07

Annual Report

METHANEX

A Responsible Care® Company

Methanex Corporation is the world's largest supplier of methanol to major international markets in North America, Asia Pacific, Europe and 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 to produce methyl tertiary-butyl ether (MTBE), a gasoline component, and there are growing markets for using methanol in new energy applications such as dimethyl ether (DME), direct blending into gasoline and biodiesel.

Headquartered in Vancouver, B.C., Canada, Methanex has production facilities in Chile, Trinidad and New Zealand, and a project in Egypt scheduled to start up in early 2010. 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.

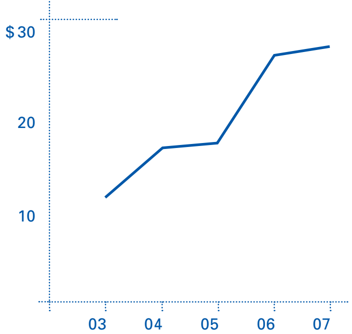
METHANEX®

A Responsible Care® Company

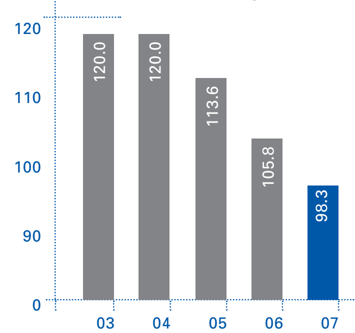
2007 Financial Highlights

(US$ millions, except where noted)	2007	2006	2005	2004	2003
OPERATIONS					
Revenue	2,266	2,108	1,658	1,719	1,420
Net income	376	483	166	236	1
Income before unusual items (after-tax)[1]	376	457	224	236	181
Cash flows from operating activities[1, 2]	494	623	330	372	329
Adjusted EBITDA[1]	652	800	452	434	386
DILUTED PER SHARE AMOUNTS (US$ PER SHARE)					
Net income	3.68	4.41	1.40	1.92	0.01
Income before unusual items (after-tax)[1]	3.68	4.18	1.89	1.92	1.44
FINANCIAL POSITION					
Cash and cash equivalents	488	355	159	210	288
Total assets	2,870	2,453	2,106	2,125	2,082
Long-term debt, including current portion	597	487	501	609	777
Debt to capitalization[3]	30%	29%	35%	39%	50%
Net debt to capitalization[4]	7%	10%	26%	30%	38%
OTHER INFORMATION:					
Average realized price (US$ per tonne)[5]	375	328	254	237	224
Total sales volume (000s tonnes)	6,612	6,995	7,052	7,427	6,579
Sales of Methanex-produced methanol (000s tonnes)	4,569	5,310	5,341	5,298	4,933

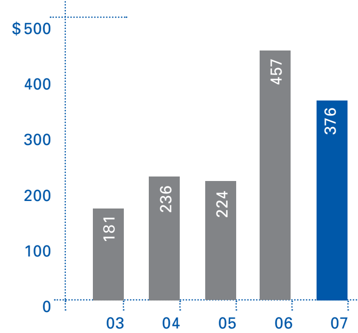
December 31 Closing Share Price [NASDAQ]



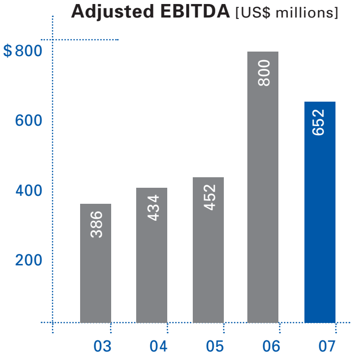
December 31 Common Shares Outstanding [millions]



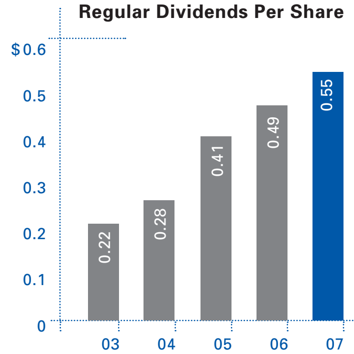
Income Before Unusual Items [After-Tax] [US$ Millions]



