2006 Annual Report

METHANEX®

A Responsible Care® Company

Methanex Corporation

The global leader in methanol production, distribution and marketing.

Methanex Corporation is the world's largest producer and marketer of methanol and the largest supplier of methanol to major international markets in North America, Asia Pacific and Europe, as well as Latin America. Methanol is a versatile liquid chemical produced primarily from natural gas and used as a chemical feedstock in the manufacture of a wide range of consumer and industrial products such as building materials, foams, resins and plastics. Methanol is also used in the fuel sector to produce methyl tertiary-butyl ether (MTBE), a gasoline component, and as a direct fuel for motor vehicles. There are also developing markets for using methanol in bio-diesel, di-methyl ether (DME), methanol for power generation and other applications.

Headquartered in Vancouver, B.C., Canada, Methanex has production facilities in Chile, Trinidad and New Zealand. We source additional methanol through agreements to market methanol production from plants located in other regions of the world, and also through spot market purchases. Methanex is a Responsible Care® Company and is committed to the safe, ethical and environmentally sound management of the products we use and the methanol we sell.

Our Annual Information Form and other publicly filed documents can be found on the SEDAR website at www.sedar.com and have also been filed on EDGAR, accessible at www.sec.gov.

This document contains forward-looking statements. 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. Methanex believes that it has a reasonable basis for making such forward-looking statements. 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 include those attendant with producing and marketing methanol and successfully carrying out major capital expenditure projects in various jurisdictions, the ability to successfully carry out corporate initiatives and strategies, conditions in the methanol and other industries including the supply and demand balance for methanol, actions of competitors and suppliers, changes in laws or regulations in foreign jurisdictions, worldwide economic conditions and other risks described in our 2006 Management's Discussion & Analysis. Undue reliance should not be placed on forward-looking statements. They are not a substitute for the exercise of one's own due diligence and judgment. The outcomes anticipated in forward-looking statements may not occur and we do not undertake to update forward-looking statements.

Except where otherwise noted, all dollar amounts in this report are stated in United States dollars.

Contents

METHANEX®

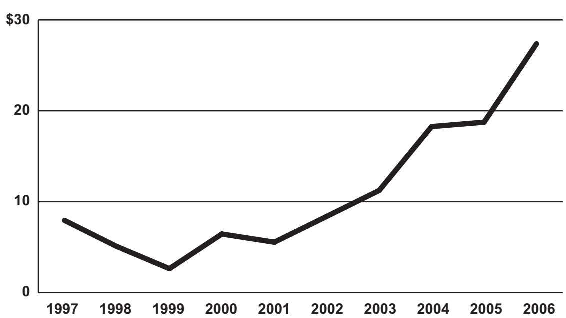
A Responsible Care® Company

2006 Financial Highlights

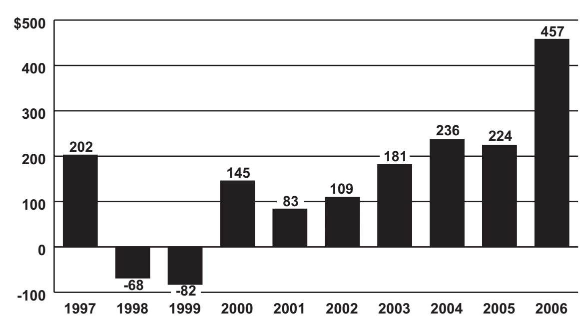
(US$ millions, except where noted)

	2006	2005	2004	2003	2002
Operations					
Revenue	**2,108**	1,658	1,719	1,420	1,042
Net income	**483**	166	236	1	23
Income before unusual items (after-tax)[1]	**457**	224	236	181	109
Cash flows from operating activities[1,2]	**623**	325	372	330	245
Adjusted EBITDA[1]	**800**	452	434	386	266
Diluted per share amounts (US$ per share)					
Net income	**4.41**	1.40	1.92	0.01	0.18
Income before unusual items (after-tax)[1]	**4.18**	1.89	1.92	1.44	0.85
Financial position					
Cash and cash equivalents	**355**	159	210	288	421
Total assets	**2,443**	2,097	2,125	2,082	1,820
Long-term debt, including current portion	**487**	501	609	778	547
Debt to capitalization[3]	**29%**	35%	39%	50%	38%
Net debt to capitalization[4]	**10%**	26%	30%	38%	12%
Other information					
Average realized price (US$ per tonne)[5]	**328**	254	237	224	160
Total sales volumes (000s tonnes)	**6,995**	7,052	7,427	6,579	7,220
Sales of Company-produced product (000s tonnes)	**5,310**	5,341	5,298	4,933	5,686

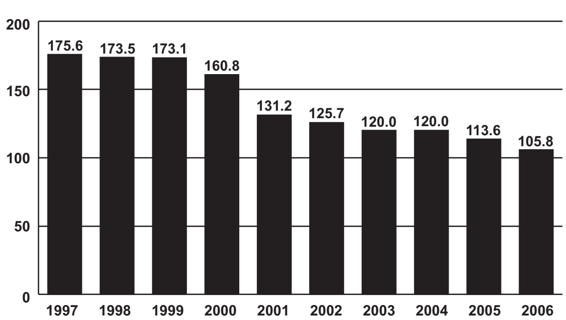
December 31 Closing Share Price (NASDAQ Stock Market)



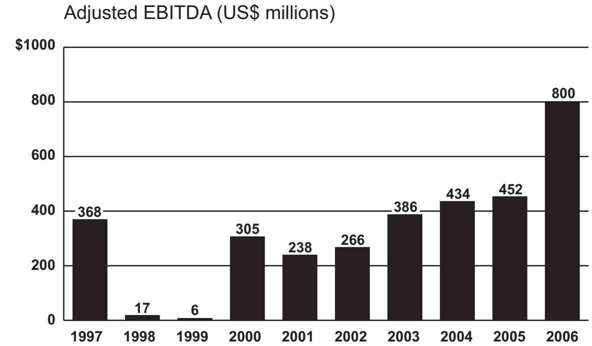
Income Before Unusual Items (After-Tax) (US$ millions)



December 31 Common Shares Outstanding (millions)



Adjusted EBITDA (US$ millions)



1 *These items are non-GAAP measures. Refer to our 2006 Management's Discussion and Analysis for a reconciliation of these amounts to the most directly comparable GAAP measures.*

2 *Before changes in non-cash working capital.*

3 *Defined as total debt divided by the total of shareholders' equity and total debt.*

4 *Defined as total debt less cash and cash equivalents divided by the total of shareholders' equity and total debt less cash and cash equivalents.*

5 *Average realized price is calculated as revenue, net of commissions earned, divided by total sales volumes of produced and purchased methanol.*

For additional highlights and additional information about Methanex, refer to our 2006 Factbook available at www.methanex.com.

President's Message to Shareholders

Introduction

2006 was a record-setting year for our company and our industry. First, unprecedented supply shortages and industry restructuring drove methanol prices to historical highs. Second, our leadership position, our reputation as a reliable supplier and our low cost assets enabled us to translate these high prices into record earnings. Our 2006 net income of $483 million and earnings per share of $4.41 were the highest in Methanex's history — an achievement that affirms the value of our corporate strategy. Finally, and most importantly for our investors, our stock price reached record highs. Our share price increased by 46 percent in 2006, and it has increased by 394 percent since December 31, 2001 — significantly outperforming the S&P 500 Chemicals Index, which returned 13.5 percent in 2006 and 54 percent over the same five-year period.

This past year also marked the beginning of an important transition for both the methanol industry and Methanex. Dramatic increases in the prices of oil and energy products over the past few years have highlighted the potential for methanol to play a significant future role in energy markets. While we have traditionally sold methanol to customers who produce chemical derivatives, we are now selling methanol to customers for new energy-related uses and we are actively investigating opportunities to increase our participation in energy markets in the future. This is indeed an exciting time for our company and our shareholders.

2006 in Review

In 2006, we benefited from the supply shortages and industry restructuring that caused methanol prices to surpass previous all-time highs. The closure of high cost methanol production facilities in the first half of 2006 kept supply and demand tight to balanced entering the second half of the year. Then, in July and August, major unplanned outages in the industry caused a severe shortage of methanol. During the third quarter alone, planned and unplanned production outages led to the loss of over one million tonnes of methanol, and the period ended with global inventories substantially below normal levels. As a result, our average posted methanol price increased from about $320 per tonne in August to an average of over $550 per tonne in the fourth quarter. This translated into an average realized price for us of $328 per tonne in 2006, compared to $254 per tonne in 2005.

In 2006, we sold 7.0 million tonnes of methanol, generating $2.1 billion of revenue and $483 million of net income for the year. We generated $800 million of Adjusted EBITDA and $623 million of cash flows from operating activities before changes in non-cash working capital.

Once again, we applied a balanced approach to the use of cash. In 2006, we invested $53 million to develop our Egypt project and maintain our production hubs in Chile and Trinidad and our flexible plant in New Zealand. In addition, we increased our regular dividend by a further 14 percent and we repurchased 8.5 million shares at a total cost of US$187 million or US$21.91 per share. We ended the year with a healthy cash balance of $355 million and an undrawn credit facility of $250 million, positioning us well to initiate our project in Egypt, invest to improve natural gas supply security for our Chilean assets, pursue opportunities to increase demand for methanol in energy applications and to continue returning excess cash to shareholders.

Performance against 2006 Targets

In 2006, we achieved or exceeded all the key performance targets we set for ourselves in the areas of finance, operations, market positioning and Responsible Care.

Financial Performance and Shareholder Return

With return on capital employed (ROCE) of 28 percent in 2006, we exceeded last year's ROCE of 17 percent and our target of 12 percent. Our ROCE for the last five years has averaged 17 percent. In addition, our balance sheet remains strong, with a debt-to-capitalization ratio at year-end of 29 percent.

We are very pleased to have delivered a total shareholder return that has averaged 41 percent per year over the past five years. This is significantly higher than the average total return of 12 percent per year for the S&P 500 Chemicals Index over the same period.

Operational Performance

With respect to our manufacturing operations, our 2006 average reliability rate of 96 percent (which excludes planned maintenance turnarounds and events beyond our control, such as feedstock supply interruptions) was above last year's performance of 94 percent, but slightly below our target of 97 percent. Our average reliability rate for the last five years has been 95.5 percent.

We are very proud of the year-over-year improvement in the performance of our plants in Trinidad. These plants achieved an average reliability rate in 2006 of over 98 percent, significantly higher than the previous year's performance of 87 percent.

We experienced some disappointing unplanned outages at our newest and fourth plant in Chile, which began operating in the second half of 2005. As with most new plants, it takes some time to achieve a steady operating rate. We believe that we have addressed all of the major operational issues at our Chile IV plant and we expect to see an improved reliability rate in 2007.

Finally, our low cost ocean shipping operations once again provided us with a competitive advantage. Our ocean shipping costs are significantly below the methanol industry average, as the majority of our vessels are contracted at long-term hire rates that are well below current rates in the shipping industry. We were able to further reduce shipping costs in 2006 by entering into backhaul arrangements to ship other companies' products on an opportunistic basis.

Market Positioning and Growth

During 2006, we maintained our market share and demonstrated the value of our leadership position through four key achievements.

First, as the largest producer and marketer of methanol in the world, it is our goal to price methanol responsibly and ensure that prices reasonably reflect the true supply and demand balance at all times. We believe that we achieved this goal in the very challenging and volatile methanol market of 2006 — a market characterized by unprecedented supply shortages and record high methanol prices. In this environment of extreme shortage, our primary objective was to maintain continuous supply to our customers.

Second, our reputation as a reliable global supplier is enabling us to maximize our margins by attracting large international chemical companies as our customers. We enhanced our reputation for reliability in 2006 not only by delivering all contracted volumes of methanol to customers, but also by delivering additional quantities of methanol to several large customers who were rationed by others during the shortages. Our reputation and leadership position also enabled us to secure over 500,000 tonnes per year of new business in the northwestern United States and Canada to replace sales we lost as a result of the MTBE phase-out in the United States in 2006.

Third, our leadership and reputation have also provided us with an excellent opportunity to grow our company through our new joint venture in Egypt. We are an attractive partner for new developments largely because of our established industry leadership position and our reputation for excellence in all areas of our business.

We and our joint venture partners are in the final stages of developing the Egypt project and we are committed to making a final investment decision on the project by the middle of this year. This very important project would enable us to grow our earnings capability and extend our leadership in the methanol industry. We would own 60 percent of this 1.3 million tonne per year plant and market 100% of the methanol produced at the facility. The project, which is expected to start up in 2010, is to be located in the Damietta Port on the Mediterranean Sea and would be project financed by a syndicate of international and Egyptian banks on a limited recourse basis. While the project has a higher capital cost than previous projects we have completed, it offers excellent value for our shareholders: the project is underpinned by a long-term and competitively priced natural gas supply agreement sourced from gas reserves in Egypt, has low logistics costs due to its close proximity to European markets and Egypt offers attractive fiscal arrangements for projects of this scale. As a result, this facility would be globally competitive and would add significant cash generation capability to our asset portfolio.

Finally, as the industry leader, it was our goal to be a first mover in creating new demand for methanol for energy-related uses. As with other hydrocarbons, methanol has energy content and can be used, either directly or indirectly, to produce energy for a variety of purposes, including cooking, home heating, power generation and transportation. It is interesting to note that methanol has never traded for any significant length of time below its energy value equivalent. We believe that by creating new demand for methanol for energy uses, the relationship between the price of methanol and the price of oil could be further strengthened.

In late 2006, we achieved our goal of being a first mover in the energy markets by entering into an agreement to supply methanol to produce dimethyl ether (DME) in China. DME can be blended up to 20 percent with liquefied petroleum gas (LPG) and used for household cooking and heating. DME can also be used as a clean-burning substitute for diesel in transportation and as a clean fuel for power generation. This agreement with our new customer, XinAo Group, a large energy distribution company and supplier of clean energy to the rapidly growing Chinese market, ties the price of methanol to LPG and provides us with the option to take an equity stake in XinAo's new DME plant near Shanghai. We are optimistic about the prospect for significant growth in DME demand in China and the potential growth for DME in other global markets, and we are actively pursuing opportunities to play a larger role in this new market.

We are also confident about the growth prospects for the use of methanol in other energy applications, particularly in China where demand for methanol is growing quickly. China's abundant coal reserves, coupled with its goal to reduce dependency on foreign oil imports, translates into large potential for domestic methanol use in new emerging applications such as fuel blending and olefins production. The Chinese government is now developing a national policy to support the development of methanol use in some or all of these applications, and from our offices in Hong Kong and Shanghai we are well positioned to participate in this exciting development for our industry.

Responsible Care

Continued leadership in Responsible Care and Corporate Social Responsibility are very important goals for us every year. Responsible Care is an ethic that has been developed into a set of guiding principles prescribed by the Canadian Chemical Producers' Association (CCPA). We have adopted Responsible Care as the umbrella under which we manage issues related to health, safety, the environment, community involvement, security and emergency preparedness for our global operations. Corporate Social Responsibility (CSR) is a natural extension of our Responsible Care ethic. CSR at Methanex encompasses governance, employee engagement and development, community involvement, social investment and a host of other activities that have long been part of our culture.

Our commitment to Responsible Care was exemplified by the outstanding safety record we achieved in 2006. Our Recordable Injury Frequency Rate (or RIFR — a benchmark of safety performance tracked by the CPPA) of 0.33 was an improvement over our 2005 RIFR of 1.01, and well below the chemical industry average RIFR of 1.36 in 2006.

Challenges in 2006

The single biggest challenge we faced in 2006 concerned the natural gas feedstock supply for our four plants in Chile. Our Chilean production hub, with a total production capacity of 3.8 million tonnes per year, currently sources approximately 62 percent of its natural gas feedstock from suppliers in Argentina. The remainder comes from natural gas reserves in Chile, primarily from ENAP, the Chilean state-owned oil and gas company.

Over the last few years, Argentina has experienced a shortage of energy. As a result, the Argentinean government curtailed exports of natural gas to meet the shortfall between growing domestic demand and shrinking domestic supply. These curtailments affected the natural gas supply to our plants in Chile primarily during the last three winter seasons in the southern hemisphere — a peak period for energy usage. In 2004, 2005 and 2006, we lost approximately 50,000 tonnes, 100,000 tonnes and 50,000 tonnes of production, respectively. While the total losses that we experienced over the last few years are small in the context of the capacity of our Chilean facilities, we believe these curtailments could continue in the future.

The Government of Argentina also passed new legislation in the second half of 2006, significantly raising the existing duty on natural gas exports and expanding this duty to include natural gas exports from Tierra del Fuego, a province that had previously been duty-exempt. As a result of this new legislation, the total cost of the export duty to our Argentinean suppliers has increased to approximately $200 million per year. While the long-term natural gas purchase agreements provide that gas suppliers are to pay any duties levied by the Government of Argentina, we have entered into interim agreements with all of our gas suppliers to share part of this export duty when the methanol price environment allows us to do so. We have also gained some added flexibility not to take natural gas if the methanol price environment does not make it profitable to do so.

Our solution to minimize the impact of both natural gas supply security issues and the duty being charged by Argentina is to source more natural gas from Chile. Our Chilean natural gas supplier, ENAP, is exploring for natural gas in southern Chile not far from our plants. ENAP has drilled a number of exploration wells over the last two years and has committed to a substantial development budget in 2007. We have also entered into an agreement with an oil and gas exploration company, Geopark, and are committed to working with them to develop additional natural gas reserves in southern Chile. This year, the Chilean government is also planning to open up bidding to the private sector to explore for oil and gas in southern Chile and we are aware of several international oil and gas companies that are very interested in participating in this program. We believe there is considerable potential to develop natural gas reserves that would supply our plants for the foreseeable future, and as a result, we are optimistic that there will be medium- and long-term solutions to the natural gas supply challenges for our Chilean production hub.

Looking Ahead...

In last year's letter, I stated that barring a global recession or a dramatic decrease in global energy prices, 2006 would bring another year of balanced to tight market conditions and above-average methanol prices. This was true in 2006. We commenced 2007 with high prices which, in a normal demand and supply environment, are unsustainable. Nevertheless, global demand for methanol for traditional chemical uses remains healthy and is expected to grow by approximately three to four percent. Outside of China, we believe that traditional demand growth and industry restructuring will likely offset new production capacity. In this environment, and barring unforeseen events, we again expect 2007 to be another excellent year for Methanex.

In addition, we believe there is real potential for further growth of new methanol demand for non-traditional energy uses. As I mentioned earlier, we are particularly interested in the growth in demand for DME, both in China and worldwide, and along with seeking opportunities to supply methanol to DME producers, we are also actively investigating the potential to add DME production facilities to our asset portfolio.

To meet the growing demand for methanol, maintain our leadership position and maximize returns for our shareholders, we need to grow both our production capacity and our sales. The Egypt project aligns with this strategy: it would be a globally competitive plant that would add substantially to our future earnings and cash flows.

Our approach to the use of cash for 2007 will remain unchanged. We will maintain a reasonable balance between growing our business, keeping a prudent balance sheet and returning excess cash to shareholders.

