our executive compensation disclosure.

Compensation Program Objectives and Philosophy

Our compensation committee currently oversees the design and administration of our executive compensation program. It reviews and approves all elements of compensation for each of our named executive officers taking into consideration recommendations from our principal executive officer (for compensation other than his own), as well as competitive market guidance. We define our competitive markets for executive talent to be the pharmaceutical and biotechnology industries in northern California. To date, we have utilized the Radford Biotechnology Surveys, a third party market specific compensation survey, and, when applicable, other independent third-party compensation consultants to benchmark our executive compensation.

The principal elements of our executive compensation program have historically been base salary, annual cash incentives, long-term equity incentives in the form of stock options, other benefits and perquisites, post-termination severance and acceleration of stock option vesting for certain named executive officers upon termination and/or a change in control. Our other benefits and perquisites have consisted of life, health and disability insurance benefits, and a qualified 401(k) savings plan. Our philosophy has been to position the aggregate of these elements at a level that is competitive within the industry and commensurate with our size and performance recognizing operational needs and limited financial resources during this period.

During 2014, our operations continued to focus on efforts to realize maximum shareholder value from activities associated with our Probuphine and ProNeura development programs. Accordingly, our compensation committee continued a compensation plan which provides base salary and potential earnings through stock option and restricted stock awards.

Base Salaries

During 2014, the base salary of our named executives was reflective of the availability of resources and level of continuing operations. Dr. Rubin received an annual salary of $210,000 and Mr. Bhonsle received an annual salary of $300,000.

As we continue to evaluate the strategic alternatives for us going forward and our related human resource requirements, our compensation committee will continue to review appropriate base salaries for our executive officers. In making its determination, the compensation committee will consider the time commitment necessary and the roles our executives will play in implementing our plans.

Long-term Equity Incentives

We provide the opportunity for our named executive officers and other executives to earn a long-term equity incentive award. Long-term incentive awards provide employees with the incentive to stay with us for longer periods of time, which in turn, provides us with greater stability. Equity awards also are less costly to us in the short term than cash compensation. We review long-term equity incentives for our named executive officers and other executives annually.

Historically, for our named executive officers, our stock option grants were of a size and term determined and approved by the compensation committee in consideration of the range of grants in the Radford Survey, generally falling within the 50   75% range outlined in the survey. We have traditionally used stock options as our form of equity compensation because stock options provide a relatively straightforward incentive for our executives, resulting in less immediate dilution of existing stockholders   interests and, prior to our adoption of FAS 123(R), resulted in less compensation expense for us relative to other types of equity awards. Generally, all grants of stock options to our employees were granted with exercise prices equal to or greater than the fair market value of our common stock on the respective grant dates.

We do not time stock option grants to executives in coordination with the release of material non-public information. Our stock option grants have a 10-year contractual exercise term. In general, the option grants are also subject to the following post-termination and change in control provisions:

Event	Award Vesting	Exercise Term
Termination by us for Reason Other than Cause, Disability or Death	Forfeit Unvested Options	Earlier of: (1) 90 days or (2) Remaining Option Period
Termination for Disability, Death or Retirement	Forfeit Unvested Options	Earlier of: (1) 2 years or (2) Remaining Option Period
Termination for Cause	Forfeit Vested and Unvested Options	Expire

Other Termination	Forfeit Unvested Options	Earlier of: (1) 90 days or (2) Remaining Option Period
Change in Control	Accelerated*	*

* The compensation committee may provide that, in the event of a change in control, any outstanding awards that are unexercisable or otherwise unvested will become fully vested and immediately exercisable. If there is a termination of employment, the applicable termination provisions regarding exercise term will apply.

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In February 2014, Dr. Rubin and Mr. Bhonsle each received a restricted stock award of 100,000 shares, of which 25,000 vested immediately and the balance vested on the first anniversary of the grant date.

Compensation Committee Interlocks and Insider Participation

No member of our compensation committee was, or has been at any time in the last 10 years, an officer or employee of Titan or any of our former subsidiaries. No member of the compensation committee has a relationship that would constitute an interlocking relationship with executive officers or directors of our company or another entity.

SUMMARY COMPENSATION TABLE

The following table shows information concerning the annual compensation for services provided to us by our Executive Chairman and our President and Principal Financial Officer for the periods set forth.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Options Awards ($)(1)	Stock Awards ($)(1)	All Other Compensation ($)	Total Compensation ($)
Marc Rubin, M.D.	2014	$210,000	$	$	$ 66,000	$	$ 276,000
Executive Chairman	2013	$210,000					$ 210,000
Sunil Bhonsle	2014	300,000			66,000		366,000
President and Principal Financial Officer	2013	300,000					300,000

(1) Amounts shown represent the grant date fair value computed in accordance with FASB ASC 718. The assumptions used by us with respect to the valuation of option grants and stock awards are set forth in Note 12 of the Notes to Financial Statements in the 2014 10-K.

GRANTS OF PLAN-BASED AWARDS

The following table shows information concerning grants of plan based awards to named executive officers during the year ended December 31, 2014**.**

Name	Grant Date	Approval Date(1)	Number of Shares of Common Stock Underlying Awards (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)(2)
Marc Rubin, M.D.	2/12/2014	2/11/2014	100,000 (3)	$	$ 66,000
Sunil Bhonsle	2/12/2014	2/11/2014	100,000 (3)	$	$ 66,000

(1) All grants were approved by the Compensation Committee on the dates indicated.
(2) Valuation assumptions are found in Note 12 of the Notes to Financial Statements in the 2014 10-K.
(3) These restricted stock awards were 25% vested on the grant date with the balance vesting on the first anniversary of the grant date.

Employee Benefits Plans

The principal purpose of our stock incentive plans is to attract, motivate, reward and retain selected employees, consultants and directors through the granting of stock-based compensation awards. The stock option plans provides for a variety of awards, including non-qualified stock options, incentive stock options (within the meaning of Section 422 of the Code), stock appreciation rights, restricted stock awards, performance-based awards and other stock-based awards.

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2001 Stock Option Plan

In August 2001, we adopted the 2001 Employee Non-Qualified Stock Option Plan, or the 2001 NQ Plan, pursuant to which 1,750,000 shares of common stock were authorized for issuance for option grants to employees and consultants who are not officers or directors of Titan. The 2001 NQ Plan expired by its terms in August 2011. On December 31, 2014, options to purchase an aggregate of 1,124,000 shares of our common stock were outstanding under the 2001 NQ Plan.

2002 Stock Incentive Plan

In July 2002, we adopted the 2002 Stock Incentive Plan, or the 2002 Plan. Under the 2002 Plan, as amended, a total of approximately 7.4 million shares of our common stock were authorized for issuance to employees, officers, directors, consultants, and advisers. The 2002 Plan expired by its terms in July 2012. On December 31, 2014, options to purchase an aggregate of 3,808,553 shares of our common stock were outstanding under the 2002 Plan.

2014 Incentive Plan

On February 11, 2014, our Board adopted the 2014 Incentive Plan, or the 2014 Plan, pursuant to which 2,500,000 shares of our common stock were authorized for issuance to employees, directors, officers, consultants and advisors. On December 31, 2014, restricted stock awards and options to purchase 683,500 shares of our common stock were outstanding under the 2014 Plan. In March 2015, options to purchase an additional 1,374,000 shares were granted under the 2014 Plan. On the Record Date, there were 184,000 shares of common stock available for issuance pursuant to awards under the 2014 Plan; however, no additional awards under the 2014 Plan will be made if adoption of the 2015 Omnibus Equity Incentive Plan is approved by our stockholders.

2015 Omnibus Equity Incentive Plan

On June 12, 2015, our Board adopted the 2015 Omnibus Equity Incentive Plan, or the 2015 Plan, subject to and effective only upon the receipt of stockholder approval, which we are seeking at the annual meeting. See Proposal No. 2 Approval of the Titan Pharmaceuticals, Inc. 2015 Omnibus Equity Incentive Plan. If the 2015 Plan is approved, we will no longer issue awards under the 2014 Plan.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table summarizes the number of securities underlying outstanding plan awards for each named executive officer as of December 31, 2014.