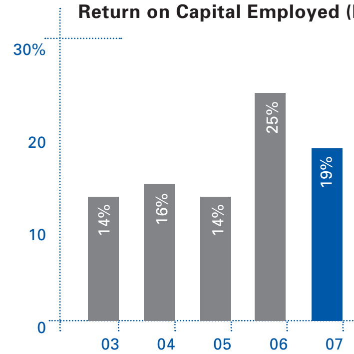
Adjusted EBITDA [US$ millions]



Regular Dividends Per Share



Return on Capital Employed (ROCE)[6]



1 Adjusted EBITDA, cash flows from operating activities, income before unusual items (after-tax) and diluted income before unusual items (after-tax) per share are non-GAAP measures. Refer to page 37 for a reconciliation of these amounts to the most directly comparable GAAP measures.

2 The term "cash flows from operating activities" in this document refers to cash flows from operating activities before changes in non-cash working capital.

3 Defined as total debt divided by total capitalization.

4 Defined as total debt less cash and cash equivalents divided by total capitalization less cash and cash equivalents.

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

6 ROCE is calculated by dividing income before unusual items and interest expense (after tax) by average productive capital employed. Average productive capital employed is calculated as the sum of average total assets less the average the Egypt plant under construction and the average of current non-interest bearing liabilities.

» For additional highlights and additional information about Methanex, refer to our 2007 Factbook available at www.methanex.com.

President's Message to

Shareholders

2007 was another outstanding year for Methanex. Despite being affected by gas supply curtailments at our operations in Chile, we generated $376 million in earnings – representing a 19 percent return on capital employed – and demonstrated the unique strength of our global supply chain, as we met our commitments to customers despite having lost 1.6 million tonnes of production at our operations in Chile.

We also made significant progress on three key initiatives that support our focused strategy of global methanol leadership. First, we extended our leading market position by committing to a new low-cost methanol project in Egypt. Second, we made significant progress on developing new gas supply for our production hub in Chile. And finally, we successfully sponsored new methanol demand growth for energy applications by developing projects in China and Egypt in the emerging dimethyl ether (DME) industry. Going forward, we will continue to focus on these three important areas, as achieving success in these initiatives will underpin profitable growth of our company.

Our industry and company can look forward to an exciting future. Methanol's increasing role in energy applications has the potential to transform our industry from one that has typically grown at rates in line with general economic growth into an industry that could significantly increase in size over the next several years. With our new project in Egypt, and gas supply improvement initiatives in Chile, we are well positioned to participate in this industry growth and to continue to deliver strong returns to shareholders.

2007 IN REVIEW

2007 Highlights

- Generated $652 million in adjusted EBITDA and $376 million in earnings
- Increased our dividend for the sixth year in a row and paid out $55 million in dividends to shareholders
- Repurchased 8.0 million shares for $205 million, reducing our share count to under 100 million, down from over 170 million at the beginning of 2000
- Demonstrated the unique strength and competitive advantage of our global methanol supply chain by meeting our commitments to customers despite significant production shortfalls at our Chile operations
- Reached financial close on a project to build a new 1.3 million tonne low-cost methanol plant in Egypt, scheduled for startup in early 2010. At year-end, this project had made good progress and was on time and on budget
- Signed a long-term gas supply agreement with GeoPark to secure new Chilean-sourced gas supply for our Chile operations
- Produced 435,000 incremental tonnes of methanol and generated over $60 million of EBITDA from our flexible New Zealand operations

- Sponsored new methanol demand in energy markets with participation in a joint venture DME project in China and announcing a new DME project in Egypt

Industry Review

2007 marked another year of record high methanol prices, with posted prices averaging around $450/tonne. As in 2006, methanol prices were driven to high levels by global shortages. We entered 2007 in a strong methanol price environment, due to significant production outages that occurred in the second half of 2006. As the global industry operating rate improved and the higher price environment led to increased marginal supply from China, pricing moderated by the middle of the year. Towards the end of 2007, the industry was again faced with major supply shortages resulting from a series of planned and unplanned outages that caused prices to spike to record levels at the end of 2007. While production shortfalls from our plants in Chile contributed to the outages in the second half of the year, they only accounted for about twenty percent of the total industry outages in 2007.