In closing, I would like to thank all of our employees for delivering outstanding results in 2006 and for setting and meeting very high standards and targets for our company. I would also like to thank Bob Findlay, who has been a director on the Methanex Board since 1994 and will be retiring this year. Bob has been an outstanding contributor and I have appreciated his support and advice. Finally, on behalf of the Board and all of our employees, I thank you, our shareholders, for your continued support. And I look forward to exciting new opportunities for our company in the methanol industry in 2007 and beyond.

Bruce Aitken
President & Chief Executive Officer

Chairman's Message on Corporate Governance

Dear Shareholders,

At Methanex, we define corporate governance as having the appropriate processes and structures in place to provide for the proper direction and management of our business. Corporate governance has become a significant public policy issue over the past few years, and Methanex's management and board have made it a priority to achieve continuous improvement in this important area.

A complete discussion of Methanex's corporate governance practices can be found in our Information Circular; here, I'd like to focus on a few key aspects of these practices.

<u>Board Performance</u>

We believe it's important to annually assess board and director performance. Each year, we conduct a self-evaluation process that includes peer reviews of each director, a performance review of the chairman by the directors and an in-depth discussion between each director and the chairman. This discussion focuses on the director's view of their own contribution and performance as well as the perception of the other board members. It also explores potential areas of improvement for overall Board performance. We've found that these assessments instill positive board dynamics and improve Board effectiveness. Each year, at the end of the process, we develop a number of objectives for continuous improvement that we then review at each Board meeting the following year.

<u>Board Renewal</u>

For the last few years, the Board has been engaged in a process of board renewal. Many of your directors have served on the Board for over 10 years, and they have been outstanding contributors. At the same time, it is healthy to engage in a process that allows room for new directors to join the Board.

Methanex Board vacancies are filled through the use of a process involving a "Board skills matrix." We identify the skills and experience required for the Board to be most effective given the company's strategic direction and then match these against the skills and experience already represented on the Board. When this process identifies a gap, we conduct a formal search for a director who has the criteria we need to fill that gap.

In 2006, two directors did not stand for re-election and three new directors were added to the Board through our renewal process. This year, Bob Findlay, a director since 1994, will not be standing for re-election at the AGM. Mr. Tom Hamilton is being nominated as a director, and his skills and experience are an excellent fit with those identified in our skills matrix.

<u>Majority Voting</u>

In 2006, the Methanex Board adopted a policy stating that any director nominee must receive over 50 percent of the votes cast in order to be elected to the board. The adoption of a "majority voting" policy is fast becoming a standard practice in Canada and Methanex supports it on the basis that it strengthens shareholder democracy.

<u>Other Continuous Improvement Initiatives</u>

Some other recent and noteworthy improvements in our corporate governance include:

- Implementing a policy that requires the President and CEO to pre-announce his intention to trade Methanex securities;
- Enhancing Board participation in the development of the Company's strategic plan; and
- Introducing Performance Share Units as part of the long-term compensation for the executive team. This modification will provide excellent long-term alignment of our senior management with shareholders. Our Information Circular provides additional details on the mechanics of these Performance Share Units.

We continue to look for opportunities to improve our corporate governance as a natural extension of the operational excellence element of our strategy. I trust that our shareholders share our commitment to building a company that considers excellence in corporate governance to be an essential element of our long-term success.

Pierre Choquette

Pierre Choquette
Chairman of the Board

... In 2006, Methanex ranked among the top 15 percent of S&P/TSX Composite Index companies in the *Globe and Mail* "Board Games" corporate governance survey, scoring 84 out of a possible 100 points ...

Management's Discussion & Analysis

INDEX

This Management's Discussion and Analysis is dated March 2, 2007 and should be read in conjunction with our consolidated financial statements and the accompanying notes for the year ended December 31, 2006. Our consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). We use the United States dollar as our reporting currency. Except where otherwise noted, all dollar amounts are stated in United States dollars.

Canadian GAAP differs in some respects from accounting principles generally accepted in the United States (US GAAP). Significant differences between Canadian GAAP and US GAAP are described in note 18 to our consolidated financial statements.

At March 2, 2007 we had 104,718,367 common shares issued and outstanding and stock options exercisable for 528,800 additional common shares.

Additional information relating to Methanex, including our Annual Information Form, is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

OVERVIEW

Methanex is the world's largest producer and marketer of methanol. Our core production hubs in Chile and Trinidad have an annual production capacity of 5.8 million tonnes and represent over 90% of our current annual production capacity. We also produce methanol from our flexible 0.5 million tonne per year production facility in Waitara Valley, New Zealand. In addition to the methanol we produce, we purchase methanol produced by others under methanol offtake contracts in order to meet customer requirements and support our marketing efforts. Our total sales volumes in 2006 were 7.0 million tonnes representing approximately 19% of estimated global demand for methanol. We believe our global positioning, including our extensive network of storage terminals, and expertise in the global distribution of methanol is a competitive advantage.

Methanol is a chemical produced primarily from natural gas. Approximately 80% of all methanol is used in the production of formaldehyde, acetic acid and a variety of other chemicals for which demand is influenced by levels of global economic activity. These chemical derivatives are used in the manufacture of a wide range of products including plywood, particleboard, foams, resins and plastics. The remainder of methanol demand is largely in the energy sector for the production of methyl tertiary-butyl ether (MTBE), a gasoline component, and as a direct fuel for motor vehicles. There are also developing markets for using methanol in bio-diesel, methanol for power generation, di-methyl ether (DME) and fuel blending.

Due to the diversity of the end products in which methanol is used, demand for methanol is influenced by a broad range of economic, industrial and environmental factors. The global demand for methanol in 2006 is estimated at approximately 38 million tonnes.

OUR STRATEGY

Our primary objective is to create value by maintaining and enhancing our leadership in the global production, marketing and delivery of methanol to our customers. The key elements of our strategy are low cost, global leadership and operational excellence.

Low Cost

Maintaining a low cost structure is an important element of competitive advantage in a commodity industry and is a key element of our strategy. Our approach to all business decisions is guided by our drive to maintain and enhance our low cost structure. The most significant components of our costs are natural gas for feedstock and distribution costs associated with delivering methanol to customers.

Natural gas is the primary feedstock at our methanol production facilities. An important element of our strategy is to ensure long-term security of natural gas supply. Over time we have been reducing our reliance on high cost production. We have positioned our facilities in New Zealand as flexible production assets with future operations dependant upon methanol industry supply and demand and the availability of natural gas on commercially acceptable terms. With the permanent closure of our Kitimat facility in 2005, we have eliminated our exposure to high cost North American natural gas feedstock.

With the completion of the 840,000 tonne per year Chile IV expansion in 2005, our core production hubs in Chile and Trinidad have an annual production capacity of 5.8 million tonnes and represent over 90% of our current annual production capacity. These facilities are underpinned by long-term take-or-pay natural gas purchase agreements with pricing terms that vary with methanol prices. The strategic location of our Chile and Trinidad production hubs allows us to deliver methanol cost-effectively to our customers in Asia Pacific, Europe, North America and Latin America.

Our production facilities in Chile currently source approximately 62% of their natural gas feedstock from Argentina. During 2006, the government of Argentina passed new legislation increasing the existing duty on natural gas exports paid by our natural gas suppliers. While our gas contracts provide that duties levied by the government of Argentina are payable by the natural gas suppliers, we are in continuing discussions with our suppliers from Argentina regarding the impact of the increased export duty — refer to the *Production Summary* and *Risk Factors and Risk Management* sections for further information. We continue to seek alternative sources of natural gas supply to our Chile facilities to minimize the impact of the increased export duty on our operations. There is interest in natural gas exploration in areas of Southern Chile that are relatively close to our production facilities and we are optimistic that this activity will ultimately provide us with improved long-term gas supply security.

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

Global Leadership

We are the leading supplier of methanol to the major international markets of North America, Asia Pacific and Europe, as well as Latin America. Our industry leadership has enabled us to play a role in industry pricing by establishing published Methanex reference prices in each major market.

Our global distribution and supply infrastructure allows us to provide unmatched security of supply to our customers. During the second half of 2006, the methanol industry experienced a supply shortage brought on by planned and unplanned supplier outages. Using our flexible global distribution and supply network we were able to adjust our operations and deliver on our commitments to customers during this period of high demand.

We permanently closed the Kitimat production facility in 2005 and converted the site into a terminal for storing and transporting methanol as well as other products. During 2006, this site has allowed us to further enhance our distribution network and to cost-effectively supply methanol from our Chile facilities to customers in the Pacific Northwest region of North America.

We continue to actively investigate options to enhance our supply position over the long term and are developing a project to build a 1.3 million tonne per year methanol facility in Egypt. This project is being developed through a joint venture in which we have a 60% interest and the marketing rights for all of the production. We are in the final stages of developing the project and expect to be in a position to make a final investment decision by the middle of 2007.

We relocated our Asia Pacific marketing and logistics office from Auckland, New Zealand to Hong Kong and we have added staff to our office in Shanghai to enhance our customer service and industry positioning in this region. This enables us to participate in and improve our knowledge of the rapidly evolving and high growth methanol market in China and other countries in Asia. Our enhanced presence in Asia has also helped us to identify opportunities to develop applications for methanol to energy.

We continue to be in the forefront of the industry through our Responsible Care and Corporate Social Responsibility programs.

Operational Excellence

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

In order to differentiate ourselves from our competitors, we strive to be the best operator in all aspects of our business and to be the preferred supplier to our customers. We believe that reliability of supply is critical to the success of our customers' businesses and our goal is to deliver methanol reliably and cost-effectively. In part due to our commitment to Responsible Care, a risk minimization approach developed by the Canadian Chemical Producers' Association, we believe we have reduced the likelihood of unplanned shutdowns and lost-time incidents and have achieved an excellent overall environmental and safety record.

We have a Corporate Social Responsibility (CSR) policy which is a natural extension of our Responsible Care ethic. Our CSR policy encompasses corporate governance, employee engagement and development, community involvement, social investment and many other activities that have long been a part of our culture.

We operate in a highly competitive and cyclical industry. Accordingly, we believe it is important to maintain financial flexibility throughout the methanol price cycle and we have adopted a prudent approach to financial management. Where there are opportunities to grow our position in the methanol industry we apply a disciplined approach, which includes target return criteria. We also believe that it is prudent to maintain a conservative balance sheet and we have established a track record of returning excess cash to shareholders.

HOW WE ANALYZE OUR BUSINESS

Our operations consist of a single operating segment — the production and sale of methanol. We review our results of operations by analyzing changes in the components of our Adjusted EBITDA (refer to *Supplemental Non-GAAP Measures* on page 31 for a reconciliation to the most comparable GAAP measure), depreciation and amortization, interest expense, interest and other income, unusual items and income taxes. In addition to the methanol that we produce at our facilities, we also purchase and re-sell methanol produced by others and sell methanol on a commission basis. In analyzing the changes in Adjusted EBITDA, we separately analyze the results of Company-produced methanol sales from purchased methanol sales as the margin characteristics of each are very different.

Company-Produced Methanol

Our level of Adjusted EBITDA is highly dependant on the margin earned from our Company-produced methanol. Sales volumes of Company-produced methanol will depend on the amount of production from our methanol facilities, which in turn is based on how well the plants operate, the timing of scheduled maintenance and other factors. The key drivers of changes in our Adjusted EBITDA for Company-produced methanol are average realized price, sales volume and cash costs. We provide separate discussion of the changes in Adjusted EBITDA related to our core Chile and Trinidad production hubs and the changes in Adjusted EBITDA related to our New Zealand and Kitimat facilities.

Our production hubs in Chile and Trinidad have an annual operating capacity of 5.8 million tonnes per year. These production hubs are underpinned by long-term take-or-pay natural gas purchase agreements and the operating results for these facilities represent a substantial portion of our Adjusted EBITDA. Accordingly, in our analysis of Adjusted EBITDA for our facilities in Chile and Trinidad we separately discuss the impact of changes in average realized price, sales volume and cash costs.

Our 530,000 tonne per year Waitara Valley facility in New Zealand operated for most of 2006 and has been positioned as a flexible production asset. We permanently closed our Kitimat facility on November 1, 2005 and sold the remaining production from this facility in early 2006. These facilities incur higher production costs and their operating results represent a smaller proportion of our Adjusted EBITDA. Accordingly, the impact of changes in average realized price, sales volume and cash costs on the Adjusted EBITDA for our New Zealand and Kitimat facilities has been combined and presented as the change in cash margin.

The price, cash cost and volume variances included in our Adjusted EBITDA analysis for Company-produced methanol are defined and calculated as follows:

PRICE The change in our 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 produced methanol multiplied by the current period sales volume of produced methanol. Sales under long-term contracts where the prices are either fixed or linked to our costs plus a margin are included as sales of Company-produced methanol. Accordingly, the selling price of Company-produced methanol will differ from the selling price of purchased methanol.

CASH COST The change in our 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 sales volume of Company-produced methanol in the current period plus the change in unabsorbed fixed cash costs. The change in consolidated selling, general and administrative expenses and fixed storage and handling costs are included in the analysis of methanol produced at our Chile and Trinidad facilities.

VOLUME The change in our Adjusted EBITDA as a result of changes in sales volume is calculated as the difference from period-to-period in the sales volume of Company-produced methanol multiplied by the margin per tonne for the prior period. The margin per tonne is calculated as the selling price per tonne of Company-produced methanol less absorbed fixed cash costs per tonne and variable cash costs per tonne.

Purchased Methanol

We augment our marketing operations by purchasing methanol from other producers. This provides flexibility in our supply chain to optimize shipping costs and respond to changes in our production levels and customer requirements. The amount of methanol we purchase from others will depend on these and other factors and consequently sales of purchased product vary from period to period. Sales of purchased methanol represent a lower proportion of our Adjusted EBITDA because the cost of purchased methanol consists principally of the cost of the methanol itself, which is directly related to the price of methanol at the time of purchase. Accordingly, the analysis of purchased methanol and its impact on our Adjusted EBITDA is discussed on a net margin basis.

Commission Sales

We also sell methanol on a commission basis, where we do not take risk and title to the product. Commission sales represent volumes marketed on a commission basis related to the 36.9% of the Atlas methanol facility in Trinidad that we do not own. The product that we sell on a commission basis from the Atlas facility is sold in the United States and Europe. The proportion of commission sales in a period will impact the level of revenue as only the commission is included in revenue.

FINANCIAL HIGHLIGHTS

($ MILLIONS, EXCEPT AS NOTED)	2006	2005
Sales volumes (thousands of tonnes):		
Company-produced		
Chile and Trinidad	**4,990**	4,553
New Zealand and Kitimat	**320**	788
	5,310	5,341
Purchased methanol	**1,101**	1,174
Commission sales[1]	**584**	537
	6,995	7,052
Average realized price ($ per tonne)[2]	**328**	254
Methanex average non-discounted posted price ($ per tonne)[3]	**396**	301
Revenue	**2,108**	1,658
Adjusted EBITDA[4]	**800**	452
Net income	**483**	166
Income before unusual items (after-tax)[4]	**457**	224
Basic net income per share	**4.43**	1.41
Diluted net income per share	**4.41**	1.40
Diluted income before unusual items (after-tax) per share[4]	**4.18**	1.89
Cash flows from operating activities[4 5]	**623**	330
Common share information (millions of shares):		
Weighted average number of common shares outstanding	**109**	118
Diluted weighted average number of common shares outstanding	**109**	118
Number of common shares outstanding, end of period	**106**	114

1 *Commission sales represent volumes marketed on a commission basis. Commission income is included in revenue when earned.*

2 *Average realized price is calculated as revenue, net of commissions earned, divided by total sales volumes of produced and purchased methanol.*

3 *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 on our website at www.methanex.com.*

4 *These items are non-GAAP measures that do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and therefore are unlikely to be comparable to similar measures presented by other companies. Refer to* Supplemental Non-GAAP Measures *on page 31 for a description of each non-GAAP measure and a reconciliation to the most comparable GAAP measure.*

5 *Cash flows from operating activities in the above table represents cash flows from operating activities before changes in non-cash working capital.*

PRODUCTION SUMMARY

The following table details the annual operating capacity and production for our facilities that operated in 2006 or 2005:

(THOUSANDS OF TONNES)	ANNUAL OPERATING CAPACITY[1]	2006	2005
Chile and Trinidad:			
Chile I, II, III and IV (Chile)[2]	**3,840**	**3,186**	3,029
Atlas (Trinidad) (63.1% interest)	**1,073**	**1,057**	895
Titan (Trinidad)	**850**	**864**	715
	5,763	**5,107**	4,639
Waitara Valley (New Zealand)	**530**	**404**	343
Kitimat (Canada)[3]	**—**	**—**	376
	6,293	**5,511**	5,358

1 *The annual operating capacities shown in the above table may be higher than the original design capacity as a result of efficiencies gained through improvements and experience at our plants.*

2 *Our 840,000 tonne per year Chile IV methanol facility commenced operations in June 2005. Total operating capacity for our Chile facilities in 2005, including Chile IV from the date of start-up, was approximately 3.5 million tonnes.*

3 *We permanently closed the 500,000 tonne per year Kitimat methanol facility on November 1, 2005.*

Chile

We produced 3.2 million tonnes during 2006 at our production hub in Chile compared with 3.0 million tonnes during 2005 and compared with production capacity in 2006 of 3.8 million tonnes. During 2006, we performed planned maintenance at our Chile I facility resulting in lost production of approximately 60,000 tonnes. We experienced some unplanned outages at our Chile IV methanol facility, which commenced operations in the second half of 2005. We believe that we have addressed all of the major operational issues and we expect to achieve improved reliability at our Chile IV facility in 2007. These issues, combined with other technical issues experienced at our Chile facilities, resulted in lost production of approximately 220,000 tonnes during 2006. Our natural gas suppliers to our Chile facilities delivered less than contracted volumes due to technical failures and other issues during 2006 and this resulted in lost production of approximately 260,000 tonnes. Natural gas supply to our Chile facilities was also impacted by curtailments of natural gas supply as a result of redirection orders from the government of Argentina during 2006, resulting in lost production of approximately 50,000 tonnes. For the past three years, the government of Argentina has ordered natural gas suppliers to inject additional gas into the local grid during the winter period in the southern hemisphere (May through August). The remaining lost production of 64,000 tonnes during 2006 was primarily a result of disruptions in natural gas supply from Argentina as a result of curtailments by certain suppliers during negotiations related to export duties.

We currently source 62% of our natural gas requirements for our production facilities in Chile from natural gas suppliers in Argentina that are affiliates of international oil and gas companies. The remaining natural gas requirements are supplied from gas reserves in Chile, mainly by Empresa Nacional del Petroleo (ENAP), the Chilean state-owned energy company.