Name	Number of Securities Underlying Unexercised Awards (#) Exercisable	Number of Securities Underlying Unexercised Awards (#) Unexercisable	Exercise Price ($)	Expiration Date
Marc Rubin, M.D.	437,500		$ 2.40	10/01/2017

7,500		1.52	5/30/2018
100,000		0.79	5/17/2019
15,000		0.79	5/17/2019
285,000		0.79	5/17/2019
615,000		0.79	5/17/2019
150,000		1.40	4/15/2021
250,000		1.15	1/3/2022
	75,000		2/12/2024

Name	Number of Securities Underlying Unexercised Awards (#) Exercisable	Number of Securities Underlying Unexercised Awards (#) Unexercisable	Exercise Price ($)	Expiration Date
Sunil Bhonsle	70,000		$ 2.62	2/7/2015
	10,137		1.40	1/3/2016
	70,000		1.40	1/3/2016
	11,250		2.35	8/29/2016
	30,737		3.13	1/3/2017
	45,929		3.13	1/3/2017
	5,000		1.52	5/30/2018
	100,000		0.79	5/17/2019

Methanex average non-discounted posted price ($ per tonne) [2]	398	437	260	418	266
Average realized price ($ per tonne) [3]	327	365	223	347	227
Revenue	669	810	468	1,480	903
Adjusted revenue	716	832	496	1,548	946
Adjusted EBITDA	174	267	38	441	74
Cash flows from operating activities	250	221	34	470	104
Adjusted net income (loss)	74	140	(31)	214	(55)
Net income (loss) (attributable to Methanex shareholders)	84	132	(3)	216	(26)
Adjusted net income (loss) per common share	0.85	1.56	(0.34)	2.40	(0.62)
Basic net income (loss) per common share	0.96	1.47	(0.03)	2.43	(0.29)
Diluted net income (loss) per common share	0.89	1.46	(0.08)	2.39	(0.34)
Common share information (millions of shares)					
Weighted average number of common shares	88	90	90	89	90
Diluted weighted average number of common shares	88	90	90	89	90
Number of common shares outstanding, end of period	87	89	90	87	90

1 Methanex-produced methanol represents our equity share of volume produced at our facilities and excludes volume marketed on a commission basis related to the 36.9% of the Atlas facility and 50% of the Egypt facility that we do not own. Methanex-produced methanol includes any volume produced by Chile using natural gas supplied from Argentina under a tolling arrangement ("Tolling Volume"). There has been no Tolling Volume produced since the fourth quarter of 2015.

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

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

volume of Methanex-produced and purchased methanol, but excluding Tolling Volume.

PRODUCTION SUMMARY

(thousands of tonnes)	Q2 2017 Operating Capacity [1]	Q2 2017 Production	Q1 2017 Production	Q2 2016 Production	YTD Q2 2017 Production	YTD Q2 2016 Production
New Zealand [2]	608	350	533	577	883	1,086
Geismar (USA)	500	437	493	527	930	1,010
Trinidad (Methanex interest) [3]	500	449	396	417	845	730
Egypt (50% interest)	158	159	159	53	318	128
Medicine Hat (Canada)	150	159	118	123	277	282
Chile [4]	220	60	167	73	227	173
	2,136	1,614	1,866	1,770	3,480	3,409

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

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

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

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

New Zealand

The New Zealand facilities produced 350,000 tonnes of methanol in the second quarter of 2017 compared with 533,000 tonnes in the first quarter of 2017. During the second quarter of 2017 production was impacted mainly as a result of a planned turnaround at the Motunui 1 facility. The New Zealand facilities are capable of producing up to 2.4 million tonnes annually, depending on natural gas composition.

United States

The Geismar facilities produced 437,000 tonnes during the second quarter of 2017 compared to 493,000 tonnes during the first quarter of 2017. Lower production in the second quarter of 2017 as compared to the first quarter of 2017 was a result of planned maintenance activities undertaken at both of the Geismar plants. Maintenance activities were completed at Geismar 1 in May and at Geismar 2 in mid-July 2017.

Trinidad

The Trinidad facilities produced 449,000 tonnes (Methanex interest) in the second quarter of 2017 compared with 396,000 tonnes (Methanex interest) in the first quarter of 2017. We continue to experience gas curtailments in Trinidad with gas availability in the second quarter of 2017 at improved levels compared to the first quarter of 2017.

Egypt

The Egypt facility produced 318,000 tonnes (Methanex share - 159,000 tonnes) in the second quarter of 2017 compared to 318,000 tonnes (Methanex share - 159,000 tonnes) in the first quarter of 2017. The plant continued to run at high rates in the quarter.

The Egypt facility has experienced periodic natural gas supply restrictions since mid-2012. Gas deliveries in 2017 have improved significantly compared to 2016. We are optimistic that the strong efforts by Egyptian governmental entities to fast-track existing and new upstream gas supply in Egypt are leading to improved gas deliveries and an improved outlook for gas deliveries in the medium term.

Canada

The Medicine Hat facility produced 159,000 tonnes during the second quarter of 2017 compared with 118,000 tonnes during the first quarter of 2017. The plant was shut down for repairs for part of the first quarter of 2017 and since restart has operated at high rates.

Chile

The Chile facility produced 60,000 tonnes during the second quarter of 2017, produced using only natural gas supplies from Chile, compared to 167,000 tonnes during the first quarter of 2017. Lower gas deliveries during the southern hemisphere winter months and a mechanical issue at the plant resulted in lower production during the second quarter of 2017. Based on our current view of gas availability in Chile, we believe that there is sufficient gas for us to continue to operate through the remainder of the southern hemisphere winter at reduced rates.

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

FINANCIAL RESULTS

For the second quarter of 2017, we reported net income attributable to Methanex shareholders of $84 million ($0.89 per common share on a diluted basis) compared with net income attributable to Methanex shareholders for the first quarter of 2017 of $132 million ($1.46 per common share on a diluted basis).

For the second quarter of 2017, we recorded Adjusted EBITDA of $174 million and Adjusted net income of $74 million ($0.85 per common share). This compares with Adjusted EBITDA of $267 million and Adjusted net income of $140 million ($1.56 per common share) for the first quarter of 2017.

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

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

($ millions)	Three Months Ended Jun 30 2017	Mar 31 2017	Jun 30 2016	Six Months Ended Jun 30 2017	Jun 30 2016
Consolidated statements of income (loss):					
Revenue	$669	$810	$468	$1,480	$903
Cost of sales and operating expenses	(502)	(559)	(430)	(1,062)	(834)
Mark-to-market impact of share-based compensation	(12)	10	(8)	(2)	(9)
Adjusted EBITDA (attributable to associate)	41	34	13	75	21
Amounts excluded from Adjusted EBITDA attributable to non-controlling interests	(22)	(28)	(5)	(50)	(7)
Adjusted EBITDA (attributable to Methanex shareholders)	174	267	38	441	74
Mark-to-market impact of share-based compensation	12	(10)	8	2	9
Depreciation and amortization	(61)	(56)	(58)	(117)	(111)
Argentina gas settlement	—	—	33	—	33
Finance costs	(24)	(23)	(22)	(47)	(43)
Finance income and other expenses	6	—	—	6	3
Income tax recovery (expense)	(9)	(38)	—	(47)	10
Earnings of associate adjustment [1]	(19)	(17)	(11)	(36)	(19)
Non-controlling interests adjustment [1]	5	9	9	14	18
Net income (loss) (attributable to Methanex shareholders)	$84	$132	$(3)	$216	$(26)
Net income (loss)	$101	$151	$(7)	$252	$(38)

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

Adjusted EBITDA (attributable to Methanex shareholders)

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

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

($ millions)	Q2 2017 compared with Q1 2017	Q2 2017 compared with Q2 2016	YTD Q2 2017 compared with YTD Q2 2016
Average realized price	$ (81)	$ 231	$ 540
Sales volume	(12)	(2)	11
Total cash costs	—	(93)	(184)
Increase (decrease) in Adjusted EBITDA	$ (93)	$ 136	$ 367

Average realized price

($ per tonne)	Three Months Ended			Six Months Ended	
	Jun 30 2017	Mar 31 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Methanex average non-discounted posted price	398	437	260	418	266
Methanex average realized price	327	365	223	347	227

Methanex's average realized price for the second quarter of 2017 decreased compared to the first quarter of 2017. The realized discount in the second quarter of 2017 was higher than the realized discount in the first quarter of 2017 and higher than the second quarter of 2016. Our realized discounts tend to increase in periods where methanol prices decrease quickly, as was experienced in the second quarter (refer to Supply/Demand Fundamentals section on page 10 of the MD&A for more information). Our average realized price for the second quarter of 2017 was $327 per tonne compared with $365 per tonne in the first quarter of 2017 and $223 per tonne in the second quarter of 2016. The decrease in average realized price for the second quarter of 2017 compared with the first quarter of 2017 decreased Adjusted EBITDA $81 million, and the increase in average realized price for the second quarter of 2017 compared with the second quarter of 2016 increased Adjusted EBITDA by $231 million.

For the six months ended June 30, 2017, Methanex's average non-discounted posted price increased to $418 per tonne from $266 per tonne for same period in 2016. Our average realized price increased to $347 per tonne for the six months ended June 30, 2017 from $227 per tonne for the same period in 2016. This change in average realized price increased Adjusted EBITDA by $540 million.