The tightness in the market was further fueled by strong demand during the year. Industry demand grew by about four percent in 2007, as record high global energy prices supported strong methanol demand growth in new energy applications (DME, methanol blending in gasoline and biodiesel) that, combined, grew by an estimated 60 percent in 2007. In addition, traditional chemical demand remained healthy. For example, demand for formaldehyde, the largest end-use for methanol, grew more than four percent in 2007. Strong global economies underpinned multiple new formaldehyde projects in 2007 in China, Eastern Europe and Latin America, which more than offset some softness in US formaldehyde demand resulting from the slowdown in US housing starts.

The higher methanol price environment we have experienced over the past few years has been supported by strong energy prices, which have helped foster new demand for methanol in energy applications, increased the cost structure of the industry through higher feedstock costs and placed upward pressure on capital costs to build new methanol capacity. All of these factors have led to higher industry pricing, and we expect this environment to continue if energy prices remain high. With more than six million tonnes of established capacity, we are well placed to capitalize on a high energy price environment.

With China now both the largest consumer and producer of methanol in the world, its methanol industry is of particular importance to the global industry. Over the last year, the cost structure for Chinese methanol producers has escalated significantly. Policy changes in China have resulted in increased production costs and have discouraged exports. These policy changes included a reduction in tax rebates for methanol exports, a ban on the use of natural gas feedstock in future methanol projects and an increase in natural gas costs for existing producers. When combined with the appreciating domestic currency, these changes have reduced China's incentive to export. Moreover, coal is the principal raw material for methanol production in China and domestic coal prices have increased, making Chinese producers some of the highest cost in the methanol industry.

In addition, while new methanol capacity is being built in China, methanol demand in that country has increased by approximately 25 percent annually over the past five years and capacity additions continue to be offset by increased demand. The country's National Development and Reform Commission is also developing standards for the use of methanol in gasoline, which should further increase methanol demand in China. As a result of these factors, our analysis indicates that China's net imports are likely to grow over time.

Performance Targets

In 2007, we achieved or exceeded most of the key performance targets we set for ourselves in the areas of financial performance, operations, and market positioning.

Financial Performance

On the strength of record-high methanol prices, 2007 was another excellent year financially as we generated the second-highest adjusted EBITDA in our history, despite operating our Chile operations at roughly 30 percent of capacity for the second half of the year. In 2007, we sold 6.6 million tonnes of methanol and generated $2.3 billion of revenue, $652 million of EBITDA and $376 million of net income.

Once again, we applied a balanced approach to our use of cash. In 2007, we invested $121 million as our 60 percent share to develop the Egypt project and $56 million to maintain our assets in Chile, Trinidad and New Zealand. In addition, we increased our regular dividend for the sixth consecutive year by a further 12 percent and we repurchased 8.0 million shares at a total cost of $205 million.

With return on capital employed (ROCE) of 19 percent in 2007, we once again exceeded our cost of capital and internal target of 12 percent. Our ROCE for the last five years has averaged 18 percent, well in excess of our cost of capital and the performance of many comparable companies in North America. Our balance sheet remains strong, with a debt-to-capitalization ratio of 30 percent and $488 million in cash on hand at the end of the year.

Finally, our total shareholder return has averaged 30 percent per year over the past five years to the end of 2007. This is significantly higher than the average total return of 17 percent per year for the S&P 500 Chemicals Index over the same period.

Operational Performance

Operational excellence is a key facet of our corporate strategy. To measure the performance of our manufacturing operations, we track a reliability rate, which measures the plant on-stream time excluding planned maintenance and events beyond our control. In 2007, all of our plants operated at high reliability rates, with Chile, Trinidad and New Zealand achieving rates of 99 percent, 96 percent and 99 percent, respectively. Our overall reliability rate was 98 percent, which is well above the industry average and above our target rate of 97 percent.

Responsible Care is an integral part of everything we do and it contributes significantly to our operational excellence. Responsible Care is the umbrella under which we manage issues related to health, safety, environment, emergency preparedness, security and community awareness. As a natural extension to Responsible Care, we have also adopted a Corporate Social Responsibility policy which addresses issues related to governance, employee engagement and social investment that have long been part of our corporate culture. The Responsible Care ethic, first developed in Canada and adopted by the global chemical industry, is embedded in our policies and practices for managing the business throughout our international organization.

