

✓ **Event Details**

Date: 2024-07-31
Company: Methanex Corp.
Ticker: MX-CA

✓ **Company Participants**

Sarah Herriott - Methanex Corp., Director-Investor Relations
Rich Sumner - Methanex Corp., President, Chief Executive Officer & Director

✓ **Other Participants**

Ben Isaacson - Analyst
Michael Leithead - Analyst
James Cannon - Analyst
Joel Jackson - Analyst
Steve Hansen - Analyst
Hassan I. Ahmed - Analyst
Nelson Ng - Analyst
Matthew Blair - Analyst
Laurence Alexander - Analyst
Charles Neivert - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Aaron, and I will be your conference operator for today. At this time, I would like to welcome everyone to the Methanex Corporation 2024 Second Quarter Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. Thank you.

I would now like to turn our call over to the Director of Investor Relations at Methanex, Ms. Sarah Herriott. Please go ahead, Ms. Herriott.

Sarah Herriott

Good morning, everyone. Welcome to our second quarter 2024 results conference call. Our 2024 second quarter news release, management's discussion and analysis, and financial statements can be accessed from the Financial Reports tab of the Investor Relations page on our website at methanex.com. I would like to remind our listeners that our comments and answers to your questions today may contain forward-looking information. This information, by its nature, is subject to risks and uncertainties that may cause the stated outcome to differ materially from the actual outcome. Certain material factors or assumptions were applied in drawing the conclusion or making the forecast or projection, which are included in the forward-looking information. Please refer to our second quarter 2024 MD&A and to our 2023 Annual Report for more information.

I would also like to caution our listeners that any projections provided today regarding Methanex's future financial performance are effective as of today's date. It is our policy not to comment on or update this

guidance between quarters. For clarification, any references to revenue, EBITDA, adjusted EBITDA, cash flow, adjusted income, or adjusted earnings per share made in today's remarks reflects our 63.1% economic interest in the Atlas facility or 50% economic interest in the Egypt facility and our 60% interest in Waterfront Shipping.

In addition, we report adjusted EBITDA and adjusted net income to exclude the mark-to-market impact on share-based compensation and the impact of certain items associated with specific identified effects. These items are non-GAAP measures and ratios that do not have any standardized meaning prescribed by GAAP and therefore unlikely to be comparable to similar measures presented by other companies. We report these non-GAAP measures in this way because we believe they are a better measure of underlying operating performance, and we encourage analysts covering the company to report their estimates in this manner.

I would now like to turn the call over to Methanex's President and CEO, Mr. Rich Sumner for his comments and a question-and-answer period.

Rich Sumner

Thank you, Sarah, and good morning, everyone. We appreciate you joining us today as we discuss our second quarter 2024 results. Our second quarter average realized price of \$352 per tonne and produced sales of approximately 1.6 million tonnes generated adjusted EBITDA of \$164 million and adjusted net income of \$0.62 per share. Adjusted EBITDA was higher compared to the first quarter of 2024, primarily due to a higher average realized price. Our second quarter was negatively impacted by \$13 million of G3 delay costs recognized in adjusted EBITDA, which was comprised of costs associated with monthly utilities take-or-pay contracts and employee costs. Excluding the G3 – these G3 costs, adjusted EBITDA would have been \$177 million.

The safe restart of G3 continues to be our company's top priority. During the quarter, the G3 team completed the repair to the autothermal reformer and implemented conditions to allow us to progress back into startup. I'm very pleased to report that yesterday we reached first methanol production from G3, and we expect the plant to ramp up to full rates in the coming weeks. The safety performance of our team and partners on the G3 project has been outstanding, and I would like to extend my personal thanks to the team for their continued hard work and dedication to completing this project safely. G3 significantly increases our cash flow generation capability and has one of the lowest emission intensity profiles in the industry.

Now, turning to the second quarter methanol pricing and market dynamics. Our second quarter global average realized price of \$352 per tonne was \$9 higher than the previous quarter. Through the first part of the quarter, methanol markets tightened with increased demand outpacing supply, leading to a significant global inventory drawdown and increasing methanol prices. Markets remained tight in the Atlantic basin and rebalanced in China in June, when demand slowed down with several methanol-to-olefins or MTO units taking maintenance or lowering operating rates. We believe operating rates from MTO producers are increasingly becoming the balance on the global market as supply struggles to keep pace with demand growth.