Sales volume

Methanol sales volume excluding commission sales volume in the second quarter of 2017 was 91,000 tonnes lower than the first quarter of 2017 and 45,000 tonnes lower than the second quarter of 2016. The decrease in the second quarter of 2017 compared to the first quarter of 2017 and the second quarter of 2016 decreased Adjusted EBITDA by $12 million and $2 million, respectively. For the six months ended June 30, 2017 compared with the same period in 2016, methanol sales volume excluding commission sales volume was 272,000 tonnes higher and this resulted in higher Adjusted EBITDA by $11 million.

Total cash costs

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

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

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

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

($ millions)	Q2 2017 compared with Q1 2017	Q2 2017 compared with Q2 2016	YTD Q2 2017 compared with YTD Q2 2016
Methanex-produced methanol costs	$ (14)	$ (43)	$ (70)
Proportion of Methanex-produced methanol sales	17	5	6
Purchased methanol costs	(8)	(61)	(122)
Other, net	5	6	2
Increase in total cash costs	$ —	$ (93)	$ (184)

Methanex-produced methanol costs

Natural gas is the primary feedstock at our methanol facilities and is the most significant component of Methanex-produced methanol costs. We purchase natural gas for more than half of our production under agreements where the unique terms of each contract include a base price and a variable price component linked to the price of methanol to reduce our commodity price risk exposure. The variable price component of each gas contract is adjusted by a formula related to methanol prices above a certain level. For the three and six months ended June 30, 2017 compared with the same periods in 2016, Methanex-produced methanol costs were higher by $43 million and $70 million, respectively, primarily due to the impact of changes in realized methanol prices on the variable portion of our natural gas costs. For the second quarter of 2017 compared with the first quarter of 2017, Methanex-produced methanol costs were higher by $14 million primarily due to changes in the mix of production sold from inventory.

Proportion of Methanex-produced methanol sales

The cost of purchased methanol is directly linked to the selling price for methanol at the time of purchase and the cost of purchased methanol is generally higher than the cost of Methanex-produced methanol. Accordingly, an increase in the proportion of Methanex-produced methanol sales results in a decrease in our overall cost structure for a given period. For the second quarter of 2017 compared with the first quarter of 2017 and the second quarter of 2016, a higher proportion of Methanex-produced methanol sales increased Adjusted EBITDA by $17 million and $5 million, respectively. For the six months ended June 30, 2017 compared with the same period in 2016, a higher proportion of Methanex-produced methanol sales increased Adjusted EBITDA by $6 million.

Purchased methanol costs

Changes in purchased methanol costs for all periods presented are primarily a result of changes in methanol pricing and the timing of purchases sold from inventory.

Mark-to-Market Impact of Share-based Compensation

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

	Three Months Ended			Six Months Ended	
($ millions except share share price)	Jun 30 2017	Mar 31 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Methanex Corporation share price [1]	$44.05	$46.90	$29.10	$44.05	$29.10
Grant-date fair value expense included in Adjusted EBITDA and Adjusted net income (loss)	4	3	4	7	8
Mark-to-market impact due to change in share price	(12)	10	(8)	(2)	(9)
Total share-based compensation expense (recovery), before tax	$(8)	$13	$(4)	$5	$(1)

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

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

Depreciation and Amortization

Depreciation and amortization was $61 million for the second quarter of 2017 compared with $56 million for the first quarter of 2017 and $58 million for the second quarter of 2016. The increase in depreciation and amortization for the second quarter of 2017 compared to the first quarter of 2017 is primarily due to higher unabsorbed depreciation recognized for production sites impacted by production outages. Depreciation and amortization for the six months ended June 30, 2017 was $117 million compared with $111 million for the same period in 2016. This increase is primarily related to depreciation on two ocean going vessels which the Company took delivery of in mid-2016 and higher sales of Methanex-produced methanol.

Finance Costs

	Three Months Ended			Six Months Ended	
($ millions)	Jun 30 2017	Mar 31 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Finance costs	$24	$ 23	$ 22	$47	$ 43

Finance costs are primarily comprised of interest on the unsecured notes, limited recourse debt facilities and finance lease obligations. Finance costs for the second quarter of 2017 are comparable to those for the first quarter of 2017. The increase in finance costs for the three and six month periods ended June 30, 2017 compared to the same periods in 2016 is primarily due to interest incurred relating to ocean going vessels treated as finance leases.

Finance Income and Other Expenses

	Three Months Ended	Six Months

($ millions)	Jun 30 2017	Mar 31 2017	Jun 30 2016	Ended Jun 30 2017	Jun 30 2016
Finance income and other expenses	$ 6	$ —	$ —	$ 6	$ 3

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Income Taxes

A summary of our income taxes for the second quarter of 2017 compared to the first quarter of 2017 is as follows:

($ millions except where noted)	Three months ended June 30, 2017 Net Income	Three months ended June 30, 2017 Adjusted Net Income	Three months ended March 31, 2017 Net Income	Three months ended March 31, 2017 Adjusted Net Income
Amount before income tax	$110	$ 93	$189	$ 188
Income tax expense	(9)	(19)	(38)	(48)
	$101	$ 74	$151	$ 140
Effective tax rate	8 %	20 %	20 %	26 %

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

The effective tax rate based on Adjusted net income was 20% for the second quarter of 2017 compared to 26% first quarter of 2017. Adjusted earnings represents the amount that is attributable to Methanex shareholders and excludes the mark-to-market impact of share-based compensation and the impact of certain items associated with specific identified events. The effective tax rate differs from period to period depending on the source of earnings and the impact of foreign exchange fluctuations against the United States dollar on our tax balances. In periods with low income levels, the distribution of income and loss between jurisdictions can result in income tax rates that are not indicative of the longer term corporate tax rate.

SUPPLY/DEMAND FUNDAMENTALS

Demand

Methanol demand in the second quarter of 2017 was relatively flat versus the first quarter of 2017, and was approximately 5% higher compared to the second quarter of 2016. Demand from the MTO sector declined as a number of MTO facilities underwent planned maintenance or experienced technical issues during the quarter. There are three additional MTO units currently under construction with the combined capacity to consume over three million tonnes of methanol annually at full operating rates, and we expect these plants to be completed in 2018. The future operating rates of MTO producers will depend on a number of factors, including pricing for their various final products, the degree of downstream integration of these units with other products, and the impact of the olefin industry feedstock costs, including naphtha, on relative competitiveness. Traditional chemical demand (which accounts for approximately 55% of global methanol demand) continues to be healthy. We believe that growth in demand from traditional chemical applications is generally correlated to GDP and industrial production growth rates.

Supply

Overall industry supply was relatively flat in the second quarter of 2017 relative to the first quarter of 2017. Maintenance activities at a number of North American and European production facilities kept markets relatively tight in the Atlantic, while production improved in Asia and the Middle East as winter gas constraints eased and unplanned outages were resolved. Supply in China was constrained by a number of methanol plant turnarounds early in the second quarter, but improved as plants returned to production later in the quarter. With respect to capacity additions, OCI N.V. and Consolidated Energy Limited (through its subsidiary G2X Energy) continue to progress their jointly owned Natgasoline project, a 1.8 million tonne plant under construction in Beaumont, Texas. There are a number of other projects under discussion in the United States. Other than one project, Yuhuang Chemical, who have announced that they have secured partial financing for a 1.8 million tonne plant in St. James Parish, Louisiana, we believe that there has been limited committed capital to date. In Iran, there are a number of plants at various stages of construction. We expect just over four million tonnes of capacity to come onstream in Iran over the next two years; however, the start-up timing and future operating rates at these facilities will be dependent on various factors. To the end of 2018, we expect approximately four to five million tonnes of new capacity additions in China. Beyond 2018, we anticipate that new capacity additions in China will be modest due to an increasing degree of restrictions placed by the Chinese government on new coal-based capacity additions. We expect that production from new methanol capacity in China will be consumed domestically.

Methanol Price

Our average realized price decreased by $38 per tonne to $327 per tonne from $365 per tonne in the first quarter. With overall supply relatively flat, the main driver of the lower methanol pricing was softening demand from the MTO sector stemming from technical issues described above.

Methanex's posted prices moved lower in the second quarter of 2017 and stabilized early in the third quarter of 2017. Contract prices in North America and Asia declined from their March levels of $499 per tonne and $500 per tonne, respectively, to $376 and $320 per tonne for July and August, 2017. In Europe, the second quarter posted price was €450 per tonne, and declined to €320 per tonne for the third quarter of 2017, in keeping with pricing in North America and Asia. The methanol price will ultimately depend on the strength of the global economy, industry operating rates, global energy prices, new supply additions and the strength of global demand.