For instance, by setting the same high performance standards at each facility across our organization, Responsible Care contributes to improved performance in the health and safety of workers at all of our sites. Safety performance is measured by a globally accepted indicator for safety, known as the recordable injury frequency rate (RIFR) and is benchmarked against global best practices. In 2007, our RIFR for our employees was 0.52, which was an increase over last year, but was better than the comparable 2006 chemical industry average RIFR of 0.62. This same expectation of best practice performance holds true for environmental, health and emergency preparedness and, in 2007, we experienced no major environmental incidents or permit exceedances.

Finally, our Waterfront Shipping subsidiary had a very successful year in keeping our logistics costs down despite being faced with higher fuel costs and excess vessel capacity caused by the unexpected production shortfalls in Chile. These lower costs were achieved by using our excess vessel capacity to ship clean petroleum products for other companies.

Market Positioning and Growth

We are committed to maintaining our global leadership position in the methanol industry. In 2007, we demonstrated the value of this position and undertook several initiatives that reinforced our leadership.

First, we demonstrated the competitive advantage of our diversified production base and extensive global supply chain. In a very tight market environment in the second half of the year, we met our customer requirements despite significant production shortfalls at our Chile operations. We offset some of our production losses in Chile by continuing to operate our 530,000 tonne per year plant in New Zealand. In February 2008, we announced our intention to switch over production to one of our larger 900,000 tonne per year plants in New Zealand later this year, adding further incremental supply for our customers. As a result, we have 1.4 million tonnes of flexible capacity in New Zealand which can operate depending on industry supply and demand and the availability of natural gas on commercially acceptable terms.

Second, we strengthened our future global leadership position in the methanol industry with the commitment to a methanol project in Egypt, which, when operating as scheduled in early 2010, will be among the lowest cost plants in the industry. We own 60 percent of this 1.3 million tonne plant and will market 100 percent of its output. The project in Egypt represents a well-located new production hub that could be expanded in the future and will integrate seamlessly into our global supply chain. This is our first investment in the North Africa/Middle East region and it represents a significant accomplishment, giving us a presence in an area with substantial natural gas reserves. To further capitalize on future opportunities in the region, we also opened a commercial office in Dubai.

Finally, one of our primary objectives is to create new demand for methanol in energy uses. I mentioned in last year's letter that it was our goal to be a first mover in this area, and we accomplished this objective in 2007. After finalizing a methanol supply agreement for a new DME plant in China in late 2006, we purchased a 20 percent equity interest in the project in 2007 with our joint venture partner, the XinAo Group. The plant was commissioned in October. We also signed a memorandum of understanding for a similar DME project in Egypt with joint venture partners XinAo Group and EChem (the Egyptian Ministry of Petroleum company), which is also a joint venture partner in our Egypt methanol project. The recent growth in the emerging DME industry has been dramatic, with several plants starting up over the past year in China and projects are under development in other countries including Japan and Iran. In this emerging industry, DME is now being blended with liquefied petroleum gas (LPG) for household cooking and heating. We believe that significant demand potential exists for this end use in other countries and we are actively pursuing project opportunities. Longer term, there is an even larger potential demand for DME as a diesel substitute, and this technology is already being demonstrated in China and Japan.

I am very optimistic about the future growth potential for methanol in energy applications. With oil prices reaching all-time highs in 2007, methanol has been competitive in the energy markets at prices significantly higher than the historical long-term average price of methanol. For example, when oil prices reached $90-$100 per barrel late in the year, methanol was competitive in the DME and fuel-blending markets at approximately $500-600 per tonne. And with many forecasters projecting a continuing high energy price environment, methanol's prospects for further penetrating the energy markets are excellent.

Challenges in 2007

Undoubtedly, the biggest challenge we faced in 2007 was natural gas supply to our production hub in Chile. Our plants operated at low rates during the second half of the year, primarily because of gas supply curtailments from Argentina.