Effective July 25, 2006, the government of Argentina increased the duty on exports of natural gas from Argentina to Chile, which has been in place since May 2004, from approximately $0.30 per mmbtu to $2.25 per mmbtu. Exports of natural gas from the province of Tierra del Fuego were exempt from this duty until late October 2006 when the government of Argentina extended this duty to include this province at the same rates applicable to the other provinces. As a result, the increased duty on exports of natural gas is applicable to all of the natural gas feedstock that we source from Argentina. The total annual cost of the export duty to our natural gas suppliers from Argentina has increased to approximately $200 million. While our natural gas contracts provide that natural gas suppliers are to pay any duties levied by the government of Argentina, we are in continuing discussions with our natural gas suppliers from Argentina regarding the impact of the increased export duty.

During 2006, we reached interim agreements with all of our natural gas suppliers from Argentina. In principle, we have agreed to share the cost of duties based in part on prevailing methanol prices. We have gained some flexibility to take the natural gas depending on prevailing methanol market conditions, and to the extent that these arrangements are not economic, then we will not purchase the natural gas. While we are in continuing discussions to reach longer-term arrangements with our natural gas suppliers from Argentina regarding the impact of the increased export duty, we cannot provide assurance that we will be able to reach satisfactory longer-term arrangements with our natural gas supplies or that the impact of this export duty will not have an adverse effect on our results of operations and financial condition. As at December 31, 2006, we accrued $26 million to record the estimated cost of sharing export duties for natural gas consumed in 2006. Approximately $8 million was charged to earnings during the fourth quarter of 2006 and the remaining amount is included in the cost of our inventory and will be charged to earnings when the inventory is sold.

We continue to work on sourcing additional natural gas supply for our Chile facilities from alternative sources. There is renewed interest in natural gas exploration in the southern regions of Chile. As an example, our Chilean natural gas supplier, ENAP, and others are undertaking gas exploration and development programs in areas of Chile that are relatively close to our production facilities. If these programs are successful we believe that some additional gas could be available during 2007. In addition, the Government of Chile has announced its intention to assign exploration areas which lie close to our facilities in a bidding round during 2007. However, there can be no assurance that ENAP or others will be successful or that we would obtain any additional natural gas on economic terms. For further information on natural gas exploration in Chile refer to the *Risk Factors and Risk Management* section on page 23.

Trinidad

During 2006, our Trinidad facilities operated well and produced a total of 1.9 million tonnes compared with 1.6 million tonnes during 2005 and compared with production capacity in 2006 of 1.9 million tonnes. Our facilities in Trinidad are capable of producing above design capacity and would have produced a further 90,000 tonnes if it were not for short-term delivery infrastructure constraints of our natural gas suppliers during 2006.

New Zealand

We produced 404,000 tonnes at our Waitara Valley facility in New Zealand during 2006 compared with 343,000 tonnes during 2005. We have secured sufficient natural gas supply that will allow us to produce at this facility at least until the end of 2007. This facility has been positioned as a flexible production asset with operations dependant upon methanol industry supply and demand and the availability of natural gas on commercially acceptable terms.

RESULTS OF OPERATIONS

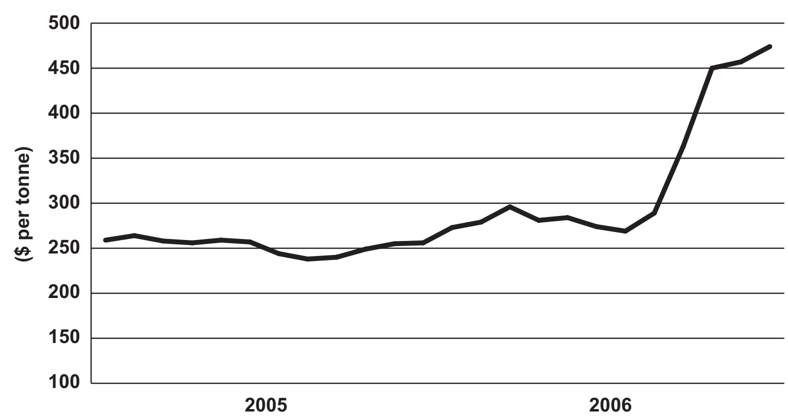
($ MILLIONS)	2006	2005
Condensed consolidated statements of income:		
Revenue	**2,108**	1,658
Cost of sales and operating expenses	**1,308**	1,206
Adjusted EBITDA[1]	**800**	452
Depreciation and amortization	**107**	91
Kitimat closure costs	**—**	41
Operating income	**693**	320
Interest expense	**(45)**	(42)
Interest and other income	**10**	10
Income taxes	**(175)**	(122)
Net income	**483**	166
Income before unusual items (after-tax)[1]	**457**	224

1 *These items are non-GAAP measures that do not have any standardized meaning prescribed by Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Refer to* Supplemental Non-GAAP Measures *on page 31 for a description of each non-GAAP measure and a reconciliation to the most comparable GAAP measure.*

Revenue

There are many factors that impact our global and regional revenue levels. The methanol business is a global commodity industry affected by supply and demand fundamentals. Due to the diversity of the end products in which methanol is used, demand for methanol largely depends upon levels of industrial production and changes in general economic conditions, which can vary across the major international methanol markets.

Methanex Average Realized Price 2005-2006



Revenue for 2006 was $2.1 billion compared with $1.7 billion during 2005. Total sales volumes of produced and purchased methanol during 2006 were 6.4 million tonnes compared with 6.5 million tonnes in 2005. The increase in revenue was primarily due to our higher average realized price in 2006 compared with 2005. We entered 2006 with tight market conditions as a result of high global energy prices, industry supply constraints and healthy demand, which resulted in continued strong pricing for the first half of 2006. During the third quarter of 2006, planned and unplanned supplier outages significantly reduced global inventory levels. This led to a dramatic increase in pricing in September and again in October and these high prices continued throughout the remainder of 2006. Our average realized price for 2006 was $328 per tonne compared with $254 per tonne in 2005. Our higher average realized price during 2006 increased revenue by $480 million compared with 2005 while slightly lower sales volumes decreased revenue by $30 million.

The methanol industry is highly competitive and prices are affected by supply and demand fundamentals. We publish non-discounted reference prices for each major methanol market and offer discounts to customers based on various factors. Our average non-discounted published reference price for 2006 was $396 per tonne compared with $301 per tonne in 2005. Our average realized price in 2006 was approximately 17% lower than our average non-discounted published reference price compared with approximately 16% lower for 2005.

To reduce the impact of cyclical pricing on our earnings, we have entered into long-term contracts for a portion of our production volume with certain global customers where prices are either fixed or linked to our costs plus a margin. In 2006, sales under these contracts represented approximately 20% of our total sales volumes. The increase in the discount from our average non-discounted published reference price in 2006 compared with 2005 is primarily the result of higher methanol prices in 2006. The discount from our non-discounted published reference prices is expected to narrow during periods of lower pricing. We believe it is important to maintain financial flexibility throughout the methanol price cycle and these strategic contracts are a part of our balanced approach to managing cash flow and liquidity.

Distribution of Revenue

Due to the diversity of the end products in which methanol is used, demand for methanol largely depends upon levels of industrial production and changes in general economic conditions, which can vary across the major international methanol markets.

Our distribution of revenue for 2006 and 2005 was as follows:

($ MILLIONS, EXCEPT AS NOTED)	2006		2005	
Canada	**167**	**8%**	72	4%
United States	**679**	**32%**	586	35%
Europe	**494**	**23%**	353	21%
Korea	**213**	**10%**	178	11%
Japan	**158**	**8%**	175	11%
Other Asia	**203**	**10%**	163	10%
Latin America	**194**	**9%**	131	8%
	2,108	**100%**	1,658	100%

Our revenue distribution for 2006 is relatively comparable to 2005 except for changes in Canada, the United States and Japan. Revenue related to customers in Canada as a proportion of our total revenue increased as a result of our increased marketing efforts in the Pacific Northwest region of North America. We are able to leverage our ability to import methanol through the Kitimat terminal to supply this attractive market. Revenue in the United States decreased as a proportion of total sales revenue primarily due to lower sales volumes to customers using methanol in the production of MTBE for consumption in the United States. The production of MTBE for consumption in the United States was largely phased out by mid-2006 and the remaining production of MTBE in the United States is mainly destined for export markets. Revenue related to customers in Japan decreased as a proportion of our total revenue as a result of changes in our distribution channels in Japan.

Adjusted EBITDA

We review our results of operations by analyzing changes in the components of our Adjusted EBITDA. In addition to the methanol that we produce at our facilities, we also purchase and re-sell methanol produced by others. In analyzing the changes in Adjusted EBITDA, we separately analyze the results of our Chile and Trinidad produced methanol sales, our New Zealand and Kitimat produced methanol sales, and our purchased methanol sales, as the margin characteristics of each are very different.

Our 2006 Adjusted EBITDA was $800 million compared with $452 million in 2005. The increase in Adjusted EBITDA of $348 million resulted from changes in the following:

($ MILLIONS)	2006 VS. 2005
Chile and Trinidad facilities:	
Average realized price	**357**
Sales volumes	**60**
Total cash costs[1]	**(141)**
	276
Higher margin from New Zealand and Kitimat production	**53**
Higher margin on the sale of purchased methanol	**19**
Increase in Adjusted EBITDA	**348**

1 *Includes cash costs related to methanol produced at our Chile and Trinidad facilities as well as consolidated selling, general and administrative expenses and fixed storage and handling costs.*

Average Realized Price — Chile and Trinidad facilities

The higher average realized price on sales of methanol produced at our Chile and Trinidad facilities increased Adjusted EBITDA by $357 million.

Sales Volumes — Chile and Trinidad facilities

The commencement of operations of Chile IV in June 2005 increased our total annual Chile and Trinidad production capacity to 5.8 million tonnes from 5.0 million tonnes. Sales volumes of methanol produced at our production hubs in Chile and Trinidad for the year ended December 31, 2006 were higher by 437,000 tonnes compared with 2005, and this increased Adjusted EBITDA by $60 million.

Total Cash Costs — Chile and Trinidad facilities

Our cash costs were higher in 2006 compared with 2005 and this decreased Adjusted EBITDA by $141 million. The primary changes in cash costs were as follows:

($ MILLIONS)	2006 VS. 2005
Higher natural gas costs and other costs linked to higher methanol prices	**81**
Impact of sharing Argentina export duties	**8**
Higher distribution costs	**25**
Higher selling, general and administrative expenses	**20**
Other, net	**7**
	141

Higher Natural Gas Costs and Other Costs Linked to Higher Methanol Prices

Natural gas supply contracts for our assets in Chile and Trinidad include base and variable price components 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. We believe this pricing relationship enables these facilities to be competitive throughout the methanol price cycle. The higher average methanol prices in 2006 increased our natural gas and other costs linked to methanol prices and this decreased Adjusted EBITDA by approximately $81 million compared with 2005. For additional information regarding our natural gas agreements refer to *Summary of Contractual Obligations and Commercial Commitments — Purchase Obligations* on page 21.

Impact of Sharing Argentina Export Duties

During 2006, the government of Argentina increased the duty on exports of natural gas from Argentina to Chile — for more detail refer to the *Production Summary* section on page 12. During the fourth quarter of 2006, we reached interim agreements with all of our natural gas suppliers from Argentina and in principle, we have agreed to share the cost of duties based in part on prevailing methanol prices. As a result of reaching these interim agreements we accrued an additional $26 million to record the estimated cost of sharing export duties for natural gas consumed in 2006. Approximately $8 million was charged to earnings during 2006 and the remaining amount is included in the cost of our inventory and will be charged to earnings when the inventory is sold.

Higher Distribution Costs

The cost to distribute methanol from our production facilities to customers is a significant component of our operating costs. Ocean shipping costs are the most significant component of our distribution costs and we have a dedicated fleet of ocean-going vessels under long-term time charter that contribute to our objective of cost-effectively delivering methanol to our customers. Our ocean shipping costs increased by $5 million in 2006 compared with 2005, primarily due to increased fuel costs resulting from higher global energy prices partially offset by higher margins earned on backhaul arrangements.

The remaining costs to distribute methanol from our production facilities to customers primarily consist of the cost of in-market storage facilities and in-market distribution. In-market distribution costs will vary depending on the location of the customer and we are able to recover a substantial amount of these costs from our customers. These costs increased during 2006 by $20 million, primarily due to an increase in sales volumes to customers in Asia Pacific and the Pacific Northwest region of North America. Most of these costs were recovered from our customers and this cost recovery has been included in revenue.

Higher Selling, General & Administrative Expenses

Our selling, general and administrative expenses increased by $20 million in 2006 compared with 2005 primarily as a result of an increase in our stock-based compensation expense. Our stock-based compensation expense for deferred, restricted and performance share units is impacted by changes in our share price as these changes are recognized in earnings for the proportion of the service that has been rendered at each reporting date. Our stock price increased by 46% during 2006, resulting in an increase to our stock-based compensation expense.

Margin from New Zealand and Kitimat Production

We permanently closed our Kitimat facility in 2005 and sold the remaining inventory from this facility in early 2006. Our New Zealand operations have been positioned as flexible assets and represent a lower proportion of our Adjusted EBITDA. Therefore, we analyze the results of these facilities on a cash margin basis. In 2006, our cash margin on the sale of New Zealand and Kitimat inventory was higher by $53 million compared with 2005. The increase in cash margin primarily relates to lower sales volumes of high cost Kitimat inventory and higher methanol prices during 2006.

Margin on the Sale of Purchased Methanol

We purchase methanol produced by others through long-term offtake contracts to meet customer needs and support our marketing efforts. Consequently, we realize holding gains or losses on the resale of this product depending on the methanol price at the time of resale. In 2006, our cash margin was $20 million on resale of 1.1 million tonnes of purchased methanol compared with a cash margin of $1 million on resale of 1.2 million tonnes during 2005. The increase in cash margin is primarily due to the impact of increased methanol pricing during 2006.

Depreciation and Amortization

Our depreciation and amortization expense in 2006 was $107 million compared with $91 million in 2005. The increase in depreciation and amortization of $16 million is primarily related to the depreciation of the Chile IV methanol facility, which commenced operations in June 2005, and depreciation related to a capital lease for an ocean-going vessel that commenced during the fourth quarter of 2005.

Kitimat Closure Costs

During 2005, we permanently closed our Kitimat production facilities and converted the site into a terminal for storing and transporting methanol as well as other products. The total closure costs of $41 million (before and after-tax) include employee severance costs of $13 million and contract termination costs of $28 million. Contract termination costs include costs to terminate a take-or-pay natural gas transportation agreement and an ammonia supply agreement.

We have entered into an agreement with EnCana for their use of the Kitimat site as a condensate terminal operation. Under this agreement, we have the right to sell to EnCana, and EnCana has the right to purchase from us, the entire Kitimat site through the exercise of put and call options, respectively. If exercised, a sale of this site under the put or call option would allow us to offset some, or possibly all, of the Kitimat closure costs.

Interest Expense

($ MILLIONS)	2006	2005
Interest expense before capitalized interest	**45**	49
Less capitalized interest related to Chile IV	**—**	(8)
	45	41

Our interest expense before capitalized interest in 2006 was $45 million compared with $49 million in 2005. The decrease in interest expense before capitalized interest primarily relates to lower levels of debt during 2006.

Interest incurred during construction is capitalized to the cost of the asset until the asset is substantively complete and ready for productive use. During 2005, we capitalized interest costs of $8 million to property, plant and equipment related to the construction of Chile IV.

Interest and Other Income

Our interest and other income was $10 million in 2006 compared with $10 million in 2005. Interest and other income increased by $4 million due to higher interest rates and higher cash balances in 2006 compared with 2005. The higher interest income was offset by a charge to earnings of $4 million in 2006 related to the decrease in fair value of natural gas purchase option contracts.

During 2006, we entered into a methanol offtake agreement with Celanese Ltd., a methanol producer in Canada, for a three-month period commencing January 1, 2007. The contract price includes a fixed facility fee and a variable fee indexed to natural gas prices. We entered into natural gas purchase option contracts during the fourth quarter of 2006 to mitigate our exposure to increases in natural gas costs under the methanol offtake agreement. The natural gas purchase option contracts expire over the period to the end of March 2007. We believe these option contracts provide an economic hedge of our exposure to increases in natural gas costs; however, these arrangements do not meet the requirements for hedge accounting treatment under Canadian or US GAAP. Natural gas prices declined late in the fourth quarter of 2006 and the fair value of the natural gas purchase options decreased by $4 million. The change in fair value was charged to earnings resulting in a decrease to interest and other income.

Income Taxes

During 2005, the government of Trinidad and Tobago introduced new tax legislation retroactive to January 1, 2004. As a result, during 2005 we recorded a $17 million charge to increase future income tax expense to reflect the retroactive impact for the period January 1, 2004 to December 31, 2004. In February 2006, the government of Trinidad and Tobago passed an amendment to this legislation that changed the retroactive effective date to January 1, 2005. As a result of this amendment we recorded an adjustment to decrease future income tax expense by a total of $26 million during 2006. The adjustment includes a reversal of the previous charge to 2005 earnings and an additional adjustment to recognize the benefit of tax deductions that were reinstated as a result of the change in the implementation date.

Excluding the unusual items relating to the 2005 Kitimat closure costs and the Trinidad tax adjustments, the effective tax rate for 2006 was 31% compared with 32% for 2005. The statutory tax rate in Chile and Trinidad, where we earn a substantial portion of our pre-tax earnings, is 35%. Our Atlas facility in Trinidad has partial relief from corporation income tax until 2014.

In Chile, the tax rate consists of a first category tax that is payable when income is earned and a second category tax that is due when earnings are distributed from Chile. The second category tax is initially recorded as future income tax expense and is subsequently reclassified to current income tax expense when earnings are distributed. Accordingly, the ratio of current income tax expense to total income tax expense is highly dependent on the level of cash distributed from Chile.

For additional information regarding income taxes, refer to note 12 of our 2006 consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Highlights

($ MILLIONS)	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from operating activities[1]	**623**	330
Changes in non-cash working capital	**(154)**	29
	469	359
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for shares repurchased	**(187)**	(131)
Dividend payments	**(53)**	(48)
Proceeds on issue of shares on exercise of stock options	**8**	11
Repayment of long-term debt	**(14)**	(258)
Proceeds on issue of long-term debt	**—**	148
Other, net	**(8)**	(18)
	(254)	(296)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant and equipment	**(53)**	(60)
Plant and equipment construction costs, net	**—**	(24)
Changes in non-cash working capital related to investing activities	**34**	(30)
	(19)	(114)
Increase (decrease) in cash and cash equivalents	**196**	(51)
Cash and cash equivalents, end of year	**355**	159

1 *Cash flows from operating activities in the above table represents cash flows from operating activities before changes in non-cash working capital. This item is a non-GAAP measure — refer to* Supplemental Non-GAAP Measures *section on page 31 for further information.*

Cash Flows from Operating Activities

Our cash flows from operating activities before changes in non-cash working capital were $623 million in 2006 compared with $330 million in 2005. The increase in cash flows from operating activities before changes in non-cash working capital are primarily the result of higher earnings in 2006 compared with 2005.