Methanex Non-Discounted Regional Posted Prices [1]

(US$ per tonne)	Aug 2017	Jul 2017	Jun 2017	May 2017	Apr 2017
North America	376	376	386	409	442
Europe [2]	365	365	480	480	480
Asia Pacific	320	320	320	360	390

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

[2] €320 for Q3 2017 (Q2 2017 – €450) converted to United States dollars.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities in the second quarter of 2017 were $250 million compared with $221 million for the first quarter of 2017 and $34 million for the second quarter of 2016. Cash flows from operating activities for the six month period ended June 30, 2017 were $470 million compared with $104 million for the same period in 2016. The changes in cash flows from operating activities resulted from changes in the following:

($ millions)	Q2 2017 compared with Q1 2017	Q2 2017 compared with Q2 2016	YTD Q2 2017 compared with YTD Q2 2016
Change in Adjusted EBITDA (attributable to Methanex shareholders)	$ (93)	$ 136	$ 367
Deduct change in Adjusted EBITDA of associate	(7)	(28)	(54)
Dividends received from associate	(5)	17	13
Cash flows attributable to non-controlling interests	(6)	17	43
Non-cash working capital	130	97	28
Income taxes paid	(2)	(5)	(10)
Argentina gas settlement	—	(33)	(33)
Share-based payments	6	3	8
Other	6	12	4
Increase in cash flows from operating activities	$ 29	$ 216	$ 366

During the second quarter of 2017 we paid a quarterly dividend of $0.30 per common share for a total of $26 million and we repurchased 2.6 million common shares for $115 million.

We announced today that the Board of Directors approved an amendment to the normal course issuer bid which increases the number of common shares that may be purchased from 4,492,141 to 6,152,358 common shares, representing 10% of the public float at the time of the announcement of the bid and the maximum number of common shares that may be purchased under this bid. To date we have repurchased 3,755,000 common shares under the current bid for approximately $168 million.

We operate in a highly competitive commodity industry and believe it is appropriate to maintain a strong balance sheet and financial flexibility. At June 30, 2017, our cash balance was $361 million, including cash related to our Egypt entity consolidated on a 100% basis. We invest our cash only in highly rated instruments that have maturities of three months or less to ensure preservation of capital and appropriate liquidity.

Certain conditions have not been met related to the Egypt limited recourse debt facilities, resulting in a restriction on shareholder distributions from the Egypt entity. At June 30, 2017, the cash balance held in our Egypt entity on a 100% ownership basis was $109 million. The Egypt entity continues to be able to fully utilize its funds for operating, capital and financing needs, including the repayment of the Egypt limited recourse debt facilities. Refer to note 5 of the Company’s unaudited condensed consolidated interim financial statements for further details.

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

Over the past 6 months we have been analyzing refurbishing Chile 1 versus restarting our Chile IV plant. We have concluded that restarting the Chile IV plant is our best option. The Board of Directors recently approved $55 million for the restart of our idle Chile IV plant. However, prior to initiating major capital spending we need to contract additional natural gas beyond our current commitments through mid-2018. We are optimistic we can contract additional gas at economic prices over the coming months. We will continue to spend a few million dollars to enable the restart of Chile IV targeted for the third quarter of 2018. Our planned capital expenditures directed towards maintenance, turnarounds and catalyst changes for operations, including our 63.1% share of Atlas and 50% of Egypt, is currently estimated to be approximately $40 million to the end of 2017.

We believe we are well positioned to meet our financial commitments, pursue our near-term growth opportunities in Chile and deliver on our commitment to return excess cash to shareholders through dividends and share repurchases.

CONTROLS AND PROCEDURES

During the second quarter of 2017, no changes were made in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ADDITIONAL INFORMATION – SUPPLEMENTAL NON-GAAP MEASURES

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

Adjusted EBITDA (attributable to Methanex shareholders)

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

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

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

($ millions)	Three Months Ended			Six Months Ended	
	Jun 30 2017	Mar 31 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Net income (loss) (attributable to Methanex shareholders)	$84	$ 132	$ (3)	$216	$ (26)
Mark-to-market impact of share-based compensation	(12)	10	(8)	(2)	(9)
Depreciation and amortization	61	56	58	117	111
Argentina gas settlement	—	—	(33)	—	(33)
Finance costs	24	23	22	47	43
Finance income and other expenses	(6)	—	—	(6)	(3)
Income tax expense (recovery)	9	38	—	47	(10)
Earnings of associate adjustment [1]	19	17	11	36	19
Non-controlling interests adjustment [1]	(5)	(9)	(9)	(14)	(18)
Adjusted EBITDA (attributable to Methanex shareholders)	$174	$ 267	$ 38	$441	$ 74

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

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

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

($ millions except number of shares and per share amounts)	Three Months Ended			Six Months Ended	
	Jun 30 2017	Mar 31 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Net income (loss) (attributable to Methanex shareholders)	$84	$ 132	$(3)	$216	$(26)
Mark-to-market impact of share-based compensation, net of tax	(10)	8	(7)	(2)	(8)
Argentina gas settlement, net of tax	—	—	(21)	—	(21)
Adjusted net income (loss)	$74	$ 140	$(31)	$214	$(55)
Diluted weighted average shares outstanding (millions)	88	90	90	89	90
Adjusted net income (loss) per common share	$0.85	$ 1.56	$(0.34)	$2.40	$(0.62)

Adjusted Revenue (attributable to Methanex shareholders)

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

($ millions)	Three Months Ended			Six Months Ended	
	Jun 30 2017	Mar 31 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016

Revenue	$669	$ 810	$ 468	$1,480	$ 903
Methanex share of Atlas revenue [1]	91	81	36	172	70
Non-controlling interests' share of revenue [1]	(44)	(58)	(8)	(102)	(26)
Other adjustments	—	(1)	—	(2)	(1)
Adjusted revenue (attributable to Methanex shareholders)	$716	$ 832	$ 496	$1,548	$ 946

[1] Excludes intercompany transactions with the Company.

Operating Income (Loss)

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

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

($ millions except per share amounts)	Three Months Ended Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016
Revenue	$669	$ 810	$ 585	$ 510
Adjusted EBITDA	174	267	139	74
Net income (loss)	84	132	24	(11)
Adjusted net income (loss)	74	140	41	(1)
Basic net income (loss) per common share	0.96	1.47	0.28	(0.12)
Diluted net income (loss) per common share	0.89	1.46	0.28	(0.12)
Adjusted net income (loss) per common share	0.85	1.56	0.46	(0.01)

($ millions except per share amounts)	Three Months Ended Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015
Revenue	$468	$ 435	$ 484	$ 527
Adjusted EBITDA	38	36	80	95
Net income (loss)	(3)	(23)	10	78
Adjusted net income (loss)	(31)	(24)	15	23
Basic net income (loss) per common share	(0.03)	(0.26)	0.10	0.87
Diluted net income (loss) per common share	(0.08)	(0.26)	0.10	0.54
Adjusted net income (loss) per common share	(0.34)	(0.27)	0.16	0.26

HOW WE ANALYZE OUR BUSINESS

Our operations consist of a single operating segment - the production and sale of methanol. We review our financial results by analyzing changes in the components of Adjusted EBITDA, mark-to-market impact of share-based compensation, depreciation and amortization, finance costs, finance income and other expenses, and income taxes.

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

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

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

We own 63.1% of the Atlas methanol facility and market the remaining 36.9% of its production through a commission offtake agreement. A contractual agreement between us and our partners establishes joint control over Atlas. As a result, we account for this investment using the equity method of accounting, which results in 63.1% of the net assets and net earnings of Atlas being presented separately in the consolidated statements of financial position and consolidated statements of income (loss), respectively. For purposes of analyzing our business, Adjusted EBITDA, Adjusted net income (loss), Adjusted net income (loss) per common share and Adjusted revenue include an amount representing our 63.1% equity share in Atlas. Our analysis of depreciation and amortization, finance costs, finance income and other expenses, and income taxes is consistent with the presentation of our consolidated statements of income (loss) and excludes amounts related to Atlas.

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

FORWARD-LOOKING INFORMATION WARNING

This Second Quarter 2017 Management's Discussion and Analysis ("MD&A") as well as comments made during the Second Quarter 2017 investor conference call contain forward-looking statements with respect to us and our industry. These statements relate to future events or our future performance. All statements other than statements of historical fact are forward-looking statements. Statements that include the words "believes," "expects," "may," "will," "should," "potential," "estimates," "anticipates," "aim," "goal" or other comparable terminology and similar statements of a future or forward-looking nature identify forward-looking statements.