Over the last few years, Argentina has experienced a shortage of energy, and the Argentinean government has curtailed exports of natural gas to meet the shortfall between growing domestic demand and static domestic supply. Prior to 2007, these curtailments were minor and resulted in losses of approximately 50,000-100,000 tonnes of methanol production per year between 2004 and 2006. However, in 2007, the energy crisis in Argentina escalated and the impact on our company became more significant. All of our natural gas supply from Argentina was curtailed in mid-June of last year, resulting in 1.6 million tonnes of lost production in 2007. Even though domestic supply in Argentina has improved and we believe there is sufficient gas production capability available in southern Argentina to meet our full contractual supply, we have not received any gas from Argentina since mid-June as the Argentinean government has not allowed natural gas exports to our plants to be reinstated.

Our solution to this challenging issue is to source more natural gas from Chile. We are very encouraged by the many developments that occurred on this front in 2007. First, we are providing financing to and signed a long-term gas supply agreement with an exploration company, GeoPark, which has already been supplying us with incremental gas from the Fell Block near our plants. GeoPark has steadily increased its gas supply to us and plans to supply us with approximately 10 percent of our total gas needs in Chile by the end of this year, and ultimately, up to 20 percent of our total gas needs. Second, the Chilean state-owned energy company, ENAP, our main Chilean natural gas supplier, announced a commercial gas discovery near our plants and ENAP continues a gas exploration program in the same area. Finally, the Chilean government completed an international bidding round in 2007 where it awarded nine exploration blocks in the region near our plants to various international oil and gas companies.

We estimate that more than $600 million is being committed to the exploration and development of oil and gas in southern Chile over the next three years. Based on this commitment and the activity that has taken place during 2007, I am optimistic that prospects for new gas discoveries give us the potential to be back operating all of our Chile plants with gas supply from Chile over the next several years. As we demonstrated with our GeoPark agreement, we are committed to investing in opportunities to accelerate gas development in this region, and we will continue to look for further opportunities to do so this year.

Looking Ahead...

Entering 2008, with global demand continuing to be strong in both traditional chemical derivatives and emerging energy uses, our analysis of supply and demand leads us to believe that 2008 will once again bring tight to balanced markets, above-average methanol prices and another very good year for Methanex.

Our company is the global leader in an industry with significant growth potential in new energy applications including DME, fuel blending and biodiesel. Barring a dramatic decrease in energy prices, this could result in global methanol demand substantially increasing over the next several years, which should underpin a strong methanol market environment for years to come.

Going forward, we are focused on three key initiatives. We will continue to look for opportunities to sponsor new growth opportunities for methanol demand in energy applications and to underpin these opportunities with cost competitive methanol supply. We will focus on successfully completing our first-class methanol project in Egypt to start producing methanol for our customers and cash flow for our shareholders in early 2010. And we will continue to pursue initiatives to accelerate gas development in southern Chile to improve natural gas supply to our Chilean production hub as quickly as possible.

Our shareholders tell us that they support our approach to the use of cash. We will continue to maintain a reasonable balance between investing in growing our business and returning excess cash to shareholders through share repurchases and regular dividends, while maintaining a prudent balance sheet.

In closing, I would like to thank all of our employees for delivering excellent results in a very challenging year. On behalf of the Board and all of our employees, I thank you, our shareholders, for your continued support. And I look forward to continuing to reward you with strong performance in this exciting time in our industry.

Bruce Aitken
President & Chief Executive Officer

Chairman's Message on

Corporate Governance

At Methanex, we define corporate governance as having the appropriate processes and structures in place to ensure that our business is managed in the best interests of our shareholders. 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.

Board Performance

We believe that it is important to assess Board and director performance on an annual basis, and we are proud of our process in this regard. Each year, we carry out an evaluation of the entire Board. We also conduct individual director evaluations that include self-evaluations, director peer reviews, a performance review of the Chairman by the directors and an important private and in-depth discussion between the Chairman and each director. This discussion focuses on the director's view of their own contributions and performance as well as the perception of the other Board members. It also explores potential areas of improvement for overall board performance. We have found that these assessments improve board dynamics and effectiveness. Full details on our Board and director performance evaluation process can be found on page 20 of our Information Circular.