Our non-cash working capital related to operating activities at December 31, 2006 increased by $154 million compared with December 31, 2005. The increase is primarily a result of an increase in our inventories and accounts receivables balances, net of an increase in accounts payable and accrued liabilities. Our inventories balance increased by $105 million due to the impact of higher production costs and purchased methanol costs as well as higher inventory volumes. The increases in our accounts receivables and accounts payable and accrued liabilities balances of $70 million and $74 million, respectively, was primarily due to the impact of higher methanol pricing on our trade receivables and trade payables in 2006 compared with 2005.

Cash Flows from Financing Activities

Over the past two years we have returned a total of $419 million of cash to shareholders through a combination of share repurchases of $318 million and regular quarterly dividend payments of $101 million.

In 2005, we commenced a normal course issuer bid that expired on May 16, 2006. On May 17, 2006, we commenced a new bid that expires on May 16, 2007. During 2006, we repurchased a total of 8.5 million common shares under these bids at an average price of US$21.91 per share, totaling $187 million. At December 31, 2006, we had repurchased a total of 3.8 million common shares under the current bid. During 2005, we repurchased a total of 7.7 million common shares at an average price of US$16.97 per share, totaling $131 million.

We increased our regular quarterly dividend by 14% to US$0.125 per share per quarter, beginning with the dividend payable on June 30, 2006. Total dividend payments in 2006 were $53 million compared with $48 million in 2005.

We received proceeds of $8 million and issued 0.7 million common shares on the exercise of stock options during 2006, compared with proceeds of $11 million on the issuance of 1.3 million common shares in 2005.

During 2005, we issued $150 million of 6.00% notes due August 15, 2015. The net proceeds, together with cash on hand, were used to repay $250 million of 7.75% notes at maturity on August 15, 2005. These transactions reduced our long-term debt by $100 million.

Cash Flows from Investing Activities

Additions to property, plant and equipment, which are comprised of turnarounds, catalyst and other capital expenditures, were $53 million for 2006 compared with $60 million in 2005. In 2006 we completed a major turnaround at our Chile facilities and invested $11 million in the joint venture methanol project in Egypt. In 2005, we completed turnarounds at our facilities in Chile and our Titan and Atlas facilities in Trinidad.

During 2005, we completed the construction of Chile IV, an 840,000 tonne per year expansion to our production facilities in Chile. During 2005, we recorded $30 million of incentive tax credits related to the construction of Chile IV and this decreased the total capital expenditures related to Chile IV to $247 million. The tax credits were recorded as a reduction to property, plant and equipment and an increase to receivables and this resulted in an increase to non-cash working capital related to investing activities of $30 million in 2005. In 2006, we collected $28 million of the tax credits and we collected the remaining balance in early 2007. The collection of incentive tax credits in 2006 resulted in a decrease to non-cash working capital related to investing activities of $28 million. The benefit of these tax credits will be recognized in earnings through lower depreciation in future periods.

Summary of Contractual Obligations and Commercial Commitments

A summary of the estimated amount and estimated timing of cash flows related to our contractual obligations and commercial commitments as at December 31, 2006 is as follows:

($ MILLIONS)	2007	2008-2009	2010-2011	After 2011	TOTAL
Long-term debt repayments	14	28	29	415	486
Long-term debt interest obligations	37	71	66	57	231
Repayment of other long-term liabilities	12	22	2	22	58
Capital lease obligations	9	18	17	9	53
Purchase obligations	223	370	383	2,058	3,034
Operating lease commitments	154	197	143	370	864
	449	706	640	2,931	4,726

The above table does not include costs for planned capital maintenance expenditures or any obligations with original maturities of less than one year.

Long-Term Debt Repayments and Interest Obligations

We have $200 million of unsecured notes that mature in 2012 and $150 million of unsecured notes that mature in 2015. The remaining debt repayments are for the expected scheduled principal repayments relating to our proportionate share of the Atlas limited recourse long-term debt facilities. Interest obligations related to variable interest rate long-term debt have been estimated using current interest rates in effect at December 31, 2006. For additional information, refer to note 6 of our 2006 consolidated financial statements.

Repayments of Other Long-Term Liabilities

Repayments of other long-term liabilities represent contractual payment dates or, if the timing is not known, we have estimated the timing of repayment based on management's expectations.

Capital Lease Obligations

We have entered into a capital lease agreement for an ocean-going vessel. The above table includes the future minimum lease payments related to this capital lease. For additional information, refer to note 7 of our 2006 consolidated financial statements.

Purchase Obligations

We have commitments under take-or-pay contracts to purchase annual quantities of natural gas supplies and to pay for transportation capacity related to these supplies. We also have take-or-pay contracts to purchase oxygen and other feedstock requirements. Take-or-pay means that we are obliged to pay for the supplies regardless of whether we take delivery. Such commitments are typical in the methanol industry. These contracts generally provide a quantity that is subject to take-or-pay terms that is lower than the maximum quantity that we are entitled to purchase. The amounts disclosed in the table represent only the take-or-pay quantity.

Natural gas supply contracts for our assets in Chile and Trinidad are denominated in United States dollars and include base and variable price components 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. We believe this pricing relationship enables these facilities to be competitive throughout the methanol price cycle. The amounts disclosed in the table represent only the base price component.

In Chile, we purchase all of our natural gas through long-term take-or-pay supply agreements. Approximately 62% of the natural gas for our Chilean facilities is purchased from suppliers in Argentina with the remainder supplied from gas reserves in Chile, mainly by Empresa Nacional del Petroleo (ENAP), the Chilean state-owned energy company. Refer to *Production Summary* and *Risk Factors and Risk Management* sections for further information regarding natural gas supply to our production facilities in Chile. Natural gas for the Chile I and IV plants is supplied under contracts terminating in 2025 and natural gas export permits, valid until 2025, are in place for the gas being supplied from Argentina for those plants. Natural gas for the Chile II and III plants is supplied under contracts terminating in 2017 and 2019 and gas export permits, valid until those dates, are in place for gas being supplied from Argentina for those plants. Agreements for ten-year extensions of these contracts, until 2027 and 2029 are in place. Natural gas export permits for the gas to be sourced from Argentina under these extensions have not yet been granted. Such permits are customarily only applied for a few years before the contractual agreement becomes effective. Accordingly, we have not included ten-year extension periods for the Chile II and III plants in the contractual obligations and commercial commitments summary above.

The variable price component of the natural gas agreements for our Chilean methanol facilities is determined with reference to 12-month trailing average published industry methanol prices, except for Chile I, where the variable component until mid-2009 is related to our average realized price for the current calendar year. Commencing in mid-2009, the variable price component for Chile I will be calculated with reference to 12-month trailing average published industry methanol prices. The base prices increase annually under the Chile IV contract and, commencing in mid-2009, for the Chile I contract.

In Trinidad, we also have take-or-pay supply contracts for natural gas, oxygen and other feedstock requirements. The variable component of our natural gas contracts in Trinidad is determined with reference to average published industry methanol prices each quarter and the base prices increase over time. The natural gas and oxygen supply contracts for Titan and Atlas expire in 2014 and 2024, respectively.

Operating Lease Commitments

The majority of these commitments relate to time charter vessel agreements with terms of up to 15 years. Time charter vessels meet most of our ocean shipping requirements, with the remainder of our requirements secured under a mix of contracts with terms of one to two years and through spot arrangements. We believe this structure provides an appropriate mix of shipping capacity, reflecting factors such as the location of our production facilities, the location and restrictions of the destination ports, and the risks associated with production, customer requirements and the general shipping market.

Financial Instruments

From time to time we enter into derivative financial instruments to limit our exposure to foreign exchange volatility and changes in natural gas feedstock costs and to contribute towards achieving cost structure and revenue targets. At December 31, 2006, the fair value of our derivative financial instruments used to limit our exposure to foreign exchange volatility and changes in natural gas feedstock costs approximate their carrying value of negative $0.2 million. Until settled, the fair value of the derivative financial instruments will fluctuate based on changes in foreign exchange rates and natural gas prices. These contracts are not subject to rating triggers or margin calls and rank equally with all our unsecured indebtedness.

Off-Balance Sheet Arrangements

At December 31, 2006, we do not have any off-balance sheet arrangements, as defined by applicable securities regulators in Canada and the United States, that have, or are reasonably likely to have, a current or future material effect on our results of operations or financial condition.

Liquidity and Capitalization

We maintain conservative financial policies that reflect the cyclical nature of methanol pricing. We focus on maintaining our financial strength and flexibility through prudent financial management.

($ MILLIONS, EXCEPT AS NOTED)	2006	2005
LIQUIDITY		
Cash and cash equivalents	**355**	159
Undrawn credit facilities	**250**	250
	605	409
CAPITALIZATION		
Unsecured notes	**350**	350
Limited recourse debt facilities, including current portion	**137**	151
Total debt	**487**	501
Shareholders' equity	**1,209**	950
Total capitalization	**1,696**	1,451
Total debt to capitalization[1]	**29%**	35%
Net debt to capitalization[2]	**10%**	26%

[1] *Defined as total debt divided by total capitalization.*

[2] *Defined as total debt less cash and cash equivalents divided by total capitalization less cash and cash equivalents.*

Our planned capital maintenance expenditures directed towards major maintenance, turnarounds and catalyst changes are estimated to be approximately $100 million for the period to the end of 2009. We are in the final stages in developing a methanol project in Egypt. This project is being developed through a joint venture in which we have a 60% interest and the marketing rights for all production. We expect to be in a position to make a final investment decision on this project by the middle of 2007. If a decision is made to proceed, we expect the joint venture will fund ongoing expenditures through a combination of project financing and equity contributions.

Our cash balance at December 31, 2006 was $355 million and we have an undrawn $250 million credit facility that expires in 2010. We believe we are well positioned to meet our financial requirements related to the potential methanol project in Egypt, complete our capital maintenance spending program, pursue new opportunities to enhance our leadership position in the methanol industry, investigate opportunities related to new methanol demand for energy applications and continue to deliver on our commitment to return excess cash to shareholders.

The credit ratings for our unsecured notes at December 31, 2006 were as follows:

Standard & Poor's Rating Services	BBB- (negative)
Moody's Investor Services	Ba1 (stable)
Fitch Ratings	BBB (stable)

Credit ratings are not recommendations to purchase, hold or sell securities and do not comment on market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future.

RISK FACTORS AND RISK MANAGEMENT

We believe our strategy of creating value by maintaining and enhancing our leadership in the production, marketing and delivery of methanol to our customers provides us with strategic advantages. However, as with any business, we are subject to risks that require prudent risk management. We believe the following risks, in addition to those described under *Critical Accounting Estimates* on page 30, to be among the most important for understanding the issues that face our business and our approach to risk management.

Commodity Price Cyclicality

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

Changes in environmental, health and safety requirements could also lead to a decrease in methanol demand. The United States Environmental Protection Agency (EPA) is preparing internal reports relating to the human health effects of methanol including its potential carcinogenicity and their final report is expected to be released in mid-2008. Currently, the EPA does not classify methanol with respect to carcinogenicity. We are unable to determine at this time whether the EPA or any other body will reclassify methanol. Any reclassification could reduce future methanol demand which could have an adverse effect on our results of operations and financial condition.

We are not able to predict future methanol supply and demand balances, market conditions or prices, all of which are affected by numerous factors beyond our control. As a result, we cannot provide assurance that demand for methanol will increase at all, or increase sufficiently to absorb additional production, or that the price of methanol will not decline. Since methanol is the only product we produce and market, a decline in the price of methanol would have an adverse effect on our results of operations and financial condition. We also cannot provide assurance that high cost plants would be shut down or idled if the price of methanol were to decline.

Security of Natural Gas Supply and Price

Natural gas is the principal feedstock for methanol and accounts for a significant portion of our cost of sales and operating expenses. Accordingly, our results from operations depend in large part on the availability and security of supply and the price of natural gas. If we are unable to obtain continued access to sufficient natural gas for any of our plants on commercially acceptable terms, or if we experience interruptions in the supply of contracted natural gas, we could be forced to reduce production or close plants, which would have a material adverse effect on our results of operations and financial condition.

Chile

In Chile, we purchase all of our natural gas through long-term take-or-pay supply agreements. Currently, approximately 62% of the natural gas for our Chilean facilities is purchased from suppliers in Argentina with the remainder supplied from gas reserves in Chile, mainly by Empresa Nacional del Petroleo (ENAP), the Chilean state-owned energy company. Under our current long-term natural gas purchase commitments for our Chile facilities, the percentage of natural gas supplied from Argentina would increase to approximately 80% in 2009. Over the past few years, Argentina has been experiencing energy shortages. To avoid these shortages, the government of Argentina passed regulations that require Argentinean gas suppliers to give priority to supplying the domestic market. This has resulted in curtailments of gas supply to Chile as a result of the government of Argentina ordering natural gas suppliers to inject additional gas into the local grid. Since 2004, our production facilities in Chile have been impacted by these curtailments, primarily during the winter period in the southern hemisphere. In 2004 and 2005, we lost approximately 50,000 tonnes and 100,000 tonnes of methanol production, respectively, due to these curtailments. In 2006, the curtailment period extended from May to November and we lost about 50,000 tonnes of production.

Our Chilean operations have been, and continue to be, somewhat isolated from this issue because of the location of our plants in the southernmost region of Chile and the pipeline transportation capacity to the population centers in Argentina. There is only one major pipeline that runs from the south to the central region of Argentina. In 2005, the capacity of this pipeline was increased by approximately 13%. Some additional investment in infrastructure was made by our Argentinean gas suppliers in 2005, which increased the supply of natural gas in the southern region where we source our gas. The government of Argentina is pursuing further pipeline expansion projects, although the timing around commencement and completion of these projects is uncertain. To date, we are not aware of any such projects receiving final approval from the government of Argentina.

In July 2006, the government of Argentina increased the duty on exports of natural gas from Argentina to Chile, which has been in place since May 2004, from approximately $0.30 per mmbtu to $2.25 per mmbtu. Exports of natural gas from the province of Tierra del Fuego were exempt from this duty until late October 2006 when the government of Argentina extended this duty to include this province at the same rates applicable to the other provinces. As a result, the increased duty on exports of natural gas is applicable to all of the natural gas feedstock that we source from Argentina. The total cost of the export duty to our natural gas suppliers on an annual basis has increased to approximately $200 million. While our gas contracts provide that gas suppliers are to pay any duties levied by the government of Argentina, we are in continuing discussions with our Argentinean natural gas suppliers regarding the impact of the increased export duty.

During the fourth quarter of 2006, we reached interim agreements with all of our natural gas suppliers from Argentina. In principle, we have agreed to share the cost of duties and we have gained some flexibility to take the natural gas depending on prevailing methanol market conditions. We are in continuing discussions with our natural gas suppliers to reach longer-term arrangements. However, there can be no assurance that we will be successful in entering into longer-term arrangements with our natural gas suppliers from Argentina. As well, there can be no assurance that the natural gas suppliers will not take the position that the imposition of such duties relieves them of the obligation to deliver natural gas under the contracts.

As a result, there are many variables beyond our control that could have an effect on whether we experience production losses as a result of the potential disruption of natural gas supply from Argentina and we are currently unable to provide a reasonable view as to the amount of production losses that we might experience in 2007. These variables include the actions of government, actions of our gas suppliers, claims of force majeure, outcomes of ongoing or future arbitration or other proceedings, weather and other variables that are currently unanticipated or beyond our control.

There is renewed interest in natural gas exploration in the southern regions of Chile and we are working on sourcing additional natural gas supply for our Chile facilities from alternative sources. As an example, our Chilean natural gas supplier, ENAP, and others are undertaking gas exploration and development programs in areas of Chile that are relatively close to our production facilities. If these programs are successful we believe that some additional gas could be available during 2007. In addition, the government of Chile has announced its intention to assign exploration areas which lie close to our facilities in a bidding round during 2007. However, there can be no assurance that ENAP or others will be successful or that we would obtain any additional natural gas on economic terms.

We are working with our natural gas suppliers and senior government officials in Chile and Argentina, and we continue to monitor this issue closely.

Trinidad

Natural gas for our Trinidad methanol production facilities is supplied under long-term contracts with The National Gas Company of Trinidad and Tobago Limited. The contracts for Titan and Atlas expire in 2014 and 2024, respectively. Although Titan and Atlas are located close to other natural gas reserves in Trinidad, which we believe we could access after the expiration of these natural gas supply contracts, we cannot provide assurance that we would be able to secure access to such natural gas under long-term contracts on commercially acceptable terms.

Since late 2005, large industrial natural gas consumers in Trinidad, including Methanex, have experienced periodic curtailments in their natural gas supply. Curtailments have resulted from a number of different factors including difficulties encountered in bringing new offshore natural gas delivery systems on line and various mechanical problems in the existing pipeline and distribution systems. Also, the commissioning of new facilities consuming large amounts of natural gas has put stress on the natural gas delivery system. We are working with our natural gas supplier and other large natural gas consumers in Trinidad concerning this issue. However, we expect that these curtailments will continue in 2007 and there can be no assurance that production losses will not be materially worse than we have experienced in the recent past.

New Zealand

We have restructured our New Zealand operations over the past few years due to natural gas supply constraints in New Zealand. In 2004, we permanently closed the 1.9 million tonne per year Motunui facility. The 530,000 tonne per year Waitara Valley plant has been positioned as a flexible production asset with operations dependant upon methanol industry supply and demand and the availability of natural gas on commercially acceptable terms. In 2006, we produced about 400,000 tonnes of methanol at the Waitara Valley plant and in January 2007, we secured additional amounts of natural gas which, combined with our existing gas entitlements, are expected to enable this plant to operate at least until the end of 2007 and produce approximately 425,000 tonnes of methanol in 2007. We continue to seek other supplies of natural gas to supplement this production and to extend the life of our New Zealand operations; however, there can be no assurance that we will be able to secure additional gas on commercially acceptable terms.

Demand for Methanol in the Production of Formaldehyde

Approximately 39% of global methanol demand is used to produce formaldehyde. In 2004, the United States National Cancer Institute (NCI) published the results of a study that concluded there is a “possible causal association” between formaldehyde exposure and nasopharyngeal cancer. The NCI is updating its original study and this update is expected to be completed and released in the first half of 2007.

Based in part on the NCI study, the International Agency for Research on Cancer (IARC) upgraded formaldehyde from a “probable” to a “known” carcinogen in 2004. IARC, while not a regulatory body, is influential in setting standards and protocols for various regulatory bodies around the world.

Also in 2004, the EPA began the process of preparing an internal study that could lead to a reclassification of formaldehyde in its Integrated Risk Information System (IRIS), the EPA’s database on human health effects that may result from exposure to various chemicals in the environment. IRIS is also influential as it is used by other countries for setting their national chemical exposure limits. It is expected that the EPA will await the findings from the updated NCI study before finalizing its review. The EPA will also be reviewing data indicating a possible link between formaldehyde exposure and leukemia in animals. It is expected that the EPA review will be released in mid-2008. Currently, the EPA classifies formaldehyde as “a probable human carcinogen.”