Overall, global methanol demand was higher compared to the first quarter of 2024. Traditional chemical applications and energy-related demand grew above 3% compared to the prior quarter, driven by increased economic activity globally, seasonally high construction and transportation activities, and favorable energy pricing, which continues to support methanol demand into energy applications. MTO demand decreased in the quarter as plants took outages or lowered operating rates in line with methanol supply constraints and increasing methanol prices. MTO operating rates decreased from around 85% in the first quarter to operating rates between 50% and 60% through June and into July. With various improvements in methanol supply through the quarter, we've recently seen one large MTO unit restart. But three large-scale units are currently idle, representing approximately 4 million tonnes to 5 million tonnes of annual demand.

On the supply side, we saw various planned and unplanned outages and feedstock constraints, restricting supply availability in the second quarter. This limited supply from various regions globally and in particular, methanol production from Iran was slower to enter the market after seasonal gas restrictions. As a result, global inventory levels were under meaningful pressure, reaching 18-month low levels in China and increasing prices drove lower operating rates from the MTO sector, which led to a more balanced market in China.

Towards the end of the quarter, we've seen various improvements in methanol supply and inventories globally, although markets remain quite tight, and as I already noted, there remains considerable MTO demand available to restart. We are seeing methanol pricing around \$290 per tonne in China, and we continue to see premiums above these levels in all regional markets. We estimate the marginal cost of production based on coal pricing in China to be around \$270 to \$280 per tonne.

Looking ahead to the third quarter, we expect to see continued tight methanol markets. We're seeing healthy demand growth across all traditional and energy-related downstream sectors, with MTO operating rates influenced by the availability of supply. We anticipate this increasing demand will be met by increased operating rates in the industry as well as new supply from G3, which will be partially offset by our supply reduction in Trinidad in September when we shut down the Atlas and restart Titan. Additionally, the 1.8 million tonne plant in Malaysia has announced it will be starting in 2024. As always, we continue to monitor the macroeconomic environment and its impact on global methanol demand.

Now, turning to our production. Methanex production in the second quarter was lower compared to the first quarter due to gas constraints in Chile, Egypt, and New Zealand. In Chile, we're currently in the period of lower gas supplies available from Argentina, so we're operating one plant at less than full capacity. We continue to make progress on gas availability from Chile and Argentina. And based on production year-to-date, a successful turnaround in Chile for that will improve efficiency on restart, and progress we've made securing gas from Argentina for the non-winter period this year, we expect 2024 production will be slightly above the high end of our guidance of 1.2 million tonnes.

In Egypt, the plant produced at higher rates after the syn gas compressor maintenance completed in mid-February. In early June, the plant was temporarily idled when significantly increased seasonal demand for power generation due to elevated temperatures in the country led to various measures by the government to manage gas balances, including curtailments to industrial plants. The plant restarted at reduced operating rate shortly thereafter and has operated at fluctuating rates based on gas availability, with current operating rates at approximately 80%. We've seen some stabilization of gas balances in the country, but we expect to see some continued limitations on supply as we progress through the third quarter.

In New Zealand, we operated one plant through the second quarter due to both lower than expected gas deliveries from upstream suppliers, as well as from the redirection of some of our contractual gas for use in the broader energy sector. The country's overall energy balances are currently very tight, with demand seasonally high during the Southern Hemisphere winter, combined with low hydro levels and relatively lower gas supply in 2024 compared with previous years.

As a result, we believe some of our contractual gas has been redirected to the electricity and other domestic energy markets. We're in continuing discussions with our gas suppliers to ensure our contractual entitlements are being respected, as well as engaging with our gas suppliers and government agencies and supporting efforts to improve energy balances in the country. Based on our production year-to-date and current gas deliveries, we expect 2024 production will be below the low end of our previous guidance of 1 million tonnes.

Now, turning to our current financial position and outlook. We ended the first quarter with approximately \$390 million of cash. With the G3 plant now in the process of startup, the project is now complete. The total

final capital cost is slightly less than \$1.3 billion, excluding fixed costs related to the delay, and we do not currently have any further growth capital commitments. Our primary focus for capital for the remainder of 2024 is to repay rather than refinance the \$300 million bond due in December.