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

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

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

- the supply of, demand for and price of methanol, methanol derivatives, natural gas, coal, oil and oil derivatives,

- our ability to procure natural gas feedstock on commercially acceptable terms,
- operating rates of our facilities,

- receipt or issuance of third-party consents or approvals, including, without limitation, governmental registrations of land title and related mortgages in Egypt and governmental approvals related to rights to purchase natural gas,
- the establishment of new fuel standards,
- operating costs, including natural gas feedstock and logistics costs, capital costs, tax rates, cash flows, foreign exchange rates and interest rates,
- the availability of committed credit facilities and other financing,

- global and regional economic activity (including industrial production levels),
- absence of a material negative impact from major natural disasters,
- absence of a material negative impact from changes in laws or regulations,
- absence of a material negative impact from political instability in the countries in which we operate, and
- enforcement of contractual arrangements and ability to perform contractual obligations by customers, natural gas and other suppliers and other third parties.

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

- conditions in the methanol and other industries including fluctuations in the supply, demand and price for methanol and its derivatives, including demand for methanol for energy uses,
- the price of natural gas, coal, oil and oil derivatives,
- our ability to obtain natural gas feedstock on commercially acceptable terms to underpin current operations and future production growth opportunities,
- the ability to carry out corporate initiatives and strategies,
- actions of competitors, suppliers and financial institutions,
- conditions within the natural gas delivery systems that may prevent delivery of our natural gas supply requirements,

- competing demand for natural gas, especially with respect to domestic needs for gas and electricity in Chile and Egypt,
- actions of governments and governmental authorities, including, without limitation, implementation of policies or other measures that could impact the supply of or demand for methanol or its derivatives,
- changes in laws or regulations,
- import or export restrictions, anti-dumping measures, increases in duties, taxes and government royalties, and other actions by governments that may adversely affect our operations or existing contractual arrangements,
- world-wide economic conditions, and
- other risks described in our 2016 Annual Management’s Discussion and Analysis and this Second Quarter 2017 Management’s Discussion and Analysis.

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

Methanex Corporation
Consolidated Statements of Income (Loss) (unaudited)
(thousands of U.S. dollars, except number of common shares and per share amounts)

	Three Months Ended		Six Months Ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Revenue	$669,164	$467,893	$1,479,513	$902,746
Cost of sales and operating expenses	(502,396)	(430,071)	(1,061,710)	(833,822)
Depreciation and amortization	(61,009)	(58,494)	(116,981)	(111,473)
Argentina gas settlement	—	32,500	—	32,500
Operating income (loss)	105,759	11,828	300,822	(10,049)
Earnings of associate (note 4)	21,766	2,314	38,755	2,087
Finance costs	(23,312)	(21,858)	(46,629)	(42,859)
Finance income and other expenses	5,625	(113)	5,628	2,988
Income (loss) before income taxes	109,838	(7,829)	298,576	(47,833)
Income tax recovery (expense):				
Current	(15,530)	(10,892)	(40,938)	(26,329)
Deferred	6,482	11,474	(5,820)	36,549
	(9,048)	582	(46,758)	10,220
Net income (loss)	$100,790	$(7,247)	$251,818	$(37,613)
Attributable to:				
Methanex Corporation shareholders	$84,146	$(2,877)	$215,715	$(26,275)
Non-controlling interests	16,644	(4,370)	36,103	(11,338)
	$100,790	$(7,247)	$251,818	$(37,613)
Income (loss) per common share for the period attributable to Methanex Corporation shareholders				
Basic net income (loss) per common share	$0.96	$(0.03)	$2.43	$(0.29)
Diluted net income (loss) per common share (note 6)	$0.89	$(0.08)	$2.39	$(0.34)
Weighted average number of common shares outstanding (note 6)	87,692,627	89,796,238	88,728,106	89,757,698
Diluted weighted average number of common shares outstanding (note 6)	88,057,502	89,876,849	89,164,211	89,821,964

See accompanying notes to condensed consolidated interim financial statements.

METHANEX CORPORATION 2017 SECOND QUARTER PAGE 1
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Methanex Corporation
Consolidated Statements of Comprehensive Income (Loss) (unaudited)
(thousands of U.S. dollars)

	Three Months Ended		Six Months Ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Net income (loss)	$100,790	$(7,247)	$251,818	$(37,613)
Other comprehensive income (loss):				
Items that may be reclassified to income:				
Change in fair value of cash flow hedges (note 9)	(24,252)	116,548	(78,754)	66,829
Forward element excluded from hedging relationships (note 9)	24,580	(95,947)	59,113	(64,237)
Taxes on above items	9	(6,845)	6,565	(830)
	337	13,756	(13,076)	1,762
Comprehensive income (loss)	$101,127	$6,509	$238,742	$(35,851)
Attributable to:				
Methanex Corporation shareholders	$84,483	$10,879	$202,639	$(24,513)
Non-controlling interests	16,644	(4,370)	36,103	(11,338)
	$101,127	$6,509	$238,742	$(35,851)

See accompanying notes to condensed consolidated interim financial statements.

METHANEX CORPORATION 2017 SECOND QUARTER PAGE 2
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Methanex Corporation
Consolidated Statements of Financial Position (unaudited)
(thousands of U.S. dollars)

AS AT	Jun 30 2017	Dec 31 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$361,333	$223,890
Trade and other receivables	498,301	499,603
Inventories (note 2)	282,937	281,328
Prepaid expenses	30,479	20,846
	1,173,050	1,025,667
Non-current assets:		
Property, plant and equipment (note 3)	3,056,821	3,117,469
Investment in associate (note 4)	191,435	197,402
Deferred income tax assets	134,532	137,341
Other assets	82,383	78,784
	3,465,171	3,530,996
	$4,638,221	$4,556,663
LIABILITIES AND EQUITY		
Current liabilities:		
Trade, other payables and accrued liabilities	$589,929	$523,216
Current maturities on long-term debt (note 5)	55,534	53,997
Current maturities on other long-term liabilities	31,521	29,720
	676,984	606,933
Non-current liabilities:		
Long-term debt (note 5)	1,475,618	1,502,209
Other long-term liabilities	363,598	351,191
Deferred income tax liabilities	288,434	290,980
	2,127,650	2,144,380
Equity:		
Capital stock	494,553	511,465
Contributed surplus	2,331	2,568
Retained earnings	1,159,349	1,124,104
Accumulated other comprehensive loss	(54,378)	(41,302)
Shareholders' equity	1,601,855	1,596,835
Non-controlling interests	231,732	208,515
Total equity	1,833,587	1,805,350
	$4,638,221	$4,556,663

See accompanying notes to condensed consolidated interim financial statements.

Methanex Corporation
Consolidated Statements of Changes in Equity (unaudited)
(thousands of U.S. dollars, except number of common shares)

	Number of Common Shares	Capital Stock	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity	Non-Controlling Interests	Total Equity
Balance, December 31, 2015	89,671,198	$509,464	$2,426	$1,235,615	$(27,776)	$1,719,729	$248,844	$1,968,573
Net loss	—	—	—	(26,275)	—	(26,275)	(11,338)	(37,613)
Other comprehensive income	—	—	—	—	1,762	1,762	—	1,762
Compensation expense recorded for stock options	—	—	379	—	—	379	—	379
Issue of shares on exercise of stock options	125,040	798	—	—	—	798	—	798
Reclassification of grant date fair value on exercise of stock options	—	257	(257)	—	—	—	—	—
Dividend payments to Methanex Corporation shareholders	—	—	—	(49,399)	—	(49,399)	—	(49,399)
Distributions made and accrued to non-controlling interests	—	—	—	—	—	—	(11,636)	(11,636)
Equity contributions by non-controlling interests	—	—	—	—	—	—	525	525
Balance, June 30, 2016	89,796,238	$510,519	$2,548	$1,159,941	$(26,014)	$1,646,994	$226,395	$1,873,389
Net income (loss)	—	—	—	13,730	—	13,730	(4,342)	9,388
Other comprehensive loss	—	—	—	(169)	(15,288)	(15,457)	—	(15,457)
Compensation expense recorded for stock options	—	—	258	—	—	258	—	258
	28,100	708	—	—	—	708	—	708

Issue of shares on exercise of stock options								
Reclassification of grant date fair value on exercise of stock options	—	238	(238)	—	—	—	—	—
Dividend payments to Methanex Corporation shareholders	—	—	—	(49,398)	—	(49,398)	—	(49,398)
Distributions made and accrued to non-controlling interests	—	—	—	—	—	—	(13,038)	(13,038)
Equity contributions by non-controlling interests	—	—	—	—	—	—	(500)	(500)
Balance, December 31, 2016	89,824,338	$511,465	$2,568	$1,124,104	$(41,302)	$1,596,835	$208,515	$1,805,350
Net income	—	—	—	215,715	—	215,715	36,103	251,818
Other comprehensive loss	—	—	—	—	(13,076)	(13,076)	—	(13,076)
Compensation expense recorded for stock options	—	—	266	—	—	266	—	266
Issue of shares on exercise of stock options	54,720	1,597	—	—	—	1,597	—	1,597
Reclassification of grant date fair value on exercise of stock options	—	503	(503)	—	—	—	—	—
Payment for shares repurchased	(3,330,000)	(19,012)	—	(129,687)	—	(148,699)	—	(148,699)
Dividend payments to Methanex Corporation shareholders	—	—	—	(50,783)	—	(50,783)	—	(50,783)
Distributions made and accrued to non-controlling interests	—	—	—	—	—	—	(12,886)	(12,886)

Balance, June 30, 2017	86,549,058	$494,553	$2,331	$1,159,349	$(54,378)	$1,601,855	$231,732	$1,833,587

See accompanying notes to condensed consolidated interim financial statements.