In 2005, the United States Department of Health and Human Services announced that formaldehyde has been nominated for reconsideration in the National Toxicology Program's (NTP) 12th Report on Carcinogens. The NTP is an interagency program that evaluates agents of public health concern and currently lists formaldehyde as "reasonably anticipated to be a human carcinogen." Also in the US, the California Air Resources Board (CARB) is proposing an airborne toxic control measure to limit formaldehyde emissions from composite wood panels. A draft regulation was released in October 2006 and a rulemaking board hearing is scheduled for April 2007.

There are proposals in a number of other countries to reclassify formaldehyde and reduce permitted formaldehyde exposure levels. We are unable to determine at this time whether any of these countries or any other bodies will reclassify formaldehyde, or whether these or any other regulatory proposals will come into effect. Any reclassification could reduce future methanol demand for use in producing formaldehyde, which could have an adverse effect on our results of operations and financial condition.

Demand for Methanol in the Production of MTBE

In 2006, methanol for the production of MTBE represented approximately 16% of global methanol demand. MTBE is used primarily as a source of octane and as an oxygenate for gasoline. During the 1990s, environmental concerns and legislation in the US led to the imposition of a federal oxygenate standard for gasoline that resulted in increased demand for MTBE for use in gasoline to reduce automobile tailpipe emissions.

Over the last few years, concerns have been raised in the US regarding the use of MTBE in gasoline. Gasoline containing MTBE has leaked into groundwater in the US, principally from underground gasoline storage tanks, and has also been discharged directly into drinking water reservoirs. As a result, several states including California, New York, New Jersey and Connecticut banned the use of MTBE as a gasoline component and this reduced demand for methanol in the US.

In 2005, the United States federal government passed the Energy Policy Act (EPACT), which contains provisions that have had the effect of further reducing demand for MTBE in the US. While EPACT does not provide for a federal ban on the use of MTBE in gasoline, it does waive the federal oxygenate standard for gasoline effective May 2006 and does not provide MTBE producers and blenders with liability protection.

About two million tonnes of methanol was used in the production of MTBE in the US in 2005. This was reduced to about 1.1 million tonnes in 2006 and we expect that this will be further reduced to about 0.8 million tonnes in 2007. This production is mainly destined for the export market as MTBE is no longer being consumed in the US except for non-fuel use. However, the pace of decline of US methanol demand for MTBE is uncertain and will be determined by various factors including the decision of US-based MTBE producers to continue to make MTBE for export. Most US refiners have already stated that they will stop the production and blending of MTBE for gasoline at some point.

The EPA is preparing an IRIS review of the human health effects of MTBE including its potential carcinogenicity, and their final report is expected to be released in mid-2008. The European Union issued a final risk assessment report on MTBE in 2002 that permitted the continued use of MTBE, although several risk reduction measures relating to the storage and handling of MTBE-containing fuel were recommended. However, governmental efforts in some European Union countries to promote bio-fuels and alternative fuels through legislation and tax policy are putting competitive pressures on the use of MTBE in gasoline. Several European MTBE production facilities have commenced production of ethyl tertiary butyl ether (ETBE) to take advantage of these tax incentives to produce bio-fuels.

Elsewhere in the world, MTBE continues to be used as a source of octane, but with growing use for its clean air benefits. We believe that there is potential for continuing growth in MTBE use outside the United States and Europe. Our belief is based on actions being taken around the world to reduce lead, benzene and other aromatics content in gasoline and to improve the emissions performance of vehicles generally. A number of Asian countries, including China, have adopted European specifications for gasoline formulations. This is expected to lead to increased consumption of MTBE in these markets.

We cannot provide assurance that legislation banning or restricting the use of MTBE or promoting alternatives to MTBE will not be passed or that negative public perceptions outside of the United States may not develop, either of which would lead to a further decrease in the global demand for methanol for use in MTBE.

Foreign Operations

We currently have substantial operations outside of North America, including Chile, Trinidad, New Zealand, Europe and Asia. We are subject to risks inherent in foreign operations such as: loss of revenue, property and equipment as a result of expropriation, nationalization, war, insurrection and other political risks; increases in duties, taxes and governmental royalties and renegotiation of contracts with governmental entities; as well as changes in laws and policies governing operations of foreign-based companies.

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

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

Operational Risks

Substantially all of our earnings are derived from the sale of methanol produced at our plants. Our business is subject to the risks of operating methanol production facilities, such as unforeseen equipment breakdowns, interruptions in the supply of natural gas and other feedstock, power failures, longer than anticipated planned maintenance activities, loss of port facilities or any other event, including unanticipated events beyond our control, which could result in a prolonged shutdown of any of our plants or impede our ability to deliver methanol to our customers. A prolonged plant shutdown at any of our major facilities could materially affect our revenues and operating income. Additionally, disruptions in our distribution system could materially adversely affect our revenues and operating income. Although we maintain insurance, including business interruption insurance, we cannot provide assurance that we will not incur losses beyond the limits of, or outside the coverage of, such insurance. From time to time, various types of insurance for companies in the chemical and petrochemical industries have not been available on commercially acceptable terms or, in some cases, have been unavailable. We cannot provide assurance that in the future we will be able to maintain existing coverage or that premiums will not increase substantially.

Our trade in methanol is subject to import duties in certain jurisdictions. We cannot provide assurance that the duties that we are currently subject to will not increase, that duties will not be levied in other jurisdictions in the future or that we will be able to mitigate the impact of current or future duties, if levied.

New Capital Projects

As part of our strategy to strengthen our position as a low cost global producer of methanol, we intend to continue to pursue new opportunities to enhance our strategic position in the methanol industry. For example, we are developing a new methanol project in Egypt, but, as noted below, have not yet made a final decision to proceed with this project.

Our ability to successfully identify, develop and complete new capital projects is subject to a number of risks, including finding and selecting favourable locations for new facilities where sufficient natural gas is available through long-term contracts with acceptable commercial terms, obtaining project or other financing on satisfactory terms, developing and not exceeding acceptable project cost estimates, constructing and completing the projects within the contemplated schedules and other risks commonly associated with the design, construction and start-up of large complex industrial projects. We cannot assure you that we will be able to identify and develop new methanol projects or, if we decide to proceed with a project, that the anticipated cost of construction will not be exceeded or that it will commence commercial production within the anticipated schedule, if at all.

We expect to make a final decision to proceed with our proposed project in Egypt by mid-2007. As at December 31, 2006, we have incurred approximately $16 million in development costs for this project that have been capitalized to property, plant and equipment and we will incur further development costs before making a final decision. If the final decision is made not to proceed, it would result in a write-off of these development costs.

Competition

The methanol industry is highly competitive. Methanol is a global commodity and customers base their purchasing decisions principally on the delivered price of methanol and reliability of supply. Some of our competitors are not dependent for revenues on a single product and some have greater financial resources than we do. Our competitors also include state-owned enterprises. These competitors may be better able than we are to withstand price competition and volatile market conditions.

Environmental Regulation

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

Laws and regulations protecting the environment have become more stringent in recent years and may, in certain circumstances, impose absolute liability rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. These laws and regulations may also expose us to liability for the conduct of, or conditions caused by, others, or for our own acts that complied with applicable laws at the time such acts were performed. The operation of chemical manufacturing plants and the distribution of methanol exposes us to risks in connection with compliance with such laws and we cannot provide assurance that we will not incur material costs or liabilities.

OUTLOOK

Methanol is a global commodity and our earnings are primarily affected by fluctuations in the methanol price, which is directly impacted by the balance of methanol supply and demand. Demand growth for methanol is driven primarily by growth in industrial production, energy prices and the strength of the global economy.

During the second half of 2006 global inventory levels were very low as a result of planned and unplanned supplier outages and strong demand. As a result, methanol prices increased substantially in September and again in October and pricing remained at these high levels for the remainder of 2006.

We estimate that global demand for methanol in 2006 increased by approximately 6% over 2005 to a total of 38 million tonnes, despite the phasing out of MTBE in the US. The increase in demand was driven primarily by an increase in demand for methanol in China, strong global economies leading to strong global demand for methanol in the traditional chemical derivatives markets and an increase in demand for methanol in energy-related markets. During 2006, demand for methanol in China was very strong and grew at higher rates than we expected for both traditional uses and non-traditional uses such as gasoline fuel blending. During 2006, there were numerous smaller scale capacity additions in China representing approximately 3.5 million tonnes per year and one significant addition of a 600,000 tonne per year natural gas based plant located on Hainan Island. The only significant capacity addition outside of China was the 550,000 tonne per year Togliatti plant in Russia that commenced operations towards the end of 2006.

Over the two-year period to the end of 2008, it is expected that new capacity and expansions outside of China will add approximately 6.5 million tonnes of capacity to the global industry. It is expected that the next increment of world-scale capacity will be the 1.7 million tonne per year NPC facility in Iran, which is expected to commence operations during the first half of 2007. In addition, there is a 1.0 million tonne per year plant in Oman under construction and it is expected that product from this plant will be available to the market during the second half of 2007. In 2008, it is expected that approximately 3.4 million tonnes of new capacity may be added to the market from two world-scale plants in Iran and Saudi Arabia and other expansions. Over the same period, it is also expected that additional plants will be constructed in China. We continue to believe that under normal market conditions, substantially all methanol production in China will be consumed locally and that China will continue to require imports to satisfy demand. We also believe that demand for methanol in China, for traditional chemical applications and new energy-related applications, will continue to grow at high rates, which will require capacity expansion and good operating rates in China in order to satisfy the growth in its domestic demand.

Over the two-year period to the end of 2008, we believe approximately 3.3 million tonnes of capacity could shut down as a result of high feedstock prices. Methanex itself is supplying methanol from two plants with a combined annual capacity of approximately 1.4 million tonnes that may shut down over the next 12 months. This includes our 530,000 tonne Waitara Valley facility located in New Zealand, which we are operating as a flexible asset, and the 850,000 tonne Celanese facility located in Alberta, Canada. We are purchasing methanol from the Celanese facility under an offtake agreement with Celanese Ltd. that expires on March 31, 2007.

Over the same period, we believe that the methanol industry will require new capacity outside of China to satisfy traditional demand driven by general economic growth. In addition, we believe there is considerable potential for demand growth in emerging applications for methanol. These emerging applications include biodiesel, methanol for power generation, di-methyl ether (DME) and fuel blending, with the latter two having the largest growth prospects in China.

Typical of most cyclical commodity chemicals, periods of high methanol prices encourage high cost production to operate at maximum rates, construction of new plants and expansion projects leading to the possibility of oversupply in the market. However, historically, not all announced capacity additions result in the completion of new plants. The construction of low-cost world-scale methanol facilities requires significant capital costs over a long lead time, a location with access to significant natural gas reserves with appropriate pricing and an ability to cost-effectively deliver methanol to customers. Obtaining access to gas supply is becoming more challenging as gas is increasingly being used for higher value uses such as domestic use, LNG or other chemical products. In addition, plant construction phases have been extended and capital costs have escalated due to strong demand for raw materials, equipment and labour caused by increased construction activity globally.

We entered 2007 with high prices, which in a normal demand and supply environment are unsustainable, and global inventory levels in the methanol industry are recovering in 2007. However, industry fundamentals continue to be favourable and are underpinned by healthy demand and high energy prices. The methanol price will ultimately depend on industry operating rates, the rate of industry restructuring and the strength of global demand. We believe that our excellent financial position and financial flexibility, outstanding global supply network and competitive cost position will provide a sound basis for Methanex continuing to be a leader in the methanol industry.

CRITICAL ACCOUNTING ESTIMATES

We believe the following selected accounting policies and issues are critical to understanding the estimates, assumptions and uncertainties that affect the amounts reported and disclosed in our consolidated financial statements and related notes. See note 1 of our 2006 consolidated financial statements for our significant accounting policies.

Property, Plant and Equipment

Our business is capital intensive and has required, and will continue to require, significant investments in property, plant and equipment. At December 31, 2006, the net book value of our property, plant and equipment was $1,353 million. We estimate the useful lives of property, plant and equipment and this is used as the basis for recording depreciation and amortization. Recoverability of property, plant and equipment is measured by comparing the net book value of an asset to the undiscounted future net cash flows expected to be generated from the asset over its estimated useful life. An impairment charge is recognized in cases where the undiscounted expected future cash flows from an asset are less than the net book value of the asset. The impairment charge is equal to the amount by which the net book value of the asset exceeds its fair value. Fair value is based on quoted market values, if available, or alternatively using discounted expected future cash flows.

There are a number of uncertainties inherent in estimating future net cash flows to be generated by our production facilities. These include, among other things, assumptions regarding future supply and demand, methanol pricing, availability and pricing of natural gas supply, and production and distribution costs. Changes in these assumptions will impact our estimates of future net cash flows and could impact our estimates of the useful lives of property, plant and equipment. Consequently, it is possible that our future operating results could be materially and adversely affected by asset impairment charges or by changes in depreciation and amortization rates related to property, plant and equipment.

Asset Retirement Obligations

We record asset retirement obligations at fair value when incurred for those sites where a reasonable estimate of the fair value can be determined. At December 31, 2006, we had accrued $16 million for asset retirement obligations. Inherent uncertainties exist because the restoration activities will take place in the future and there may be changes in governmental and environmental regulations and changes in removal technology and costs. It is difficult to estimate the true costs of these activities as our estimate of fair value is based on today’s regulations and technology. Because of uncertainties related to estimating the cost and timing of future site restoration activities, future costs could differ materially from the amounts estimated.

Income Taxes

Future income tax assets and liabilities are determined using currently enacted or substantially enacted tax rates for the effects of net operating losses and temporary differences between the book and tax bases of assets and liabilities. We record a valuation allowance on future tax assets, when appropriate, to reflect the uncertainty of realization of future tax benefits. In determining the appropriate valuation allowance, certain judgments are made relating to the level of expected future taxable income and to available tax planning strategies and their impact on the use of existing loss carryforwards and other income tax deductions. In making this analysis, we consider historical profitability and volatility to assess whether we believe it to be more likely than not that the existing loss carryforwards and other income tax deductions will be used to offset future taxable income otherwise calculated. Our management routinely reviews these judgments. At December 31, 2006, we had future income tax assets of $302 million that are substantially offset by a valuation allowance of $263 million.

The determination of income taxes requires the use of judgment and estimates. If certain judgments or estimates prove to be inaccurate, or if certain tax rates or laws change, our results of operations and financial position could be materially impacted.

NEW CANADIAN ACCOUNTING STANDARDS ADOPTED IN 2006

There were no new Canadian accounting standards adopted during 2006 that had a material impact on our consolidated financial statements.

ANTICIPATED CHANGES TO CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Financial Instruments — Recognition and Measurement, Hedges and Comprehensive Income

The Canadian Institute of Chartered Accountants has issued new accounting standards for financial instruments that are effective for the Company as of January 1, 2007. These standards address when an entity should recognize a financial instrument on its balance sheet and how it should measure the financial instrument once recognized. These standards also provide guidance on applying hedge accounting and provide alternative treatments for entities that choose to designate qualifying transactions as hedges for accounting purposes. Comprehensive income is also introduced as a concept in Canadian accounting with a requirement to present certain unrealized gains and losses outside net income. We are currently assessing the implications of these new standards on our consolidated financial statements.

SUPPLEMENTAL NON-GAAP MEASURES

In addition to providing measures prepared in accordance with Canadian GAAP, we present certain supplemental non-GAAP measures. These are Adjusted EBITDA, income before unusual items (after-tax), diluted income before unusual items (after-tax) per share, operating income and cash flows from operating activities before changes in non-cash working capital. These measures do not have any standardized meaning prescribed by Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. We believe these measures are useful in evaluating the operating performance and liquidity of the Company's ongoing business. These measures should be considered in addition to, and not as a substitute for, net income, cash flows and other measures of financial performance and liquidity reported in accordance with Canadian GAAP.

Operating Income and Cash Flows from Operating Activities before Non-Cash Working Capital

Operating income and cash flows from operating activities before changes in non-cash working capital are reconciled to Canadian GAAP measures in our consolidated statements of income and consolidated statements of cash flows, respectively.

Income before Unusual Items (After-Tax) and Diluted Income before Unusual Items (After-Tax) per Share

These supplemental non-GAAP measures are provided to assist readers in comparing earnings from one period to another without the impact of unusual items that are considered by management to be non-operational and/or non-recurring. Diluted income before unusual items (after-tax) per share has been calculated by dividing income before unusual items (after-tax) by the diluted weighted average number of common shares outstanding.

The following table shows a reconciliation of net income to income before unusual items (after-tax) and the calculation of diluted income before unusual items (after-tax) per share:

($ MILLIONS, EXCEPT NUMBER OF SHARES AND PER SHARE AMOUNTS)	2006	2005
Net income	**$ 483**	$ 166
Add (deduct) unusual items:		
Kitimat closure costs	**—**	41
Future income taxes related to change in tax legislation	**(26)**	17
Income before unusual items (after-tax)	**$ 457**	$ 224
Diluted weighted average number of common shares outstanding (millions of shares)	**109**	118
Diluted income before unusual items (after-tax) per share	**$4.18**	$1.89

Adjusted EBITDA

This supplemental non-GAAP measure is provided to assist readers in determining our ability to generate cash from operations. We believe this measure is useful in assessing performance and highlighting trends 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 differs from the most comparable GAAP measure, cash flows from operating activities, primarily because it does not include changes in non-cash working capital, stock-based compensation expense and other non-cash items net of cash payments, Kitimat closure costs, interest expense, interest and other income, and current income taxes.

The following table shows a reconciliation of cash flows from operating activities to Adjusted EBITDA:

($ MILLIONS)	2006	2005
Cash flows from operating activities	**$469**	$359
Add (deduct):		
Changes in non-cash working capital	**154**	(29)
Stock-based compensation, net	**(13)**	(5)
Other, net	**1**	(2)
Kitimat closure costs	**—**	41
Interest expense	**45**	41
Interest and other income	**(10)**	(10)
Income taxes — current	**154**	57
Adjusted EBITDA	**$800**	$452

QUARTERLY FINANCIAL DATA (UNAUDITED)

	THREE MONTHS ENDED			
($ MILLIONS, EXCEPT PER SHARE AMOUNTS)	DEC 31	SEP 30	JUN 30	MAR 31
2006				
Revenue	**$ 668**	**$ 520**	**$ 461**	**$ 460**
Net income	**172**	**113**	**82**	**115**
Basic net income per share	**1.62**	**1.05**	**0.75**	**1.02**
Diluted net income per share	**1.61**	**1.05**	**0.75**	**1.02**
2005				
Revenue	$ 460	$ 349	$ 411	$ 438
Net income (loss)	49	(22)	63	76
Basic net income (loss) per share	0.42	(0.19)	0.53	0.63
Diluted net income (loss) per share	0.42	(0.19)	0.53	0.63

SELECTED ANNUAL INFORMATION

($ MILLIONS, EXCEPT PER SHARE AMOUNTS)	2006	2005	2004
Revenue	**$2,108**	$1,658	$1,719
Net income	**483**	166	236
Basic net income per share	**4.43**	1.41	1.95
Diluted net income per share	**4.41**	1.40	1.92
Cash dividends declared per share	**0.485**	0.410	0.280
Total assets	**2,443**	2,106	2,125
Total long-term financial liabilities	**542**	566	411

CONTROLS AND PROCEDURES

Disclosure controls and procedures are those controls and procedures that are designed to ensure that the information required to be disclosed in filings under applicable securities regulations is recorded, processed, summarized and reported within the time periods specified. As at December 31, 2006, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded our disclosure controls and procedures are effective.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and the requirements of the Securities and Exchange Commission in the United States, as applicable. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by KPMG LLP, Chartered Accountants, and their opinion is included in the annual report on page 37.