Turning to the third quarter, our European quarterly price was posted at €535 per metric tonne, a €10 per tonne increase. Our North America, Asia Pacific, and China prices for August were posted at \$695 per tonne, \$400 per tonne, and \$380 per tonne, respectively. We estimate that based on these posted prices, our July and August average realized price range is between approximately \$350 per metric tonne and \$360 per metric tonne. We expect adjusted EBITDA for the third quarter will be lower than the second quarter due primarily to lower produced sales from Chile and New Zealand and G3's initial inventory build post startup. We expect sales of produced product and earnings for the fourth quarter of 2024 to be more representative of the run rate of our company with G3 at full production.

We'd now be happy to answer questions.

QUESTION AND ANSWER SECTION

Operator

Thank you. Our first question comes from the line of Ben Isaacson with Scotiabank. Your line is live.

Analyst: Ben Isaacson

Question – Ben Isaacson: Thank you very much, and good morning, everyone. Two questions for me. First one is on New Zealand. New Zealand seems to be disappointing on a fairly consistent basis. Does it make sense to indefinitely idle one of the two Motunui plants? I mean, there are several benefits for this. The risk profile of your portfolio of assets improves. You have reduced variability of free cash flow, which may result in a higher multiple. You take out a little bit of capacity from the market. Can you just comment on that? Thank you.

Answer – Rich Sumner: Thanks, Ben. Yeah. So, right now, we're working through a lot of I'd say two big issues right now. One is, as you say, I think the gas from the upstream, the investments that are being made in existing fields, both new wells as well as investing to enhance performance of existing wells, I think we've seen gas deliveries lower than expectations. I think we also are working through the short-term dynamics in the industry where we believe some of our gas that would be coming to us may not be. And that's – so that's something we're also working through. But certainly right now, I think you should be thinking about in the foreseeable months here a one plant operation and over the next few months we'll be assessing what are our views are for the rest of the year and considering how we should be operating those assets. So, I think there'll be more to come as we assess the rest of the year here.

Question – Ben Isaacson: Thank you for that. And my follow-up question is on the Entropy deal, which is really quite interesting, but it's also a little bit scary because there's the potential for others to do this as well. So, can you run through what are the constraints that's preventing everyone else from kind of copying what you've done and adding another 5% to 10% of supply? That would be helpful. And actually, if you could actually maybe give a number in terms of how much capacity is there that can be – that could also do this. Thank you.

Answer – Rich Sumner: Yeah. Maybe I'll just give a bit of background on that project. I think first and foremost, we're happy to be working with Entropy, which is a technology provider who already has this technology in place in gas processing plant in Alberta with sequestrations. I think when you think about the framework you need to make this work, you have to think about jurisdictions that, one, are going to have a

regulatory and supportive regulatory framework. You also have to have sequestration available. And so, it's not – I wouldn't say it's just easy to replicate, but we're excited to be exploring this opportunity in the pre-feed stage here.

Just to give you a sense. It'll capture about 400 metric tonnes of CO2 per day. About two-thirds of that would be used in our production, and the remaining third would be sequestered in underground caverns close to our plants. That's all being worked on the infrastructure on making this commercial. And so, we're excited to do it. I think this debottlenecking will add, like we said around 50,000 tonnes of low-carbon methanol. And so, yeah, we'll work through everything in this pre-feed stage and trying to get to a point of decision making sometime in middle of 2025.

Question – Ben Isaacson: Thank you very much.

Operator

Thank you for your question. Our next question comes from the line of Mike Leithead with Barclays Capital. Your line is live.

Analyst:Michael Leithead

Question – Michael Leithead: Great, thanks. Good morning, guys. First question just on G3, congrats on successfully starting that up. What is your...

Answer – Rich Sumner: Thank you.

Question – Michael Leithead: ...thought of quotation for when that should be sort of fully running, fully utilized, fully flowing then through the P&L and you guys are getting commensurate earnings. And then, if we just kind of use where we are roughly today in terms of methanol and gas, just what's your sort of latest best estimate of the annualized EBITDA we should expect from this plant?

Answer – Rich Sumner: Yeah. So, I guess the ramp – I'll start with the ramp-up period. We expect as we disclosed we'll be ramping up to full rates in the coming weeks. As of today, the plants operating at 70% operating rates, which is how we start up a plant and then we steadily increase over time. There could be points in time where you're testing all that different elements of the plant and you may take it down for a period to bring it back up. But as of right now, we're at 70% operating rates and we'll be there for a period to steadily increase in the coming weeks here. So, the ramp-up is relatively – we plan it to be relatively quick.