Methanex Corporation
Consolidated Statements of Cash Flows (unaudited)
(thousands of U.S. dollars)

	Three Months Ended		Six Months Ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES				
Net income (loss)	$100,790	$(7,247)	$251,818	$(37,613)
Deduct earnings of associate	(21,766)	(2,314)	(38,755)	(2,087)
Dividends received from associate	20,192	3,155	44,801	31,550
Add (deduct) non-cash items:				
Depreciation and amortization	61,009	58,494	116,981	111,473
Income tax expense (recovery)	9,048	(582)	46,758	(10,220)
Share-based compensation expense (recovery)	(7,880)	(3,535)	4,630	(652)
Finance costs	23,312	21,858	46,629	42,859
Other	1,212	1,742	2,617	2,129
Income taxes paid	(7,214)	(1,514)	(11,877)	(2,084)
Other cash payments, including share-based compensation	(1,039)	(11,754)	(6,993)	(17,664)
Cash flows from operating activities before undernoted	177,664	58,303	456,609	117,691
Changes in non-cash working capital (note 8)	72,098	(24,506)	13,807	(13,916)
	249,762	33,797	470,416	103,775
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES				
Payments for repurchase of shares	(114,957)	—	(148,699)	—
Dividend payments to Methanex Corporation shareholders	(26,062)	(24,694)	(50,783)	(49,399)
Interest paid	(26,780)	(25,362)	(42,286)	(38,736)
Net proceeds on issue of long-term debt	—	35,007	—	39,600
Repayment of long-term debt	(2,087)	(918)	(26,601)	(22,984)
Finance leases	(1,508)	(1,411)	(3,352)	(2,357)
Equity contributions by non-controlling interests	—	525	—	525
Distributions to non-controlling interests	—	—	—	(500)
Proceeds on issue of shares on exercise of stock options	38	—	1,597	798
Changes in non-cash working capital related to financing activities (note 8)	(6,638)	(5,689)	(10,605)	(11,154)
	(177,994)	(22,542)	(280,729)	(84,207)
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES				
Property, plant and equipment	(29,479)	(45,857)	(49,056)	(61,307)
Other assets	—	—	—	(66)
Changes in non-cash working capital related to investing activities (note 8)	3,911	(1,439)	(3,188)	25,841
	(25,568)	(47,296)	(52,244)	(35,532)
Increase (decrease) in cash and cash equivalents	46,200	(36,041)	137,443	(15,964)
Cash and cash equivalents, beginning of period	315,133	275,011	223,890	254,934
Cash and cash equivalents, end of period	$361,333	$238,970	$361,333	$238,970

See accompanying notes to condensed consolidated interim financial statements.

Methanex Corporation
Notes to Condensed Consolidated Interim Financial Statements (unaudited)
Except where otherwise noted, tabular dollar amounts are stated in thousands of U.S. dollars.
1. Basis of presentation:

Methanex Corporation ("the Company") is an incorporated entity with corporate offices in Vancouver, Canada. The Company's operations consist of the production and sale of methanol, a commodity chemical. The Company is the world's largest producer and supplier of methanol to the major international markets of Asia Pacific, North America, Europe and South America.

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those followed in the most recent annual consolidated financial statements.

These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and were approved and authorized for issue by the Audit, Finance & Risk Committee of the Board of Directors on July 26, 2017.

These condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016.

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15") establishing a comprehensive framework for revenue recognition. The standard replaces IAS 18, Revenue and IAS 11, Construction Contracts and related interpretations and is effective for annual periods beginning on or after January 1, 2018. The Company has performed a preliminary assessment of the impact of the new standard and currently anticipates no significant impact on its consolidated financial statements, with the assessment to be finalized in the second half of 2017.
2. Inventories:

Inventories are valued at the lower of cost, determined on a first-in first-out basis, and estimated net realizable value. The amount of inventories recognized as an expense in cost of sales and operating expenses and depreciation and amortization for the three and six month periods ended June 30, 2017 is $507 million (2016 - $426 million) and $1,051 million (2016 - $812 million), respectively.
3. Property, plant and equipment:

	Buildings, Plant Installations & Machinery	Finance Leases	Other	Total
Cost at June 30, 2017	$4,597,387	$215,008	$272,071	$5,084,466
Accumulated depreciation at June 30, 2017	1,856,283	26,083	145,279	2,027,645
Net book value at June 30, 2017	$2,741,104	$188,925	$126,792	$3,056,821
Cost at December 31, 2016	$4,549,816	$206,260	$272,878	$5,028,954
Accumulated depreciation at December 31, 2016	1,752,540	18,557	140,388	1,911,485
Net book value at December 31, 2016	$2,797,276	$187,703	$132,490	$3,117,469

4. Interest in Atlas joint venture:

a) The Company has a 63.1% equity interest in Atlas Methanol Company Unlimited ("Atlas"). Atlas owns a 1.8 million tonne per year methanol production facility in Trinidad. The Company accounts for its interest in Atlas using the equity method. Summarized financial information of Atlas (100% basis) is as follows:

Statements of financial position	Jun 30 2017	Dec 31 2016
Cash and cash equivalents	$10,299	$15,530
Other current assets	92,908	45,219
Non-current assets	306,841	324,297
Current liabilities	(63,353)	(24,783)
Other long-term liabilities, including current maturities	(164,267)	(168,253)
Net assets at 100%	182,428	192,010
Net assets at 63.1%	115,112	121,158
Long-term receivable from Atlas	76,323	76,244
Investment in associate	$191,435	$197,402

	Three Months Ended		Six Months Ended	
Statements of income	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Revenue	$128,189	$45,604	$243,398	$67,977
Cost of sales and depreciation and amortization	(71,627)	(33,244)	(142,044)	(51,420)
Operating income	56,562	12,360	101,354	16,557
Finance costs, finance income and other expenses	(2,874)	(3,488)	(5,752)	(6,580)
Income tax expense	(19,193)	(5,205)	(34,183)	(6,670)
Net earnings at 100%	34,495	3,667	61,419	3,307
Earnings of associate at 63.1%	21,766	$2,314	38,755	2,087
Dividends received from associate	$20,192	$3,155	$44,801	$31,550

b) Contingent liability:

The Board of Inland Revenue of Trinidad and Tobago has issued assessments against Atlas in respect of the 2005 to 2010 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 from 2005 to 2019 related to methanol produced by Atlas. Atlas had partial relief from corporation income tax until late July 2014.

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

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

5. Long-term debt:

As at	Jun 30 2017	Dec 31 2016
Unsecured notes		
$350 million at 3.25% due December 15, 2019	$347,589	$347,126
$250 million at 5.25% due March 1, 2022	247,876	247,685
$300 million at 4.25% due December 1, 2024	296,699	296,529
$300 million at 5.65% due December 1, 2044	295,120	295,084
	1,187,284	1,186,424
Egypt limited recourse debt facilities	266,775	288,515
Other limited recourse debt facilities	77,093	81,267
Total long-term debt [1]	1,531,152	1,556,206
Less current maturities	(55,534)	(53,997)
	$1,475,618	$1,502,209

[1] Long-term debt is presented net of deferred financing fees.

During the quarter ended June 30, 2017, the Company made repayments of $2.1 million on its other limited recourse debt facilities. Other limited recourse debt facilities relates to financing for certain of our ocean going vessels which we own through less than wholly-owned entities under the Company's control.

The Company maintains a $300 million committed revolving credit facility with a syndicate of highly rated financial institutions that expires in December 2019. Significant covenant and default provisions of the facility include:
a) the obligation to maintain an EBITDA to interest coverage ratio of greater than 2:1 calculated on a four-quarter trailing basis and a debt to capitalization ratio of less than or equal to 55%, both ratios calculated in accordance with definitions in the credit agreement that include adjustments to the limited recourse subsidiaries,
b) a default if payment is accelerated by a creditor on any indebtedness of $50 million or more of the Company and its subsidiaries, except for the limited recourse subsidiaries, and
c) a default if a default occurs that permits a creditor to demand repayment on any other indebtedness of $50 million or more of the Company and its subsidiaries, except for the limited recourse subsidiaries.