There have been no changes during the year ended December 31, 2006 to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

FORWARD-LOOKING STATEMENTS

Statements made in this document that are based on our current objectives, expectations, estimates and projections constitute forward-looking statements. These statements include forward-looking statements both with respect to us and the chemicals industry. Statements that include the words "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "estimates," "anticipates," or the negative version of those words or other comparable terminology and similar statements of a future or forward-looking nature identify forward-looking statements. Methanex believes that it has a reasonable basis for making such forward-looking statements. Forward-looking statements 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 which are included in these forward-looking statements.

Important factors that can cause stated outcomes to differ materially from actual outcomes include but are not limited to worldwide economic conditions; conditions in the methanol and other industries, including the supply of methanol; demand for methanol and its derivatives; actions of competitors; actions of governments including changes in laws or regulations; the ability to implement business strategies, pursue business opportunities and maintain and enhance our competitive advantages; risks attendant with methanol production and marketing, including operational disruption; risks attendant with carrying out capital expenditure projects, including the ability to obtain financing and completing the projects on time and on budget; availability and price of natural gas feedstock; foreign exchange risks; raw material and other production costs; transportation costs; the ability to attract and retain qualified personnel; risks associated with investments and operations in multiple jurisdictions; and other risks discussed under the heading *Risk Factors and Risk Management* in our 2006 Management's Discussion and Analysis.

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

Consolidated Financial Statements

RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and all financial information contained in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, have incorporated estimates based on the best judgment of management.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the internal control framework set out in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and is responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through the Audit, Finance and Risk Committee (the Committee).

The Committee consists of five non-management directors, all of whom are independent as defined by the applicable rules in Canada and the United States. The Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibility relating to: the integrity of the Company's financial statements, news releases and securities filings; the financial reporting process; the systems of internal accounting and financial controls; the professional qualifications and independence of the external auditor; the performance of the external auditors; risk management processes; financing plans; pension plans; and the Company's compliance with ethics policies and legal and regulatory requirements.

The Committee meets regularly with management and the Company's auditors, KPMG LLP, Chartered Accountants, to discuss internal controls and significant accounting and financial reporting issues. KPMG have full and unrestricted access to the Committee. KPMG audited the consolidated financial statements and the effectiveness of internal controls over financial reporting. Their opinions are included in the annual report.

Terence Poole **Chairman of the Audit, Finance and Risk Committee**	**Bruce Aitken** **President and Chief Executive Officer**	**Ian Cameron** **Senior Vice President, Finance and Chief Financial Officer**

March 2, 2007

AUDITORS' REPORT

To the Shareholders of Methanex Corporation

We have audited the consolidated balance sheets of Methanex Corporation ("the Company") as at December 31, 2006 and 2005 and the consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. With respect to the consolidated financial statements for the year ended December 31, 2006, we also conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 2, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Chartered Accountants
Vancouver, Canada

March 2, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Methanex Corporation

We have audited management's assessment, included in the accompanying Responsibility for Financial Reporting, that Methanex Corporation ("the Company") maintained effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have conducted our audits on the consolidated financial statements in accordance with Canadian generally accepted auditing standards. With respect to the year ended December 31, 2006, we also have conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our report dated March 2, 2007, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants
Vancouver, Canada

March 2, 2007

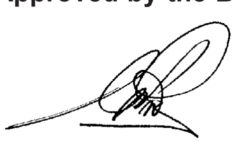
Consolidated Balance Sheets

(thousands of U.S. dollars, except number of common shares)

AS AT DECEMBER 31	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 355,054**	$ 158,755
Receivables (note 2)	**366,387**	296,522
Inventories	**244,766**	140,104
Prepaid expenses	**24,047**	13,555
	990,254	608,936
Property, plant and equipment (note 3)	**1,352,719**	1,396,126
Other assets (note 5)	**100,518**	101,045
	$2,443,491	$2,106,107
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 309,566**	$ 235,487
Current maturities on long-term debt (note 6)	**14,032**	14,032
Current maturities on other long-term liabilities (note 7)	**17,022**	9,663
	340,620	259,182
Long-term debt (note 6)	**472,884**	486,916
Other long-term liabilities (note 7)	**68,818**	79,421
Future income tax liabilities (note 12)	**351,918**	331,074
Shareholders' equity:		
Capital stock		
25,000,000 authorized preferred shares without nominal or par value		
Unlimited authorization of common shares without nominal or par value		
Issued and outstanding common shares at December 31, 2006 was 105,800,942 (2005 — 113,645,292)	**474,739**	502,879
Contributed surplus	**10,346**	4,143
Retained earnings	**724,166**	442,492
	1,209,251	949,514
	$2,443,491	$2,106,107

See accompanying notes to consolidated financial statements.

Approved by the Board:



Terence Poole
Director

Bruce Aitken
Director

Consolidated Statements of Income

(thousands of U.S. dollars, except number of common shares and per share amounts)

FOR THE YEARS ENDED DECEMBER 31	2006	2005
Revenue	**$ 2,108,250**	$ 1,658,120
Cost of sales and operating expenses	**1,308,175**	1,206,425
Depreciation and amortization	**106,828**	91,225
Kitimat closure costs (note 9)	**—**	41,126
Operating income	**693,247**	319,344
Interest expense (note 10)	**(44,586)**	(41,489)
Interest and other income	**9,598**	10,344
Income before income taxes	**658,259**	288,199
Income tax expense (note 12):		
Current	**(154,466)**	(56,911)
Future	**(46,597)**	(48,657)
Future income taxes related to change in tax legislation	**25,753**	(16,879)
	(175,310)	(122,447)
Net income	**$ 482,949**	$ 165,752
Basic net income per common share	**$ 4.43**	$ 1.41
Diluted net income per common share	**$ 4.41**	$ 1.40
Weighted average number of common shares outstanding	**109,110,689**	117,766,436
Diluted weighted average number of common shares outstanding	**109,441,404**	118,362,665

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(thousands of U.S. dollars, except number of common shares)

	Number of Common Shares	Capital Stock	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance, December 31, 2004	**120,022,417**	**$ 523,255**	**$ 3,454**	**$ 422,535**	**$ 949,244**
Net income	—	—	—	165,752	165,752
Compensation expense recorded for stock options	—	—	2,849	—	2,849
Issue of shares on exercise of stock options	1,338,475	10,621	—	—	10,621
Reclassification of grant date fair value on exercise of stock options	—	2,160	(2,160)	—	—
Payment for shares repurchased	(7,715,600)	(33,157)	—	(97,806)	(130,963)
Dividend payments	—	—	—	(47,989)	(47,989)
Balance, December 31, 2005	**113,645,292**	**502,879**	**4,143**	**442,492**	**949,514**
Net income	—	—	—	482,949	482,949
Compensation expense recorded for stock options	—	—	8,568	—	8,568
Issue of shares on exercise of stock options	680,950	7,519	—	—	7,519
Reclassification of grant date fair value on exercise of stock options	—	2,365	(2,365)	—	—
Payment for shares repurchased	(8,525,300)	(38,024)	—	(148,755)	(186,779)
Dividend payments	—	—	—	(52,520)	(52,520)
Balance, December 31, 2006	**105,800,942**	**$ 474,739**	**$ 10,346**	**$ 724,166**	**$ 1,209,251**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands of U.S. dollars)

FOR THE YEARS ENDED DECEMBER 31	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 482,949**	$ 165,752
Add (deduct):		
Depreciation and amortization	**106,828**	91,225
Future income taxes	**20,844**	65,536
Stock-based compensation, net	**13,500**	5,206
Other, net	**(1,201)**	1,986
Cash flows from operating activities before undernoted	**622,920**	329,705
Changes in non-cash working capital (note 13)	**(154,083)**	29,398
	468,837	359,103
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for shares repurchased	**(186,779)**	(130,963)
Dividend payments	**(52,520)**	(47,989)
Proceeds on issue of shares on exercise of stock options	**7,519**	10,621
Repayment of long-term debt	**(14,032)**	(258,064)
Proceeds on issue of long-term debt	**—**	148,090
Changes in debt service reserve accounts	**(2,301)**	(6,001)
Repayment of other long-term liabilities	**(5,897)**	(11,643)
	(254,010)	(295,949)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant and equipment	**(53,074)**	(59,832)
Plant and equipment construction costs	**—**	(54,387)
Incentive tax credits related to plant and equipment construction costs	**—**	30,100
Changes in non-cash working capital related to investing activities (note 13)	**34,546**	(30,329)
	(18,528)	(114,448)
Increase (decrease) in cash and cash equivalents	**196,299**	(51,294)
Cash and cash equivalents, beginning of year	**158,755**	210,049
Cash and cash equivalents, end of year	**$ 355,054**	$ 158,755
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	**$ 38,577**	$ 40,031
Income taxes paid, net of amounts refunded	**$ 110,275**	$ 66,295
NON-CASH FINANCING AND INVESTING ACTIVITIES		
Capital lease obligation	**$ —**	$ 32,990

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular dollar amounts are shown in thousands of U.S. dollars, except where noted)
Years ended December 31, 2006 and 2005

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. These accounting principles are different in some respects from those generally accepted in the United States and the significant differences are described and reconciled in Note 18.

These consolidated financial statements include the accounts of Methanex Corporation, its subsidiaries and its proportionate share of joint venture revenues, expenses, assets and liabilities. All significant intercompany transactions and balances have been eliminated. Preparation of these consolidated financial statements requires estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Policies requiring significant estimates are described below. Actual results could differ from those estimates.

(b) Reporting currency and foreign currency translation:

The majority of the Company's business is transacted in U.S. dollars and, accordingly, these consolidated financial statements have been measured and expressed in that currency. The Company translates foreign currency denominated monetary items at the rates of exchange prevailing at the balance sheet dates and revenues and expenditures at average rates of exchange during the year. Foreign exchange gains and losses are included in earnings.

(c) Cash equivalents:

Cash equivalents include securities with maturities of three months or less when purchased.

(d) Receivables:

The Company provides credit to its customers in the normal course of business. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses. Credit losses have been within the range of management's expectations.

(e) Inventories:

Inventories are valued at the lower of cost, determined on a first-in first-out basis, and estimated net realizable value.

(f) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Interest incurred during construction is capitalized to the cost of the asset. Incentive tax credits related to property, plant and equipment are recorded as a reduction in the cost of property, plant and equipment. The benefit of incentive tax credits is recognized in earnings through lower depreciation in future periods.

Depreciation and amortization is generally provided on a straight-line basis at rates calculated to amortize the cost of property, plant and equipment from the commencement of commercial operations over their estimated useful lives to estimated residual value.

Routine repairs and maintenance costs are expensed as incurred. At regular intervals, the Company conducts a planned shutdown and inspection (turnaround) at its plants to perform major maintenance and replacements of catalyst. Costs associated with these shutdowns are capitalized and amortized over the period until the next planned turnaround.

(g) Interests in joint ventures:

The Company's interests in joint ventures are accounted for using the proportionate consolidation method. Under this method, the Company's proportionate share of joint venture revenues, expenses, assets and liabilities are included in the consolidated financial statements.

(h) Other assets:

Marketing and production rights are capitalized to other assets and amortized to depreciation and amortization expense on an appropriate basis to charge the cost of the assets against earnings.

Financing costs for long-term obligations are capitalized to other assets and amortized to interest expense over the term of the related long-term obligation.

(i) Asset retirement obligations:

The Company recognizes asset retirement obligations for those sites where a reasonably definitive estimate of the fair value of the obligation can be determined. The Company estimates fair value by determining the current market cost required to settle the asset retirement obligation, adjusts for inflation through to the expected date of the expenditures and discounts this amount back to the date when the obligation was originally incurred. As the liability is initially recorded on a discounted basis, it is increased each period until the estimated date of settlement. The resulting expense is referred to as accretion expense and is included in cost of sales and operating expenses. Asset retirement obligations are not recognized with respect to assets with indefinite or indeterminate lives as the fair value of the asset retirement obligations cannot be reasonably estimated due to uncertainties regarding the timing of expenditures. The Company reviews asset retirement obligations on a periodic basis and adjusts the liability as necessary to reflect changes in the estimated future cash flows and timing underlying the fair value measurement.

(j) Employee future benefits:

Accrued pension benefit obligations and related expenses for defined benefit pension plans are determined using current market bond yields to measure the accrued pension benefit obligation. Adjustments that exceed 10% of the greater of the accrued benefit obligation and the fair value of the plan assets that arise from plan amendments, experience gains and losses and changes in assumptions are amortized to earnings on a straight-line basis over the estimated average remaining service lifetime of the employee group. Gains or losses arising from plan curtailments and settlements are recognized in earnings in the year in which they occur.

The cost for defined contribution benefit plans is expensed as earned by the employees.

(k) Net income per common share:

The Company calculates basic net income per common share by dividing net income by the weighted average number of common shares outstanding and calculates diluted net income per common share under the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted net income per share assumes that the total of the proceeds to be received on the exercise of dilutive stock options and the unrecognized portion of the fair value of stock options is applied to repurchase common shares at the average market price for the period. A stock option is dilutive only when the average market price of common shares during the period exceeds the exercise price of the stock option.

A reconciliation of the weighted average number of common shares outstanding is as follows:

FOR THE YEARS ENDED DECEMBER 31	2006	2005
Denominator for basic net income per common share	**109,110,689**	117,766,436
Effect of dilutive stock options	**330,715**	596,229
Denominator for diluted net income per common share	**109,441,404**	118,362,665

(l) Stock-based compensation:

The Company grants stock-based awards as an element of compensation. Stock-based awards granted by the Company can include stock options, deferred share units, restricted share units or performance share units. The stock option plan of the Company and the terms of the deferred, restricted and performance share units are described in note 8.

For stock options granted by the Company, the cost of the service received as consideration is measured based on an estimate of fair value at the date of grant. The grant-date fair value is recognized as compensation expense over the related service period with a corresponding increase in contributed surplus. On exercise of stock options, consideration received together with the compensation expense previously recorded to contributed surplus is credited to share capital. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. The assumptions used in the Black-Scholes option pricing model are disclosed in note 8.

Deferred, restricted and performance share units are grants of notional common shares that are redeemable for cash based on the market value of the Company's common shares and are non-dilutive to shareholders. Performance share units have an additional feature where the ultimate number of units that vest will be determined by the Company's total shareholder return in relation to a predetermined target over the period to vesting. The number of units that will ultimately vest will be in the range of 50% to 120% of the original grant. The fair value of deferred, restricted and performance share units is initially measured at the grant date based on the market value of the Company's common shares and is recognized in earnings over the related service period. Changes in fair value are recognized in earnings for the proportion of the service that has been rendered at each reporting date.

(m) Revenue recognition:

Revenue is recognized based on individual contract terms when the title and risk of loss to the product transfers to the customer, which usually occurs at the time shipment is made. Revenue is recognized at the time of delivery to the customer's location if the Company retains title or risk of loss during shipment. For methanol shipped on a consignment basis, revenue is recognized when the customer consumes the methanol. For methanol sold on a commission basis, the Company does not take risk and title to the product and only the commission income is included in revenue when earned.

(n) Financial instruments:

A substantial portion of the Company's business is transacted in its reporting currency, the U.S. dollar. Certain revenues, operating costs and capital expenditures are transacted in currencies other than the U.S. dollar. The Company uses derivative financial instruments to reduce its exposure to fluctuations in foreign exchange and natural gas prices on certain committed and anticipated transactions to contribute to achieving cost structure and revenue targets. The Company does not utilize derivative financial instruments for trading or speculative purposes.

The Company formally documents all derivative financial instruments designated as hedges, including the risk management objective and strategy. The Company assesses on an ongoing basis whether the designated derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions.

The change in fair value of foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency denominated exposures is recognized as an adjustment to the related revenues, operating costs or capital expenditures when the hedged transaction is recorded. Derivative financial instruments not designated as hedges are recorded at fair value with changes in fair value recognized in earnings at each reporting date. Premiums paid or received with respect to derivative financial instruments that are designated as hedges are deferred and amortized to income over the effective period of the contracts.

(o) Income taxes:

Future income taxes are accounted for using the asset and liability method. The asset and liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are determined for each temporary difference based on currently enacted or substantially enacted tax rates that are expected to be in effect when the underlying items of income or expense are expected to be realized. The effect of a change in tax rates or tax legislation is recognized in the period of substantive enactment. Future tax benefits, such as non-capital loss carryforwards, are recognized to the extent that realization of such benefits is considered to be more likely than not.

The Company accrues for taxes that will be incurred upon distributions from its subsidiaries when it is probable that the earnings will be repatriated.

The determination of income taxes requires the use of judgment and estimates. If certain judgments or estimates prove to be inaccurate, or if certain tax rates or laws change, the Company's results of operations and financial position could be materially impacted.

2. Receivables:

AS AT DECEMBER 31	2006	2005
Trade	**$317,961**	$234,870
Incentive tax credits receivable (a)	**2,325**	30,100
Value-added and other taxes	**32,345**	21,900
Other	**13,756**	9,652
	$366,387	$296,522

(a) Incentive tax credits receivable:

For the year ended December 31, 2005, the Company was eligible for incentive tax credits in the amount of $30.1 million related to the construction of the 840,000 tonne per year Chile IV methanol production facility. At December 31, 2005, these incentive tax credits were recorded as a reduction to property, plant and equipment and an increase to receivables. During 2006, the Company collected $27.8 million related to these incentive tax credits and the remaining amount of $2.3 million was received in early 2007.

3. Property, plant and equipment:

AS AT DECEMBER 31	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
2006			
Plant and equipment	**$2,728,837**	**$1,451,162**	**$1,277,675**
Other	**118,896**	**43,852**	**75,044**
	$2,847,733	**$1,495,014**	**$1,352,719**
2005			
Plant and equipment	$2,711,775	$1,383,105	$1,328,670
Other	101,718	34,262	67,456
	$2,813,493	$1,417,367	$1,396,126

4. Interest in Atlas joint venture:

The Company has a 63.1% joint venture interest in Atlas Methanol Company (Atlas). Atlas owns a 1.7 million tonne per year methanol production facility in Trinidad. Included in the consolidated financial statements are the following amounts representing the Company's proportionate interest in Atlas:

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31	2006	2005
Cash and cash equivalents	**$ 19,268**	$ 24,032
Other current assets	**62,420**	32,937
Property, plant and equipment	**264,292**	281,765
Other assets	**22,471**	20,409
Accounts payable and accrued liabilities	**28,644**	30,340
Long-term debt, including current maturities (note 6)	**136,916**	150,948
Future income tax liabilities (note 12)	**10,866**	21,988

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31	2006	2005
Revenue	**$219,879**	$177,760
Expenses	**182,656**	145,478
Income before income taxes	**37,223**	32,282
Income tax recovery (expense)	**9,997**	(21,988)
Net income	**$ 47,220**	$ 10,294

Included in income tax recovery (expense) is an adjustment related to a retroactive change in tax legislation (note 12).