In terms of how it will actually impact earnings, I think it's safe to say we don't expect a lot of G3 coming through in the third quarter, but we would expect that to be a fairly sometime around the end of this quarter and the beginning of next quarter. So, inventory flows are not all that easy to track through our system. But I would say it's – we've guided that 2020 (00:18:06) the fourth quarter should look something like a run rate with G3.

In terms of the run rate EBITDA from G3, we've guided that at \$350 a tonne, which was we think we're slightly above that, that it generates around \$200 million to \$250 million in EBITDA per year depending on gas between \$3 and \$4 in MMBtu. So, hopefully that answers your questions there.

Question – Michael Leithead: Yeah, that's super helpful. And then, just a couple of quick follow-ups on the Entropy announcement. First, is that correct in hearing that if everything goes to plan, you should expect to make FID by mid-2025. Two, can you just speak to how dependent this project going forward is on receiving

government funding? And then just briefly, is this sort of a one-off opportunity just because of the plan and location or if this goes well, this is something you could seek to replicate at some of your other plants as well?

Answer – Rich Sumner: Yeah. So, I'll start with this – the initial phase and the timelines here. So, this is a phase. This is actually – this project is part of a initial a two-step phase project. The first phase is a unit that would capture 400 metric tonnes per day. About two-thirds of that would be used in our production and about a third would be sequestered underground. So, that when you think about value what we will be paying, we'll be paying for that CO2 value in methanol production for two-thirds of it. And another third will be – we'll need to get carbon credits for sequestering CO2. And there's obviously a regime of carbon taxing in and carbon credits in Canada that will support this project.

In addition to that, there's other incentive programs provincially and federally that this will – they'll look to access, and we think that it will be eligible for. All of those things we'll be looking at through the pre-feed stage. The phase 2 of the project is actually to really scale this such that you would triple the size of it, and you would capture all of our Scope 1 emissions and sequester all of the – effectively all of the CO2 from the Scope 1 of the plant. That will take more work, more infrastructure that would be required and a lot more certainty around the carbon framework that would support and carbon pricing framework that would support that second phase investment. So, hopefully, that helps answer your question.

Question – Michael Leithead: Great. Thank you.

Operator

Thank you. Thank you for your questions. Our next question comes from the line of Josh Spector with UBS. Your line is live.

Analyst:James Cannon

Question – James Cannon: Hey, guys. This is James Cannon on for Josh. I just wanted to poke on what's going on with the discount rate. It seems like while it's crept up over time this year, it's been a lot higher so far. I think based on your comments on third quarter to-date, it seems like we're relatively stable with the last quarter's levels. But kind of looking beyond that, how should we think through the rest of the year and kind of into next?

Answer – Rich Sumner: Well. I think when we look at our price – when we look at our pricing we've been guiding for the second quarter, we guided to around \$345 per tonne to \$350 per tonne. I think we averaged \$352 per tonne for the quarter – for this coming quarter where we're guiding to \$350 per tonne to \$360 per tonne. And when I look at where pricing is, we've got cost curve levels at \$290 per tonne to \$300 per tonne in China.

So, I think when we look at it, we're setting price as to what a reasonable market price should be in all the regions where we're selling into and we're achieving significant premiums, I think, which is reflective of tight market balances, which we expect to continue for the rest of the year, as I said in earlier remarks. So, we're not as focused on the discount. We're focused on realizations. And I do think you've seen discounts creeping up mainly because that's the competitive way pricing into the market, not what we think is reflective of lower realizations.

Question – James Cannon: Okay, got it. And then, I think through the quarter I saw some reports on curtailments to Trinidad Gas. I think you called out a couple of unplanned outages. I was wondering were those related and can you comment on how you're seeing that develop through this quarter?

Answer – Rich Sumner: Yeah. So, those were not gas related. Our outages was – we had – our air separation unit went down in Trinidad, and we had to perform some maintenance in Trinidad. But there was gas outages in the upstream during the quarter, didn't affect our operations, but it did affect other producers at the point (00:23:50). So – but, yeah, unrelated for our Atlas operations.

Question – James Cannon: Okay. Thank you.

Operator

Thanks for your questions. Our next question comes from the line of Joel Jackson with BMO Capital Markets. Your line is live.