The limited recourse debt facilities are described as limited recourse as they are secured only by the assets of the entity that carries the debt. Accordingly, the lenders to the limited recourse debt facilities have no recourse to the Company or its other subsidiaries.

The Egypt limited recourse debt facilities have covenants and default provisions that apply only to the Egypt entity, including restrictions on the incurrence of additional indebtedness and a requirement to fulfill certain conditions before the payment of cash or other shareholder distributions. Certain conditions have not been met, resulting in a restriction on shareholder distributions from the Egypt entity. As of June 30, 2017, the Egypt cash balance on a 100% ownership basis was $109 million. The Egypt entity continues to be able to fully utilize its funds for operating, capital and financing needs, including the repayment of the Egypt limited recourse debt facilities.

Failure to comply with any of the covenants or default provisions of the long-term debt facilities described above could result in a default under the applicable credit agreement that would allow the lenders to not fund future loan requests, accelerate the due date of the principal and accrued interest on any outstanding loans or restrict the payment of cash or other distributions.

As at June 30, 2017, management believes the Company was in compliance with all significant terms and default provisions related to long-term debt obligations.

6. Net income (loss) per common share:

Diluted net income (loss) per common share is calculated by considering the potential dilution that would occur if outstanding stock options and, under certain circumstances, tandem share appreciation rights ("TSARs") were exercised or converted to common shares.

Outstanding TSARs may be settled in cash or common shares at the holder's option and for purposes of calculating diluted net income (loss) per common share, the more dilutive of the cash-settled and equity-settled method is used, regardless of how the plan is accounted for. Accordingly, TSARs that are accounted for using the cash-settled method will require adjustments to the numerator and denominator if the equity-settled method is determined to have a dilutive effect on diluted net income (loss) per common share as compared to the cash-settled method. For all periods presented, the equity-settled method was more dilutive and an adjustment was required for both the numerator and the denominator.

Stock options and, if calculated using the equity-settled method, TSARs are considered dilutive when the average market price of the Company's common shares during the period disclosed exceeds the exercise price of the stock option or TSAR. For the three and six months ended June 30, 2017, stock options were considered dilutive resulting in an adjustment to the denominator. For the three and six months ended June 30, 2016, the Company incurred a net loss attributable to Methanex shareholders and therefore exclusion of the stock options was more dilutive.

A reconciliation of the numerator used for the purpose of calculating diluted net income (loss) per common share is as follows:

	Three Months Ended		Six Months Ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Numerator for basic net income (loss) per common share	$84,146	$(2,877)	$215,715	$(26,275)
Adjustment for the effect of TSARs:				
Cash-settled expense (recovery) included in net income	(3,895)	(2,252)	1,431	(675)
Equity-settled expense	(1,860)	(1,793)	(3,774)	(3,656)
Numerator for diluted net income (loss) per common share	$78,391	$(6,922)	$213,372	$(30,606)

A reconciliation of the denominator used for the purposes of calculating diluted net income (loss) per common share is as follows:

	Three Months Ended		Six Months Ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Denominator for basic net income (loss) per common share	87,692,627	89,796,238	88,728,106	89,757,698
Effect of dilutive stock options	40,091	—	54,153	—
Effect of dilutive TSARs	324,784	80,611	381,952	64,266
Denominator for diluted net income (loss) per common share	88,057,502	89,876,849	89,164,211	89,821,964

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

7. Share-based compensation:

a) Share appreciation rights ("SARs"), TSARs and stock options:

(i) Outstanding units:

Information regarding units outstanding at June 30, 2017 is as follows:

	SARs		TSARs	
(per share amounts in USD)	Number of Units	Weighted Average Exercise Price	Number of Units	Weighted Average Exercise Price
Outstanding at December 31, 2016	1,511,485	$42.68	2,416,111	$42.10
Granted	167,600	50.15	340,200	50.17
Exercised	(88,106)	27.13	(118,305)	27.17
Expired	(5,000)	25.22	—	—
Outstanding at March 31, 2017	1,585,979	$44.39	2,638,006	$43.81
Exercised	(7,349)	34.51	(2,000)	34.59
Cancelled	(10,801)	50.18	(2,200)	34.59
Outstanding at June 30, 2017	1,567,829	$44.39	2,633,806	$43.82

	Stock Options	
(per share amounts in USD)	Number of Units	Weighted Average Exercise Price
Outstanding at December 31, 2016	344,767	$40.91
Granted	31,400	50.17
Exercised	(53,620)	29.07
Cancelled	(5,200)	55.22
Outstanding at March 31, 2017	317,347	$43.59
Exercised	(1,100)	34.59
Outstanding at June 30, 2017	316,247	$43.62

	Units Outstanding at June 30, 2017			Units Exercisable at June 30, 2017	
Range of Exercise Prices (per share amounts in USD)	Weighted Average Remaining Contractual Life (Years)	Number of Units Outstanding	Weighted Average Exercise Price	Number of Units Exercisable	Weighted Average Exercise Price
SARs:					
$25.97 to $35.51	3.65	660,910	$32.70	421,222	$31.62
$38.24 to $73.13	4.24	906,919	52.91	643,511	53.23
	3.99	1,567,829	$44.39	1,064,733	$44.68
TSARs:					
$25.97 to $35.51	3.56	1,107,125	$32.74	728,980	$31.78
$38.24 to $73.13	4.27	1,526,681	51.86	1,054,338	51.93
	3.97	2,633,806	$43.82	1,783,318	$43.64
Stock options:					
$25.97 to $35.51	3.38	142,250	$32.48	96,246	$31.48
$38.24 to $73.13	4.19	173,997	52.73	125,758	52.98
	3.82	316,247	$43.62	222,004	$43.65

(ii) Compensation expense related to SARs and TSARs:

Compensation expense for SARs and TSARs is measured based on their fair value and is recognized over the vesting period. Changes in fair value each period are recognized in net income for the proportion of the service that has been rendered at each reporting date. The fair value at June 30, 2017 was $39.1 million compared with the recorded liability of $34.8 million. The difference between the fair value and the recorded liability of $4.3 million will be recognized over the weighted average remaining vesting period of approximately 1.7 years. The weighted average fair value was estimated at June 30, 2017 using the Black-Scholes option pricing model.

For the three and six month periods ended June 30, 2017, compensation expense related to SARs and TSARs included a recovery in cost of sales and operating expenses of $6.6 million (2016 - recovery of $3.5 million) and an expense of $2.5 million (2016 - recovery of $1.1 million), respectively. This included a recovery of $9.1 million (2016 - recovery of $5.7 million) and a recovery of $2.7 million (2016 - recovery of $6.2 million), respectively, related to the effect of the change in the Company's share price for the three and six month periods ended June 30, 2017.

(iii) Compensation expense related to stock options:

For the three and six month periods ended June 30, 2017, compensation expense related to stock options included in cost of sales and operating expenses was $0.1 million (2016 - $0.2 million) and $0.3 million (2016 - 0.4 million), respectively. The fair value of each stock option grant was estimated on the grant date using the Black-Scholes option pricing model

b) Deferred, restricted and performance share units:

Deferred, restricted and performance share units outstanding at June 30, 2017 are as follows:

	Number of Deferred Share Units	Number of Restricted Share Units	Number of Performance Share Units
Outstanding at December 31, 2016	251,017	18,649	572,272
Granted	6,505	8,100	163,500
Performance factor impact on redemption [1]	—	—	(102,557)
Granted in-lieu of dividends	1,424	160	3,551
Redeemed	(13,789)	—	(34,186)
Cancelled	—	—	(3,967)
Outstanding at March 31, 2017	245,157	26,909	598,613
Granted	1,462	—	—
Granted in-lieu of dividends	1,665	189	4,205
Cancelled	—	—	(2,353)
Outstanding at June 30, 2017	248,284	27,098	600,465

1 Performance share units have a feature where the ultimate number of units that vest are adjusted by a performance factor of the original grant as determined by the Company's total shareholder return in relation to a predetermined target over the period to vesting. These units relate to performance share units redeemed in the quarter ended March 31, 2017.

Compensation expense for deferred, restricted and performance share units is measured at fair value based on the market value of the Company's common shares and is recognized over the vesting period. Changes in fair value are recognized in net income for the proportion of the service that has been rendered at each reporting date. The fair value of deferred, restricted and performance share units at June 30, 2017 was $19.7 million compared with the recorded liability of $17.2 million. The difference between the fair value and the recorded liability of $2.5 million will be recognized over the weighted average remaining vesting period of approximately 1.7 years.