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31	2006	2005
Cash inflows from operating activities	**$ 23,465**	$ 33,672
Cash outflows from financing activities	**(14,032)**	(8,064)
Cash outflows from investing activities	**(3,137)**	(15,557)

5. Other assets:

AS AT DECEMBER 31	2006	2005
Marketing and production rights, net of accumulated amortization	**$ 42,344**	$ 49,976
Restricted cash for debt service reserve account	**17,362**	15,061
Deferred financing costs, net of accumulated amortization	**10,924**	12,063
Defined benefit pension plans (note 16)	**11,745**	9,075
Other	**18,143**	14,870
	$100,518	$101,045

For the year ended December 31, 2006, amortization of marketing and production rights included in depreciation and amortization was $7.6 million (2005 — $7.7 million) and amortization of deferred financing costs included in interest expense was $1.1 million (2005 — $2.1 million).

6. Long-term debt:

AS AT DECEMBER 31	2006	2005
Unsecured Notes:		
(i) 8.75% due August 15, 2012 (effective yield 8.75%)	**$200,000**	$200,000
(ii) 6.00% due August 15, 2015 (effective yield 6.03%)	**150,000**	150,000
	350,000	350,000
Atlas Methanol Company — limited recourse debt facilities (63.1% proportionate share):		
(i) Senior commercial bank loan facility with interest payable semi-annually with rates based on LIBOR plus a spread ranging from 2.25% to 2.75% per annum. Principal is paid in twelve semi-annual payments which commenced June 2005	**49,207**	63,239
(ii) Senior secured notes bearing an interest rate of 7.95% per annum with semi-annual interest payments. Principal will be paid in nine semi-annual payments commencing December 2010	**63,100**	63,100
(iii) Senior fixed rate bearing an interest rate of 8.25% per annum with semi-annual interest payments. Principal will be paid in four semi-annual payments commencing June 2015	**15,144**	15,144
(iv) Subordinated loans with an interest rate based on LIBOR plus a spread ranging from 2.25% to 2.75% per annum. Principal will be paid in twenty semi-annual payments commencing December 2010	**9,465**	9,465
	136,916	150,948
	486,916	500,948
Less current maturities	**(14,032)**	(14,032)
	$472,884	$486,916

The minimum principal payments required in each of the next five years for long-term debt is approximately $14 million.

Limited recourse debt facilities are secured only by the assets of the Atlas joint venture. Under the terms of the limited recourse facilities, Atlas can make cash or other distributions after fulfilling certain conditions, including payment of the scheduled senior and subordinated debt obligations, the compliance with certain financial covenants and the funding of a debt service reserve account.

As at December 31, 2006, the Company has an undrawn, unsecured revolving bank facility of $250 million that expires in June 2010. This credit facility ranks pari passu with the Company's unsecured notes.

7. Other long-term liabilities:

AS AT DECEMBER 31	2006	2005
Asset retirement obligations (a)	**$ 16,111**	$19,596
Capital lease obligation (b)	**28,330**	32,146
Deferred, restricted and performance share units (note 8)	**22,620**	17,688
Chile retirement arrangement (note 16)	**17,476**	17,353
Other	**1,303**	2,301
	85,840	89,084
Less current maturities	**(17,022)**	(9,663)
	$ 68,818	$79,421

(a) Asset retirement obligations:

The Company has accrued for asset retirement obligations related to those sites where a reasonably definitive estimate of the fair value of the obligation can be made. Because of uncertainties in estimating future costs and the timing of expenditures related to the currently identified sites, actual results could differ from the amounts estimated. During the year ended December 31, 2006, cash expenditures applied against the accrual for asset retirement obligations were $4.9 million (2005 — $5.0 million). At December 31, 2006, the total undiscounted amount of estimated cash flows required to settle the obligation was $16.9 million (2005 — $20.2 million).

(b) Capital lease obligation:

As at December 31, 2006, the Company has a capital lease obligation related to an ocean shipping vessel. The future minimum lease payments in aggregate and for each of the five succeeding years are as follows:

2007	**$ 8,744**
2008	**8,789**
2009	**8,834**
2010	**8,879**
2011	**8,574**
2012	**8,615**
	52,435
Less executory and imputed interest costs	**(24,105)**
	$ 28,330

8. Stock-based compensation:

The Company provides stock-based compensation to its directors and certain employees through grants of stock options and deferred, restricted or performance share units.

(a) Stock options:

There are two types of options granted under the Company's stock option plan: incentive stock options and performance stock options. At December 31, 2006, the Company had 2.3 million common shares reserved for future stock option grants under the Company's stock option plan.

(i) Incentive stock options:

The exercise price of each incentive stock option is equal to the quoted market price of the Company's common shares at the date of the grant. Options granted prior to 2005 have a maximum term of ten years with one-half of the options vesting one year after the date of the grant and a further vesting of one-quarter of the options per year over the subsequent two years. Beginning in 2005, all options granted have a maximum term of seven years with one-third of the options vesting each year after the date of grant.

Common shares reserved for outstanding incentive stock options at December 31, 2006 and 2005 are as follows:

	OPTIONS DENOMINATED IN CAD$		OPTIONS DENOMINATED IN US$	
	NUMBER OF STOCK OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF STOCK OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at December 31, 2004	784,675	$10.82	1,397,000	$ 8.36
Granted	—	—	682,750	17.61
Exercised	(452,525)	11.49	(731,950)	7.96
Cancelled	(15,500)	14.63	(19,350)	12.01
Outstanding at December 31, 2005	316,650	9.67	1,328,450	13.29
Granted	**—**	**—**	**1,649,600**	**20.78**
Exercised	**(146,400)**	**11.00**	**(534,550)**	**11.42**
Cancelled	**(8,000)**	**11.00**	**(38,575)**	**18.79**
Outstanding at December 31, 2006	**162,250**	**$ 8.40**	**2,404,925**	**$18.76**

Information regarding incentive stock options outstanding at December 31, 2006 is as follows:

	OPTIONS OUTSTANDING AT DECEMBER 31, 2006			OPTIONS EXERCISABLE AT DECEMBER 31, 2006	
RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OF STOCK OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF STOCK OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
Options denominated in CAD$					
$3.29 to 13.65	**2.9**	**162,250**	**$ 8.40**	**162,250**	**$ 8.40**
Options denominated in U.S.$					
$6.45 to 10.01	**5.9**	**236,075**	**$ 8.47**	**236,075**	**$ 8.47**
11.56 to 22.52	**5.9**	**2,168,850**	**19.88**	**172,900**	**17.69**
	5.9	**2,404,925**	**$18.76**	**408,975**	**$12.37**

(ii) Performance stock options:

As at December 31, 2006 and 2005, there were 50,000 common shares reserved for performance stock options with an exercise price of CAD$4.47. All outstanding performance stock options have vested and are exercisable.

(iii) Fair value assumptions:

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

FOR THE YEARS ENDED DECEMBER 31	2006	2005
Risk-free interest rate	**5%**	4%
Expected dividend yield	**2%**	2%
Expected life of option	**5 years**	5 years
Expected volatility	**40%**	43%
Expected forfeitures	**5%**	5%
Weighted average fair value of options granted (U.S.$ per share)	**$ 8.82**	$ 6.51

For the year ended December 31, 2006, compensation expense related to stock options was $8.6 million (2005 — $2.8 million).

(b) Deferred, restricted and performance share units:

Directors, executive officers and management receive some elements of their compensation and long-term compensation in the form of deferred, restricted or performance share units. Holders of deferred, restricted and performance share units are entitled to receive additional deferred, restricted or performance share units in lieu of dividends paid by the Company.

Deferred, restricted and performance share units outstanding at December 31, 2006 and 2005 are as follows:

	NUMBER OF DEFERRED SHARE UNITS	NUMBER OF RESTRICTED SHARE UNITS	NUMBER OF PERFORMANCE SHARE UNITS
Outstanding at December 31, 2004	455,519	1,014,313	—
Granted	80,502	569,234	—
Granted in lieu of dividends	11,898	31,375	—
Redeemed	(120,655)	(487,776)	—
Cancelled	—	(37,310)	—
Outstanding at December 31, 2005	427,264	1,089,836	—
Granted	**33,796**	**20,000**	**402,460**
Granted in lieu of dividends	**7,661**	**19,744**	**8,584**
Redeemed	**(149,975)**	**(575,748)**	**—**
Cancelled	**—**	**(35,075)**	**(4,962)**
Outstanding at December 31, 2006	**318,746**	**518,757**	**406,082**

On March 3, 2006, the Company granted 402,460 performance share units. Performance share units are grants of notional common shares where the ultimate number of units that vest will be determined by the Company's total shareholder return in relation to a predetermined target over the period to vesting. The number of units that will ultimately vest will be in the range of 50% to 120% of the original grant. The performance share units granted on March 3, 2006 will vest on December 31, 2008.

The fair value of deferred, restricted and performance share units is initially measured at the grant date based on the market value of the Company's common shares and is recognized in earnings over the related service period. Changes in fair value are recognized in earnings for the proportion of the service that has been rendered at each reporting date. The fair value of deferred, restricted and performance share units outstanding at December 31, 2006 was $36.2 million (2005 — $29.0 million) compared with the recorded liability of $22.6 million (2005 — $17.7 million). The difference between the fair value and the recorded liability of $13.6 million will be recognized over the weighted average remaining service period of approximately 1.6 years.

For the year ended December 31, 2006, compensation expense related to deferred, restricted and performance share units included in cost of sales and operating expenses was $22.6 million (2005 — $13.0 million). Included in compensation expense for the year ended December 31, 2006 was $12.2 million (2005 — $3.8 million) related to the effect of the increase in the Company's share price. As at December 31, 2006, the Company's share price was US$27.37 per share.

9. Kitimat closure costs:

On November 1, 2005, the Kitimat methanol and ammonia facilities were permanently closed. Total closure costs of $41 million (before and after-tax) included employee severance costs of approximately $13 million and contract termination costs of approximately $28 million. Contract termination costs included costs to terminate a take-or-pay natural gas transportation agreement and an ammonia supply agreement. Approximately $35 million of the total Kitimat closure costs were paid in 2006 (2005 — $6 million). As at December 31, 2006, substantially all costs associated with the closure of the Kitimat methanol and ammonia facilities have been paid.

10. Interest expense:

FOR THE YEARS ENDED DECEMBER 31	2006	2005
Interest expense before capitalized interest	**$44,586**	$49,253
Less capitalized interest related to Chile IV	**—**	(7,764)
	$44,586	$41,489

Interest incurred during construction is capitalized to the cost of the asset until the asset is substantively complete and ready for productive use. The Chile IV methanol facility commenced operations in June 2005.

11. Segmented information:

The Company's operations consist of the production and sale of methanol, which constitutes a single operating segment.

During the years ended December 31, 2006 and 2005, revenues attributed to geographic regions, based on the location of customers, were as follows:

	UNITED STATES	EUROPE	KOREA	JAPAN	OTHER ASIA	LATIN AMERICA	CANADA	TOTAL
Revenue								
2006	**679,014**	**493,926**	**213,246**	**157,970**	**203,364**	**194,362**	**166,368**	**2,108,250**
2005	585,828	353,060	177,712	174,816	162,983	131,896	71,825	1,658,120

As at December 31, 2006 and 2005, the net book value of property, plant and equipment by country was as follows:

	CHILE	TRINIDAD	CANADA	KOREA	OTHER	TOTAL
Property, plant and equipment						
2006	**744,924**	**517,485**	**22,348**	**17,507**	**50,455**	**1,352,719**
2005	763,220	550,185	20,840	17,817	44,064	1,396,126

12. Income and other taxes:

(a) Income tax expense:

The Company operates in several tax jurisdictions and therefore its income is subject to various rates of taxation. Income tax expense differs from the amounts that would be obtained by applying the Canadian statutory income tax rate to income before income taxes. These differences are as follows:

FOR THE YEARS ENDED DECEMBER 31	2006	2005
Canadian statutory tax rate	**34.1%**	34.9%
Income tax expense calculated at Canadian statutory tax rate	**$224,598**	$100,466
Increase (decrease) in income tax expense resulting from:		
Income taxed in foreign jurisdictions	**(5,823)**	(24,244)
Losses not tax-effected	**697**	60,909
Previously unrecognized loss carryforwards and temporary differences	**(20,426)**	(29,852)
Adjustments related to retroactive change in tax legislation (i)	**(25,753)**	16,879
Non-taxable income and non-deductible expenses	**(2,369)**	(2,905)
Other	**4,386**	1,194
Total income tax expense	**$175,310**	$122,447

(i) During 2005, the Government of Trinidad and Tobago introduced new tax legislation retroactive to January 1, 2004. As a result, during 2005 we recorded a $16.9 million charge to increase future income tax expense to reflect the retroactive impact for the period January 1, 2004 to December 31, 2004. In February 2006, the Government of Trinidad and Tobago passed an amendment to this legislation that changed the retroactive effective date to January 1, 2005. As a result of this amendment we recorded an adjustment to decrease future income tax expense by a total of $25.8 million during 2006. The adjustment includes a reversal of the previous charge to 2005 earnings of $16.9 million and an additional adjustment of $8.9 million to recognize the benefit of tax deductions that were reinstated as a result of the change in the implementation date.

(b) Net future income tax liabilities:

The tax effect of temporary differences that give rise to future income tax liabilities and future income tax assets are as follows:

AS AT DECEMBER 31	2006	2005
Future income tax liabilities:		
Property, plant and equipment	**$ 193,413**	$ 210,295
Other	**198,212**	186,192
	391,625	396,487
Future income tax assets:		
Non-capital loss carryforwards	**232,755**	320,252
Property, plant and equipment	**34,961**	34,760
Other	**34,632**	36,583
	302,348	391,595
Future income tax asset valuation allowance	**(262,641)**	(326,182)
	39,707	65,413
Net future income tax liabilities	**$ 351,918**	$ 331,074

At December 31, 2006, the Company had non-capital loss carryforwards available for tax purposes of $540 million in Canada, $24 million in the United States and $63 million in New Zealand. The benefit relating to the non-capital loss carryforwards in the United States has been recognized by reducing net future income tax liabilities. In Canada and the United States these loss carryforwards expire in the period 2007 to 2024, inclusive. In New Zealand the loss carryforwards do not have an expiry date.

13. Changes in non-cash working capital:

Changes in non-cash working capital for the years ended December 31, 2006 and 2005 are as follows:

FOR THE YEARS ENDED DECEMBER 31	2006	2005
Decrease (increase) in non-cash working capital:		
Receivables	**$ (69,865)**	$ (3,315)
Inventories	**(104,662)**	2,060
Prepaid expenses	**(10,492)**	2,925
Accounts payable and accrued liabilities	**74,079**	(3,779)
	(110,940)	(2,109)
Adjustments for items not having a cash effect	**(8,597)**	1,178
Changes in non-cash working capital having a cash effect	**$(119,537)**	$ (931)
These changes relate to the following activities:		
Operating	**$(154,083)**	$ 29,398
Investing (a)	**34,546**	(30,329)
Changes in non-cash working capital	**$(119,537)**	$ (931)

(a) Included in changes in non-cash working capital related to investing activities for the year ended December 31, 2006 are cash receipts for incentive tax credits of $27.8 million related to the construction of the Chile IV methanol production facility that was completed in 2005. At December 31, 2005, the incentive tax credits were recorded as a reduction to property, plant and equipment and an increase to receivables and were included as an increase in non-cash working capital related to investing activities for the year ended December 31, 2005.

14. Derivative financial instruments:

(a) Forward exchange sales and purchase contracts:

The Company's forward exchange contracts to purchase and sell foreign currency in exchange for U.S. dollars at December 31, 2006 were as follows:

AS AT DECEMBER 31, 2006	NOTIONAL AMOUNT	AVERAGE EXCHANGE RATE	MATURITY
Forward exchange purchase contracts:			
New Zealand dollar	**33 million**	**0.6655**	**2007**
Forward exchange sales contracts:			
Euro	**49 million**	**1.2795**	**2007**
Chilean peso	**15 billion**	**0.0019**	**2007**

As at December 31, 2006, the carrying value of forward exchange sales contracts was a liability of $0.2 million (2005 — $3.2 million) which approximates the fair value of these contracts.

(b) Interest rate swap contract:

As at December 31, 2006, the Company has an interest rate swap contract recorded in other long-term liabilities at fair value in the amount of $1.0 million (2005 — $2.0 million). As at December 31, 2006, this interest rate swap contract had a remaining notional principal amount of $35 million (2005 — $45 million). Under the contract, the Company receives floating-rate LIBOR amounts in exchange for payments based on a fixed interest rate of 6.7%. The contract matures over the period to 2010.

(c) Natural gas purchase options:

During 2006, the Company entered into a methanol offtake agreement with a methanol producer in Canada for a three-month period commencing January 1, 2007. The contract price includes a fixed facility fee and a variable fee indexed to natural gas prices. The Company entered into natural gas purchase options for the term of the methanol offtake agreement to mitigate its exposure to an increase in natural gas prices above the strike prices in the option contracts. The Company believes these option contracts provide an economic hedge of its exposure to increases in natural gas prices, however; these arrangements do not meet the requirements for hedge accounting treatment. Accordingly, changes in the fair value of the options are recognized immediately in earnings. Natural gas prices declined during the fourth quarter of 2006 and the fair value of the natural gas purchase options decreased by $4 million. This change in fair value was charged to earnings resulting in a decrease to interest and other income. At December 31, 2006, the carrying value of the natural gas purchase options was nil, which approximates the fair value of these contracts.

15. Fair value disclosures:

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

AS AT DECEMBER 31	2006 CARRYING VALUE	2006 FAIR VALUE	2005 CARRYING VALUE	2005 FAIR VALUE
Long-term debt	**$486,916**	**$505,613**	$500,948	$526,789

The fair value of the Company's long-term debt is estimated by reference to current market prices for other debt securities with similar terms and characteristics. The fair values of the Company's derivative financial instruments as disclosed in note 14 are determined based on quoted market prices received from counterparties. Until settled, the fair values of the derivative financial instruments will fluctuate.

The fair value of forward exchange contracts used to hedge anticipated or committed foreign currency denominated exposures is recognized as an adjustment to the related revenues, operating costs or capital expenditures when the hedged transaction is recorded.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments but does not expect any counterparties to fail to meet their obligations. The

Company deals with only highly rated counterparties, normally major financial institutions. The Company is exposed to credit risk when there is a positive fair value of derivative financial instruments at a reporting date. The maximum amount that would be at risk if the counterparties to derivative financial instruments with positive fair values failed completely to perform under the contracts was $1.9 million at December 31, 2006 (2005 — $0.3 million).