Analyst: Joel Jackson

Question – Joel Jackson: Hey, Rich. I'm going to ask three quick questions if you allow me. First, on your maintained guidance for 7 million tonnes of Methanex produced volume, how round is that 7 million tonnes? Is it more like 6.5 million tonnes to 7 million tonnes? And the reason I say is to make all your numbers work, it's kind of hard. You say Q3 production will be a little bit lower than Q2. To get that 7 million tonnes for the full year, you need to run rate, I don't know, like a 10 million tonne run rate in the fourth quarter, yeah, that would be everything going full out. Can you maybe talk about how round the 7 million tonne number is?

Answer – Rich Sumner: I think we – I think we feel good about the 7 million tonne with G3 where it is right now and our expectation for G3. I've talked about some ups and downs as it relates to Chile and New Zealand, and I think most of the other things are factored in. So, we feel pretty good at the 7 million tonne range for the year.

Question – Joel Jackson: For the year, got you. And then, talking...

(00:25:08)

Question – Joel Jackson: ...second question, the Egypt repair that you had, you obviously put back on line some months ago. You've got some insurance settlement maybe coming from that. Can you talk about that? And that's obviously not included in your EBITDA forecast, but I imagine that would be put into EBITDA one of these quarters coming up.

Answer – Rich Sumner: Yeah. We expect to collect on insurance in the coming quarter. So, I think that's going to – we should expect to see insurance proceeds coming in, in Q3.

Question – Joel Jackson: But that's not included in your guidance in the outlook last night?

Answer – Rich Sumner: No, that's not – it is not included in the guidance.

Question – Joel Jackson: And finally, I mean, now that you're just – you've got G3 starting up the last day or two (00:25:55) ramped up over the next month or so, got the maturing debt later in the fourth quarter. What is the signpost now to be (00:26:03) to buy back stock when are you ready to go again on the buyback?

Answer – Rich Sumner: Right now, our first priority is to the debt. We still have some cash to build in advance of that. So, that's our main focus today. I think once we move past that we don't have any major growth capital, I think we can start looking at use of capital beyond that. And we have said that there would

be – we've got a very strong free cash flow profile, as you know, and there would be room for considering share repurchases along with we do think there's some room for the debt, but we think we can do things in a balanced way there post building up for our \$300 million debt repayment. So, I think what we want to do is focus on that today and then once we get confident we're there, we can consider other uses of capital beyond.

Question – Joel Jackson: Thank you.

Operator

Our next question comes from the line of Steve Hansen with Raymond James. Your line is live.

Analyst: Steve Hansen

Question – Steve Hansen: Yeah. Good morning, guys. Thanks for the time. Wanted to follow up on Joel's question indirectly about the buyback. I think in the past you said that \$200 million to \$250 million of cash is sort of like a comfortable position you'd like to keep on the balance sheet at any given time just to operate the business methodically. I mean, has that changed at all with G3 production coming online, you need slightly more than that, just trying to get a sense for that comfort position so we can think about the excess cash build and how that might go to other uses.

Answer – Rich Sumner: I think we would be in the range of \$250 million to \$300 million. Just when we look at where our cash is earned and how we need to move it around to run the business, that's sort of our comfort level. So, I wouldn't think that there's a meaningful change with G3 and not having the capital spend there. But, yeah, that's sort of a range to be using, Steve.

Question – Steve Hansen: Okay, that's helpful. And then, just jumping over to Chile, you've obviously been successful at procuring some additional gas there. You've talked about increased availability there before, but it's taken some time to ultimately execute on getting the gas. Is anything changed in the market down there that's allowed you greater comfort to secure more gas or what are we seeing down there?

Answer – Rich Sumner: Well, I'm very comfortable around securing gas outside of the winter period, right? We've got a lot of gas available to us from Argentina outside the winter period, in fact more than our needs. I think we're being offered more than we need for our Chilean operations, which is very positive. The challenge will be through the winter period because gas is restricted from an export perspective. We are in early discussions there about the winter period because the country is increasingly trying to ramp up pipeline connections and gas takeaway capability out of the Vaca Muerta. They're also developing fields in the in the south, which is going to add in another 5 million cubic meters into the grid that's effectively stranded. And so, we're a very logical purchaser for that gas. So, I think these things are going to develop. But our goal is to have year round gas in Chile given the dynamics in Argentina.