For the three and six month periods ended June 30, 2017, compensation expense related to deferred, restricted and performance share units included in cost of sales and operating expenses was a recovery of $1.6 million (2016 - recovery of $0.2 million) and an expense of $2.5 million (2016 - expense of $0.2 million), respectively. This included a recovery of $2.6 million (2016 - recovery of $1.1 million) and an expense of $0.6 million (2016 - recovery of $1.8 million), respectively, related to the effect of the change in the Company's share price for the three and six month periods ended June 30, 2017.

8. Changes in non-cash working capital:

Changes in non-cash working capital for the three and six month periods ended June 30, 2017 and 2016 were as follows:

	Three Months Ended		Six Months Ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Changes in non-cash working capital:				
Trade and other receivables	$15,275	$(21,261)	$1,302	$98,495
Inventories	68,426	(7,281)	(1,609)	(472)
Prepaid expenses	(7,037)	(5,768)	(9,633)	(217)
Trade, other payables and accrued liabilities	15,042	12,688	66,713	(64,387)
	91,706	(21,622)	56,773	33,419
Adjustments for items not having a cash effect and working capital changes relating to taxes and interest paid	(22,335)	(10,012)	(56,759)	(32,648)
Changes in non-cash working capital having a cash effect	$69,371	$(31,634)	$14	$771
These changes relate to the following activities:				
Operating	$72,098	$(24,506)	$13,807	$(13,916)
Financing	(6,638)	(5,689)	(10,605)	(11,154)
Investing	3,911	(1,439)	(3,188)	25,841
Changes in non-cash working capital	$69,371	$(31,634)	$14	$771

9. Financial instruments:

Financial instruments are either measured at amortized cost or fair value.

In the normal course of business, the Company's assets, liabilities and forecasted transactions, as reported in U.S. dollars, are impacted by various market risks including, but not limited to, natural gas prices and currency exchange rates. The time frame and manner in which the Company manages those risks varies for each item based on the Company's assessment of the risk and the available alternatives for mitigating risks.

The Company uses derivatives as part of its risk management program to mitigate variability associated with changing market values. Changes in fair value of derivative financial instruments are recorded in earnings unless the instruments are designated as cash flow hedges. The Company designates as cash flow hedges derivative financial instruments to hedge its risk exposure to fluctuations in natural gas prices and derivative financial instruments to hedge its risk exposure to fluctuations in the euro compared to the U.S. dollar.

The fair value of derivative instruments is determined based on industry-accepted valuation models using market observable inputs and are classified within Level 2 of the fair value hierarchy. The fair value of all of the Company's derivative contracts as presented in the consolidated statements of financial position are determined based on present values and the discount rates used are adjusted for credit risk. The effective portion of the changes in fair value of derivative financial instruments designated as cash flow hedges is recorded in other comprehensive income. The spot element of forward contracts in the hedging relationships is recorded in other comprehensive income as the change in fair value of cash flow hedges. The change in the fair value of the forward element of forward contracts is recorded separately in other comprehensive income as the forward element excluded from hedging relationship.

Until settled, the fair value of the derivative financial instruments will fluctuate based on changes in commodity prices or foreign currency exchange rates.

Natural gas forward contracts

The Company manages its exposure to changes in natural gas prices for a portion of its North American natural gas requirements by executing a number of fixed price forward contracts.

The Company has entered into forward contracts to manage its exposure to changes in natural gas prices for the Geismar 2 facility which it has designated as cash flow hedges. The Company has also entered into physical forward contracts to manage its exposure to changes in natural gas prices for the Medicine Hat facility over the period 2017 to 2022. The Company has designated contracts for the 2021 and 2022 periods as cash flow hedges for its highly probable forecast natural gas purchases in Medicine Hat. Other costs incurred to transport natural gas from the contracted delivery point, either Henry Hub or AECO, to the relevant production facility represent an insignificant portion of the overall underlying risk and are recognized as incurred outside of the hedging relationship.

As at June 30, 2017, the Company had outstanding forward contracts designated as cash flow hedges with a notional amount of $482 million (December 31, 2016 - $484 million) and a net negative fair value of $78.3 million (December 31, 2016 - $61.9 million) included in other long-term liabilities.

Euro forward exchange contracts

The Company manages its foreign currency exposure to euro denominated sales by executing a number of forward contracts which it has designated as cash flow hedges for its highly probable forecast euro collections.

As at June 30, 2017, the Company had outstanding forward exchange contracts designated as cash flow hedges to sell a notional amount of 117 million euros (December 31, 2016 - 92 million euros). The euro contracts had a negative fair value of $3.0 million included in current liabilities (December 31, 2016 - positive fair value $0.3 million included in current assets).

Fair value

The fair value of the Company's derivative financial instruments as disclosed above are determined based on Bloomberg quoted market prices and confirmations received from counterparties, which are adjusted for credit risk.

The table below shows the nominal net cash flows for derivative hedging instruments, excluding credit risk adjustments, based upon contracted settlement dates. The amounts reflect the maturity profile of the hedging instruments and are subject to change based on the prevailing market rate at each of the future settlement dates. Financial asset derivative positions are held with investment-grade counterparties and therefore the settlement day risk exposure is considered to be negligible.

	Cash outflows by term to maturity				
	1 year or less	1-3 years	3-5 years	More than 5 years	Total
Natural gas forward contracts	(1,839)	(13,919)	(21,557)	(54,574)	$(91,889)
Euro forward exchange contracts	(3,005)	—	—	—	$(3,005)

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

The carrying values of the Company’s financial instruments approximate their fair values, except as follows:

	June 30, 2017	
As at	Carrying Value	Fair Value
Long-term debt excluding deferred financing fees	$1,542,577	$1,552,842

Long-term debt consists of limited recourse debt facilities and unsecured notes. There is no publicly traded market for the limited recourse debt facilities. The fair value of the limited recourse debt facilities as disclosed on a recurring basis and categorized as Level 2 within the fair value hierarchy is estimated by reference to current market rates as at the reporting date. The fair value of the unsecured notes disclosed on a recurring basis and also categorized as Level 2 within the fair value hierarchy is estimated using quoted prices and yields as at the reporting date. The fair value of the Company’s long term debt will fluctuate until maturity.

Methanex Corporation
Quarterly History (unaudited)

	2017	Q2	Q1	2016	Q4	Q3	Q2	Q1
METHANOL SALES VOLUME								
(thousands of tonnes)								
Methanex-produced [1]	3,546	1,790	1,756	6,828	1,750	1,860	1,689	1,529
Purchased methanol	899	387	512	1,892	526	411	533	422
Commission sales [1]	601	297	304	758	245	205	140	168
	5,046	2,474	2,572	9,478	2,521	2,476	2,362	2,119
METHANOL PRODUCTION								
(thousands of tonnes)								
New Zealand	883	350	533	2,181	536	559	577	509
Geismar (Louisiana, USA)	930	437	493	2,055	526	519	527	483
Trinidad (Methanex interest)	845	449	396	1,605	455	420	417	313
Egypt (50% interest)	318	159	159	293	96	69	53	75
Medicine Hat (Canada)	277	159	118	488	92	114	123	159
Chile	227	60	167	395	154	68	73	100
	3,480	1,614	1,866	7,017	1,859	1,749	1,770	1,639
AVERAGE REALIZED METHANOL PRICE [2]								
($/tonne)	347	327	365	242	278	236	223	230
($/gallon)	1.04	0.98	1.10	0.73	0.84	0.71	0.67	0.69
PER SHARE INFORMATION								
($ per common share attributable to Methanex shareholders)								
Adjusted net income (loss)	2.40	0.85	1.56	(0.17)	0.46	(0.01)	(0.34)	(0.27)
Basic net income (loss)	2.43	0.96	1.47	(0.14)	0.28	(0.12)	(0.03)	(0.26)
Diluted net income (loss)	2.39	0.89	1.46	(0.14)	0.28	(0.12)	(0.08)	(0.26)

1 Methanex-produced methanol represents our equity share of volume produced at our facilities and excludes volume marketed on a commission basis related to the 36.9% of the Atlas facility and 50% of the Egypt facility that we do not own. Methanex-produced methanol includes any volume produced by Chile using natural gas supplied from Argentina under a tolling arrangement ("Tolling Volume"). There has been no Tolling Volume produced since the fourth quarter of 2015.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf by the undersigned, thereunto duly authorized.

	METHANEX CORPORATION	
Date: July 26, 2017	By:	/s/ KEVIN PRICE
	Name:	Kevin Price
	Title:	General Counsel and Corporate Secretary