16. Retirement plans:

(a) Defined benefit pension plans:

The Company has non-contributory defined benefit pension plans covering certain employees. The Company does not provide any significant post-retirement benefits other than pension plan benefits. Information concerning the Company's defined benefit pension plans, in aggregate, is as follows:

	2006	2005
Accrued benefit obligations:		
Balance, beginning of year	**$ 59,611**	$ 50,177
Current service cost	**1,980**	2,336
Interest cost on accrued benefit obligations	**2,948**	2,840
Benefit payments	**(11,263)**	(3,504)
Gain on curtailment	**(94)**	—
Loss on settlement	**395**	—
Actuarial losses	**4,629**	5,490
Foreign exchange losses	**91**	2,272
Balance, end of year	**58,297**	59,611
Fair values of plan assets:		
Balance, beginning of year	**38,954**	36,065
Actual returns on plan assets	**2,919**	2,463
Contributions	**7,077**	2,987
Benefit payments	**(11,263)**	(3,504)
Foreign exchange gains	**431**	943
Balance, end of year	**38,118**	38,954
Unfunded status	**20,179**	20,657
Unamortized actuarial losses	**(14,448)**	(11,600)
Accrued benefit liabilities, net	**$ 5,731**	**$ 9,057**

The Company has an unfunded retirement arrangement for its employees in Chile that will be funded at retirement. At December 31, 2006, the accrued benefit liabilities, net is comprised of $17.5 million in other long-term liabilities for an unfunded retirement arrangement in Chile and $11.8 million in other assets for defined benefit plans in Canada.

The Company's net defined benefit pension plan expense for the years ended December 31, 2006 and 2005 is as follows:

FOR THE YEARS ENDED DECEMBER 31	2006	2005
Net defined benefit pension plan expense:		
Current service cost	**$ 1,980**	$ 2,336
Interest cost on accrued benefit obligations	**2,948**	2,840
Actual return on plan assets	**(2,919)**	(2,463)
Settlement and curtailment	**1,671**	—
Other	**1,557**	1,000
	$ 5,237	$ 3,713

The Company uses a December 31 measurement date for its defined benefit pension plans. Actuarial reports for the Company's defined benefit pension plans were prepared by independent actuaries for funding purposes as of March 31, 2006 in Canada and December 31, 2006 in Chile. The next actuarial reports for funding purposes are scheduled to be completed as of December 31, 2009.

The actuarial assumptions used in accounting for the defined benefit pension plans are as follows:

	2006	2005
Benefit obligation at December 31:		
Weighted average discount rate	**5.40%**	5.60%
Rate of compensation increase	**4.10%**	3.50%
Net expense for year ended December 31:		
Weighted average discount rate	**5.90%**	6.70%
Rate of compensation increase	**4.14%**	3.50%
Expected rate of return on plan assets	**7.25%**	7.25%

The asset allocation for the defined benefit pension plan assets as at December 31, 2006 and 2005 are as follows:

	2006	2005
Equity securities	**59%**	63%
Debt securities	**34%**	33%
Cash and other short-term securities	**7%**	4%
Total	**100%**	100%

(b) Defined contribution pension plans:

The Company has defined contribution pension plans. The Company's funding obligations under the defined contribution pension plans are limited to making regular payments to the plans, based on a percentage of employee earnings. Total net pension expense for the defined contribution pension plans charged to operations during the year ended December 31, 2006 was $2.4 million (2005 — $2.9 million).

17. Commitments and contingencies:

(a) Take-or-pay purchase contracts and related commitments:

The Company has commitments under take-or-pay contracts to purchase annual quantities of feedstock supplies and to pay for transportation capacity related to these supplies to 2025. The minimum estimated commitment under these contracts is as follows:

2007	2008	2009	2010	2011	Thereafter
$222,515	$180,783	$189,251	$190,814	$192,399	$2,058,257

(b) Operating leases:

The Company has future minimum lease payments under operating leases relating primarily to vessel charter, terminal facilities, office space and equipment as follows:

2007	2008	2009	2010	2011	Thereafter
$153,643	$101,570	$95,584	$72,440	$70,395	$370,113

(c) Argentina export duty costs:

Effective July 25, 2006, the government of Argentina increased the duty on exports of natural gas from Argentina to Chile, which has been in place since May 2004, from approximately $0.30 per mmbtu to $2.25 per mmbtu. Exports of natural gas from the province of Tierra del Fuego were exempt from this duty until late October 2006 when the government of Argentina extended this duty to include this province at the same rates applicable to the other provinces. As a result, the increased duty on exports of natural gas is applied to all of the natural gas feedstock that the Company sources from Argentina. The total annual cost of the export duty to these natural gas suppliers from Argentina has increased to approximately $200 million.

While the Company's gas contracts provide that gas suppliers are to pay any duties levied by the government of Argentina, the Company is in continuing discussions with its natural gas suppliers from Argentina regarding the impact of the increased export duty.

During 2006, the Company reached interim agreements with all of its natural gas suppliers from Argentina. In principle, the Company has agreed to share the cost of duties based in part on prevailing methanol prices. The Company has gained some flexibility to take the natural gas depending on prevailing methanol market conditions, and to the extent that these arrangements are not economic, then the Company will not purchase the natural gas. The Company is in continuing discussions to reach longer-term arrangements. However, the Company cannot provide assurance that it will be able to reach satisfactory longer-term arrangements with its natural gas suppliers from Argentina. As at December 31, 2006, the Company accrued $26 million to record the estimated cost of sharing export duties for natural gas consumed in 2006. Approximately $8 million was charged to earnings during 2006 and the remaining amount is included in the cost of inventory and will be charged to earnings when the inventory is sold.

18. United States Generally Accepted Accounting Principles:

The Company follows generally accepted accounting principles in Canada ("Canadian GAAP") which are different in some respects from those applicable in the United States and from practices prescribed by the United States Securities and Exchange Commission ("U.S. GAAP"). The significant differences between Canadian GAAP and U.S. GAAP with respect to the Company's consolidated financial statements as at and for the years ended December 31, 2006 and 2005 are as follows:

CONDENSED CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31	2006		2005	
	CANADIAN GAAP	U.S. GAAP	CANADIAN GAAP	U.S. GAAP
ASSETS				
Current assets	**$ 990,254**	**$ 990,254**	$ 608,936	$ 608,936
Property, plant and equipment (a)	**1,352,719**	**1,389,031**	1,396,126	1,434,349
Other assets (d)	**100,518**	**93,041**	101,045	101,045
	$2,443,491	**$2,472,326**	$2,106,107	$2,144,330
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	**$ 340,620**	**$ 340,620**	$ 259,182	$ 259,182
Long-term debt	**472,884**	**472,884**	486,916	486,916
Other long-term liabilities (d)	**68,818**	**75,788**	79,421	82,347
Future income taxes (d)(f)	**351,918**	**363,232**	331,074	344,452
Shareholders' equity:				
Capital stock (a) (b)	**474,739**	**880,619**	502,879	909,023
Additional paid-in capital (b)	**—**	**11,059**	—	4,109
Contributed surplus (b)	**10,346**	**—**	4,143	—
Retained earnings	**724,166**	**341,175**	442,492	61,227
Accumulated other comprehensive loss	**—**	**(13,051)**	—	(2,926)
	1,209,251	**1,219,802**	949,514	971,433
	$2,443,491	**$2,472,326**	$2,106,107	$2,144,330

CONDENSED CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31	2006	2005
Net income in accordance with Canadian GAAP	**$482,949**	$165,752
Add (deduct) adjustments for:		
Depreciation and amortization (a)	**(1,911)**	(1,911)
Stock-based compensation (b)	**(482)**	—
Forward exchange contracts (c)	**—**	(306)
Income tax effect of above adjustments (f)	**669**	764
Net income in accordance with U.S. GAAP	**$481,225**	$164,299
Per share information in accordance with U.S. GAAP:		
Basic net income per common share	**$ 4.41**	$ 1.40
Diluted net income per common share	**$ 4.40**	$ 1.39

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31	2006	2005
Net income in accordance with U.S. GAAP	**$481,225**	$164,299
Other comprehensive income (loss):		
Change in fair value of forward exchange contracts, net of tax (c)	**—**	142
Change related to pensions, net of tax (d) (f)	**(10,125)**	(2,926)
Comprehensive income in accordance with U.S. GAAP	**$471,100**	$161,515

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS FOR THE YEARS ENDED DECEMBER 31	2006	2005
Balance, beginning of year in accordance with U.S. GAAP	**$ (2,926)**	$ (142)
Other comprehensive loss	**(10,125)**	(2,784)
Balance, end of year in accordance with U.S. GAAP	**$(13,051)**	$ (2,926)

(a) Business combination:

Effective January 1, 1993, the Company combined its business with a methanol business located in New Zealand and Chile. Under Canadian GAAP, the business combination was accounted for using the pooling-of-interest method. Under U.S. GAAP, the business combination would have been accounted for as a purchase with the Company identified as the acquirer. For U.S. GAAP purposes, property, plant and equipment at December 31, 2006 has been increased by $36.3 million (2005 — $38.2 million) to reflect the business combination as a purchase. For the year ended December 31, 2006, an adjustment to increase depreciation expense by $1.9 million (2005 — $1.9 million) has been recorded in accordance with U.S. GAAP.

(b) Stock-based compensation:

Incentive stock options — Effective January 1, 2004, Canadian GAAP required the adoption of the fair value method of accounting for stock-based compensation awards granted on or after January 1, 2002. Effective January 1, 2005, under U.S. GAAP, the Company adopted the Financial Accounting Standards Board (FASB) FAS No. 123R, *Share-Based Payments*, which requires the fair value method of accounting for stock-based compensation awards for all awards granted, modified, repurchased or cancelled after the adoption date and unvested portions of previously issued and outstanding awards as at the adoption date. As this statement harmonizes the impact of accounting for stock-based compensation on net income under Canadian and U.S. GAAP for the Company, except as disclosed in (i) below, no adjustment to operating expenses was required for the years ended December 31, 2006 and 2005.

(i) Variable plan options:

In 2001, prior to the effective implementation date for fair value accounting related to stock options for Canadian GAAP purposes, the Company granted 946,000 stock options that are accounted for as variable plan options under U.S. GAAP because the exercise price of the stock options is denominated in a currency other than the Company's functional currency or the currency in which the optionee is normally compensated. Under the intrinsic value method for U.S. GAAP, the final measurement date for variable plan options is the earlier of the exercise date, the forfeiture date and the expiry date. Prior to the final measurement date, compensation expense is measured as the amount by which the quoted market price of the Company's common shares exceeds the exercise price of the stock options at each reporting date. Compensation expense is recognized ratably over the vesting period. During the year ended December 31, 2006, an adjustment to increase operating expenses by $0.5 million (2005 — nil) was recorded in accordance with U.S. GAAP.

(c) Forward exchange contracts:

Under Canadian GAAP, forward exchange contracts that are designated and qualify as hedges are recorded at fair value and recognized in earnings when the hedged transaction is recorded. Under U.S. GAAP, forward exchange contracts that are designated and qualify as hedges are recorded at fair value at each reporting date, with the change in fair value either being recognized in earnings to offset the change in fair value of the hedged transaction, or recorded in other comprehensive income until the hedged transaction is recorded. The ineffective portion, if any, of the change in fair value of forward exchange contracts that are designated and qualify as hedges is immediately recognized in earnings. For the year ended December 31, 2006, no adjustment to earnings (2005 — decrease earnings by $0.3 million) was recorded in accordance with U.S. GAAP.

(d) Defined benefit pension plans:

Effective January 1, 2006, under U.S. GAAP, the Company prospectively adopted Financial Accounting Standards Board (FASB) FAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an Amendment of FASB Statements No. 87, 88, 106, and 132(R)*, which requires the Company to measure the funded status of a defined benefit pension plan at its balance sheet reporting date and recognize the unrecorded overfunded or underfunded status as an asset or liability with the change in that unrecorded funded status recorded to accumulated comprehensive income. As at December 31, 2006, the impact of this standard on the Company is the reclassification of unrecognized actuarial losses for Canadian GAAP of $14.4 million, net of a future income tax recovery of $1.4 million to accumulated comprehensive loss in accordance with U.S. GAAP. For the year ended December 31, 2005, prior to the adoption of FAS No. 158, the Company was required to recognize an additional minimum pension liability equal to the excess of the unfunded accumulated benefit obligation over the accrued pension benefits liability and this resulted in the recognition of $2.9 million for this excess to accumulated comprehensive loss in accordance with U.S. GAAP.

(e) Interest in Atlas joint venture:

U.S. GAAP requires interests in joint ventures to be accounted for using the equity method. Canadian GAAP requires proportionate consolidation of interests in joint ventures. The Company has not made an adjustment in this reconciliation for this difference in accounting principles because the impact of applying the equity method of accounting does not result in any change to net income or shareholders' equity. This departure from U.S. GAAP is acceptable for foreign private issuers under the practices prescribed by the United States Securities and Exchange Commission. Details of the Company's interest in the Atlas joint venture is provided in note 4 to the Company's consolidated financial statements for the year ended December 31, 2006.

(f) Income tax accounting:

The income tax differences include the income tax effect of the adjustments related to accounting differences between Canadian and U.S. GAAP. During the year ended December 31, 2006, this resulted in an adjustment to increase net income by $0.7 million (2005 — $0.8 million) and an adjustment to increase other comprehensive income by $1.4 million (2005 — nil).

(g) Performance share units:

Executive officers and management of the Company receive some elements of their long-term compensation in the form of performance share units. Performance share units are grants of notional common shares where the ultimate number of units that vest will be determined by the Company's total shareholder return in relation to a predetermined target over the period to vesting. The number of units that will ultimately vest will be in the range of 50% to 120% of the original grant. Under Canadian GAAP, the fair value of performance share units is measured each reporting period as the market price multiplied by the total shareholder return result. This fair value is recognized over the related service period with changes in fair value being recognized in earnings for the proportion of the service that has been rendered at each reporting date. Under U.S. GAAP, the fair value of performance share units is calculated each reporting period using a pricing model that incorporates the service and market conditions related to the performance share units. This fair value is recognized over the related service period with changes in fair value being recognized in earnings for the proportion of the service that has been rendered at each reporting date. For the years ended December 31, 2006 and 2005, no adjustment to operating expenses was recorded in accordance with U.S. GAAP.

(h) Recently issued U.S. accounting pronouncements:

The Financial Accounting Standards Board (FASB) has issued interpretation no. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for income taxes recognized in a Company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes (SFAS 109)*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, and transition. FIN 48 is effective for the Company as of January 1, 2007. The Company is currently assessing the impact of this interpretation on its financial statements.

You will have noticed that our 2006 Annual Report takes on a much simpler format than in years past. Our decision to move away from the glossy magazine-style format was due to a variety of factors.

First and foremost, the shift to this format was in response to feedback from shareholders who support our efforts to minimize costs. This new approach reflects the "low cost" component of our core strategy.

Secondly, we are committed to maintaining a robust corporate website as a timely resource of information about our company and product, including recent investor presentations, current methanol prices and our latest news releases. On our website you can also find electronic versions of this Report, Methanex's *Responsible Care and Corporate Social Responsibility* report and our *Corporate Governance Principles* brochure, among others.

Finally, this simplified Report format is more environmentally conscious and supports our corporate commitment to Responsible Care®. It is printed on 100% recycled paper. We encourage you to recycle it appropriately when you are finished reading it.

Our 2006 Factbook

can be found on our website at

www.methanex.com

Our Factbook provides current and historical data relating to our financial results, stock performance, sales and production volumes, key performance indicators and industry statistics.

METHANEX®

A Responsible Care® Company

Board of Directors

Pierre Choquette
Chairman of the Board
Board member since 1994

Bruce Aitken
President and CEO of Methanex Corporation
Board member since 2004

Howard Balloch
Chair of the Public Policy Committee and member of the Corporate Governance and Human Resources Committees
Board member since 2004

Phillip Cook
Member of the Audit, Finance & Risk, Public Policy and Responsible Care Committees
Board member since May 2006

Robert Findlay
Lead Independent Director, Chair of the Human Resources Committee and member of the Corporate Governance and Responsible Care Committees
Board member since 1994

Douglas Mahaffy
Member of the Corporate Governance and Human Resources Committees
Board member since May 2006

Terence Poole
Chair of the Audit, Finance & Risk Committee and member of the Public Policy Committee
Board member since September 2003 and from 1994 to June 2003

John Reid
Chair of the Corporate Governance Committee and member of the Audit, Finance & Risk Committee
Board member since 2003

Janice Rennie
Member of the Human Resources and Audit, Finance & Risk Committees
Board member since May 2006

Monica Sloan
Member of the Human Resources and Responsible Care Committees
Board member since 2003

Graham Sweeney
Chair of the Responsible Care Committee and member of the Audit, Finance & Risk and Public Policy Committees
Board member since 1994

Executive Leadership Team

Bruce Aitken
President and Chief Executive Officer

Ian Cameron
Senior Vice President, Finance and Chief Financial Officer

John Floren
Senior Vice President, Global Marketing and Logistics

John Gordon
Senior Vice President, Corporate Resources

Michael Macdonald
Senior Vice President, Corporate Development

Randy Milner
Senior Vice President, General Counsel and Corporate Secretary

Paul Schiodtz
Senior Vice President, Latin America

Jorge Yanez
Senior Vice President, Caribbean and Global Manufacturing

Harvey Weake
Senior Vice President, Asia Pacific

Corporate Information

Corporate Office
Methanex Corporation
1800 Waterfront Centre
200 Burrard Street
Vancouver, BC V6C 3M1

Tel 604 661 2600
Fax 604 661 2676

Toll Free
1 800 661 8851
Within North America

Web Site
www.methanex.com

E-mail
Investor inquiries:
Invest@methanex.com

Sales inquiries:
sales@methanex.com

Transfer Agent
CIBC Mellon Trust acts as transfer agent and registrar for Methanex stock and maintains all primary shareholder records. All inquiries regarding share transfer requirements, lost certificates, changes of address or the elimination of duplicate mailings should be directed to CIBC Mellon Trust at:

1 800 387 0825
Toll Free within North America

Investor Relations Inquiries

Jason Chesko
Director, Investor Relations

Tel 604 661 2600

Annual General Meeting
The Annual General Meeting will be held at the Vancouver Convention & Exhibition Centre in Vancouver, British Columbia on Monday, May 7, 2007 at 10:30 a.m. (Pacific Time).

Shares Listed
Toronto Stock Exchange — MX
NASDAQ Global Market — MEOH

Annual Information Form (AIF)
The corporation's AIF can be found online at www.sedar.com.

A copy of the AIF can also be obtained by contacting our corporate office.

Gestion responsable[MD] Au-delà des exigences. Responsible Care® Beyond what's required.

METHANEX®
A Responsible Care® Company

www.methanex.com

Printed in Canada
Please recycle.

METHANEX®
A Responsible Care® Company