Question – Steve Hansen: Okay, that's helpful. And then, just one final one if I may, is going back to Ben's question at the very outset in some of the challenges in New Zealand. I mean, is there inability to move any one of those plants over time you've done in the past? Those are older facilities, of course. But is there any context around whether a mover facility might make some sense in terms of optimization of the footprint?

Answer – Rich Sumner: Well, I guess the first thing is maybe just the relocation economics and how they work. Relocation economics aren't significant savings on capital. And so, it's usually if you're looking at that, it's more trying to execute a project to grow methanol supply in a shorter timeframe and that's where you get value. I don't think we're in that position today. These plants are not – I don't think would be the plants you would look to move. And I don't think we're in a position today to be making that decision or being exploring

that based on our gas outlook at this point. We want to – we need to get a better feel for medium, long term in the country before we'd be looking at anything like that.

Question – Steve Hansen: Okay, very good. Appreciate your help.

Operator

Thanks for your questions. Our next question comes from the line of Hassan Ahmed with Alembic Global. Your line is live.

Analyst:Hassan I. Ahmed

Question – Hassan I. Ahmed: Morning, Rich.

Answer – Rich Sumner: Good morning.

Question – Hassan I. Ahmed: Just wanted to revisit a bunch of questions that were asked earlier about New Zealand. I mean, obviously you guys have gas contracts in place over there. I'm just trying to get a sort of if you could dig a bit deeper into the structure of those contracts. I mean, is there any restitution? Could you receive any payments maybe for the gas deliveries that did not happen?

Answer – Rich Sumner: So, I think maybe I'll start with the contracts themselves. These contracts we are – we have entitlement to gas per year, but that is based off of what they are bringing to market, right, and there is priority in terms of gas. And so, if the gas is available and our contracts should be fulfilled, yes, there's restitution that should be paid. And that's certainly when we say we're in discussions with our gas suppliers, these are some of the discussions are being had. Now, if the gas is not available and their portfolio is not delivering, that's another issue. We don't have deliver or pay obligations on those gas contracts if the gas is not producing. So, I think there's two issues there, and we're dealing with both of them right now.

Question – Hassan I. Ahmed: Very helpful. And as a follow-up on the demand side of things, in sort of the press release you guys talked about global methanol demand being up sequentially. Just wanted to get a better sense of what the inventory situation looks like? Is demand improving maybe potentially because of a restock? And part and parcel with that, what are you guys seeing above and beyond just the MTO side in terms of Chinese demand? And maybe if you could on the China side also parlay that with if you are possibly seeing any maybe shutdowns in Chinese capacity as well?

Answer – Rich Sumner: Well, thanks, Hassan. In terms of overall demand, maybe I'll just give a snapshot of the market globally and look to last year and where we are this year. Last year, we would say the market was probably around 92 million tonnes and that does include a slow start in China. But today, for the first half of 2024, we're probably in the 95 million tonnes to 96 million tonnes and that's with MTO flat or slightly lower than last year. So, when we think about demand growth, it's actually been – it's been pretty strong and healthy around the different sectors compared to last year. I think when we look around the markets outside of China, growth rates are about 3% over last year. And then, when we're looking in China, we're seeing growth rates for traditional demand at about 4% to 5% over last year. And then, the energy-related demand that's in China, which is quite meaningful, is also at that around 4% rates over last year.

So, I think that's actually really putting stress on the methanol markets and the ability to meet that demand with supply and that's where the MTO sector I think is really becoming in that balance. When we think about China demand, the domestic economy is something we watch really closely and domestic consumption, which we don't think is strong. Export markets have been stronger this year, which has helped bring that

demand up. In terms of operating rates in China, we're seeing operating rates in China above 60%. So, that's actually reasonably high relative to past performance there. And so, we don't think there's a lot of latent capacity that can come on in China to meet this growing demand. So, that's – our view is that we are in a tight market. Inventories are reflective of that. There could be swings between when MTO shuts down and when it starts up. But we would say we're in a pretty structurally tight market right now with inventories pretty tight.

Question – Hassan I. Ahmed: Very helpful, Rich. Thank you so much.

Answer – Rich Sumner: Thanks.

Operator

Thank you for your question. Our next question comes from the line of Nelson Ng with RBC Capital Markets. Your line is live.

Analyst:Nelson Ng

Question – Nelson Ng: Great. Thanks, and good morning, everyone. First question is on Trinidad in terms of Titan restarting and mothballing Atlas. Now that you're kind of heading up to that point, should we expect any kind of one-time costs to impact EBITDA in Q3? And then, also is the gas contract that current one that's expiring, does that expire like in early September or at the end of September?

Answer – Rich Sumner: So, yeah. In terms of cost, you shouldn't expect any cost, and we are planning this to be quite a seamless transition from Atlas to Titan. So, we are not expecting a lot of downtime or periods where we're not producing at all in Trinidad. And then, when it relates to gas contracts, you can think mid-September timeframe for the changeover there.

Question – Nelson Ng: Okay. And then, just to clarify on the Atlas asset, are there any – do you expect any like write-downs or is there any debt still at Atlas that needs to be repaid over the next – over the coming months?

Answer – Rich Sumner: No debt. And when we think about the asset values, we look at Trinidad as a group and that's something we always review and don't think we're going to point towards any asset write-downs at this time. But we do look at – these assets are – they're older assets, so we don't have a tonne of book value associated with them and – but that's something we'll look at as we look at our accounts each year.

Question – Nelson Ng: Great, thanks. And then, my next question relates to the Entropy development. So, I guess big picture, you're not investing that much capital. So, I think your partners would be investing most of the CapEx or it'll be coming from grants. So, from your perspective, like from a cost perspective, is it that mostly the – are you paying for the operating cost and the CO2 feedstock that you'll be using? So, is it somewhat neutral from a – like from a cost per metric tonne of methanol production or is it going to cost you more because you're producing lower or less carbon-intensive methanol? Can you just talk about the economics, assuming the pre-feed and feed and all that gives you the green light to move forward with the project?

Answer – Rich Sumner: Yeah, thanks. So, the commercial arrangements aren't finalized. That's one thing I want to start with. We're – a part of the pre-feed will also be looking at what the commercial structures should look like. And so, I think when we – what we in our initial press release, we said Entropy would own – construct and own the unit, obviously they are the technology provider and the experts on this technology. But we're looking at the commercial arrangements as part of the pre-feed process.

But when you think about the economics, you're right. Like, the – as I said, two-thirds of the economics will come from what we pay or the economics of producing methanol to produce incremental tonnes and then, the remainder will come through sequestration, the value of carbon credits for storing CO2 underground. So, you can think of the methanol generating two-thirds of the value and the carbon credits generating one-third of the value. And as it relates to those pricing, we're looking at what it takes to make this project work. And in addition, I think what regulatory support is available that will help push this forward as well, so – and all of that we're looking through the pre-feed process.

Question – Nelson Ng: Okay. So, I guess very big picture for it to work from a Methanex's perspective given that you're mainly kind of paying for the CO2? Do you want to be kind of cost neutral, but generate lower carbon-intensive methanol? Is that your – like is that the benefit you're looking for or?

Answer – Rich Sumner: I think, maybe your question is a little bit are we expecting to generate a blue premium or something that allows us to market this above cost. I don't think that the blue, if that's the question, I don't think the blue – there's a blue methanol market today that we're expecting is going to support this project because that market really is undeveloped. And so, what we need is the value of this methanol from a conventional methanol to work and to make sense in terms of it generating additional earnings or EBITDA from that ethanol production.

Question – Nelson Ng: I see. That makes sense. I'll leave it there. Thank you.

Operator

Thank you for your questions. Our next question is from the line of Matthew Blair with TPH. Your line is live.

Analyst:Matthew Blair

Question – Matthew Blair: Thank you. Good morning, Rich. Could you give us a sense on exactly how much inventory you're looking to build in the third quarter or any sort of metrics like days inventory you're targeting with G3 online?

Answer – Rich Sumner: Yeah. I think, first and foremost, like I think a lot of the inventory will be managed through our sales levels and we don't expect that our sales levels change dramatically with G3. What we will see as a mix of inventory, we'll have more produced product and less purchased product in our system. So, we're not targeting a change in inventory to support G3. I do think what you should expect to see is that this is lower cost inventory that we'll be holding versus buying product on the market. So, there could be some positives on our working capital that we can look forward to on that.

Question – Matthew Blair: Sounds good. And then, the G3 delay costs were \$25 million in the first quarter, down to \$13 million in the second quarter. So, you pencil in anything for the third quarter?

Answer – Rich Sumner: Nope. Well, yeah, sorry. One month of G3 delay cost for July and that will be kind of you can take our number in the second quarter divide by three.

Question – Matthew Blair: Great. Thank you.

Operator

Our next question is from the line of Laurence Alexander with Jefferies. Your line is live.

Analyst:Laurence Alexander

Question – Laurence Alexander: Good morning. Could you give a quick update on sort of how quickly the marine demand should be flowing through in the next couple of years? I mean, we see kind of the longer term build rate, but just how much of an impact we should be thinking of for next year and how much of – how are those companies discussing with you sort of supply, given sort of how tight the market looks to be getting?

Answer – Rich Sumner: Yeah. Thanks, Laurence. So, on the marine demand, maybe talk to where we are today and then how that will kind of develop over time. Right now, we talked about last year being the first year where methanol ships outpaced LNG in terms of the order book. Right now, we're expecting that order book is well over 300 ships on the water in the 2028/2029 timeframe. And I think what we're doing is talking about demand potential because it's difficult to say exactly what the demand would be. And when we quote demand potential, we're not saying this is what the total demand will be, but the demand potential will start off next year probably. The total demand is somewhere close to 10 million tonnes now. There will be 1.5 million tonnes or so next year and then you build up to 3.5 million tonnes and then you're up to 7 million tonnes and then you work your way into that 10 million tonnes of demand potential.

Now, the big question is, what will they actually burn because these are dual-fuel vessels. And to your point, we're having a lot of discussions with the shipping companies about supply. I think a lot of those discussions start with low carbon or green methanol because the intent here is a lot of these ships are looking to methanol from a decarbonization perspective. I think they're seeing that, one, there's not a lot of availability. And two, that the cost is really high to begin with. So, we are in discussions as well about conventional methanol.

I think securing supply is going to be critical and that's what our low-carbon solutions team is working on with the shipping company. So, it's really hard for us to kind of give you precise numbers until we work through starting to see secure – securing some contracts and working with the shipping industry more as they make their decisions on these future fuel choices they're going to make. So, we hope to be able to give you more insight as this develops because we are getting closer to the timeframes where these ships are in the water.

Question – Laurence Alexander: Thank you.

Operator

Thank you for your question. We have a question from Charles Neivert with Piper Sandler. Your line is live.

Analyst:Charles Neivert

Question – Charles Neivert: Good morning, guys. You talked about MTO being sort of the tipping or balancing point for the industry. Can you talk a little bit about where the price of methanol needs to be to sort of push it out or take it back in? I mean, we're sort of balancing on the line maybe now. Can we go higher and still keep the MTO plants in or and this is all assuming that the ethylene and polyethylene markets stay approximately where they are. But on that circumstance, where are we on that pricing?

Answer – Rich Sumner: Yeah. I'll start with the pricing. We're at very low pricing, low like historically low. So, it's hard to see it getting worse. We've had two ethylene/propylene prices in Asia in between \$800 per tonne

and \$900 per tonne for quite some time and that just on a historical basis that would be correlated to about a \$40 oil price environment. And so, we think that there really is a low at the very low cycle right now that translates into a C2, C3 kind of straight affordability at around where the cost curve is today. So, call it that \$280 level. These guys have integrated – a lot of them are integrated downstream. So, when you look at integration and the full value chain, there's usually more value when you go further down and so it's higher than that.

But I think when we start moving into pricing for methanol kind of getting above the \$320 to \$350 range, we start to see some pressure on their operations and today pricings in and around that \$290 level and it's holding so. And we've seen one MTO unit large scale just recently start up. So, I think we're kind of in this where our cost curve and MTO affordability is in that \$280 to \$320 kind of level, and we've seen that being quite stable in China around that. If there's an improvement in ethylene and propylene markets, you would expect that the ability to pay goes up. And increasingly, this is a demand-driven industry right now. And so, we think that that would further support pricing.

Question – Charles Neivert: Thanks very much.

Operator

Thank you for your question. And ladies and gentlemen, there are no further questions at this time. And I'll now turn the call back over to Mr. Rich Sumner.

Very well. Thank you for your questions and interest in our company. We hope you'll join us in November when we update you on our third quarter results.

Operator

Thank you, and this does conclude today's conference call. You may now disconnect. Have a great day.