Disclosure of Executive Compensation

There has recently been a great deal of attention focused on the process surrounding executive compensation decision-making and its disclosure. In 2006, new disclosure requirements were instituted in the US to help investors better understand and assess the executive compensation policies of companies, and similar requirements are expected to come into effect in Canada in the near future. Last year, our reporting on executive compensation was our most comprehensive ever. This year, our disclosure on executive compensation has been further enhanced and begins on page 24 of our Information Circular.

Executive compensation is a complex issue managed by the Board of Directors. We believe it is our obligation to communicate clearly and fully to our investors the design of our executive compensation, how the compensation process works and how much our executives earned. Our goal is to ensure that our shareholders have sufficient information to determine for themselves whether Methanex's senior management is fairly paid and whether their compensation is aligned with corporate performance and the interests of shareholders.

Board and Committee Objectives

Over the past few years, our Board and the Board committees have developed objectives for the coming year. These objectives stand in addition to the obligation of the Board and each committee to fulfill the terms of their formal mandate during the course of the year. For 2008, the Board has committed itself to the following objectives:

1. Further improve understanding of natural gas issues, including the risks involved in investments in gas exploration.
2. Monitor progress of the Egypt project.
3. Review the development of a strategic framework for investments in China.
4. Maintain an ongoing overview of the world of energy and its relationships to methanol and DME (dimethyl ether).
5. Obtain timely operational reports on critical issues.
6. Review progress on strategic actions.
7. Increase exposure to high-potential employees.

The consideration of annual objectives is a standing item at each committee and Board meeting, allowing participants to review the objectives set for the year and evaluate both progress to date and future plans against each objective.

We continue to look for opportunities to improve our corporate governance as a natural extension of the operational excellence element of our strategy. I'm sure 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 2007, Methanex ranked among the top 13 percent of TSX/S&P Composite Index companies in the *Globe and Mail* corporate governance survey, scoring 86 out of a possible 100 points ....

Management's Discussion and Analysis

(Tabular dollar amounts are shown in thousands of US dollars, except where noted)
Years ended December 31, 2007 and 2006

INDEX

Management's Discussion and Analysis

(Tabular dollar amounts are shown in thousands of US dollars, except where noted)
Years ended December 31, 2007 and 2006

This Management's Discussion and Analysis is dated February 29, 2008 and should be read in conjunction with our consolidated financial statements and the accompanying notes for the year ended December 31, 2007. 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 17 to our consolidated financial statements.

At February 29, 2008 we had 96,488,054 common shares issued and outstanding and stock options exercisable for 778,966 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 supplier of methanol. Our production hubs in Chile and Trinidad have an annual production capacity of 5.8 million tonnes and represent a substantial proportion of our current annual production capacity. We also produce methanol from our flexible production facilities in New Zealand. In addition to the methanol we produce, we purchase methanol produced by others under methanol offtake contracts and on the spot market in order to meet customer requirements and support our marketing efforts. Our total sales volumes in 2007 were 6.6 million tonnes representing approximately 17% of estimated global demand for methanol. We believe our global positioning, including an extensive network of storage terminals and expertise in the global distribution of methanol, is a competitive advantage.

Methanol is a liquid chemical which has historically been produced from natural gas and is increasingly produced from coal, particularly in China. Approximately 75% of all methanol is used to produce formaldehyde, acetic acid and a variety of other chemicals that form the basis of a large number of chemical derivatives for which demand is influenced by levels of global economic activity. These derivatives are used to manufacture a wide range of products including building materials, foams, resins and plastics. The remainder of methanol demand comes from the energy sector. Methanol is used to produce MTBE, a gasoline component, and there are growing markets for using methanol in energy applications such as dimethyl ether (DME), direct blending into gasoline and biodiesel.

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 2007 is estimated at approximately 40 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 global leadership, operational excellence and value creation.

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 through the publication of Methanex reference prices in each major market and most of our customer contracts now use Methanex published reference prices as the basis for pricing.

Our expertise in the global distribution of methanol and our investments in supply infrastructure enable us to enhance value by providing reliable and secure supply to customers. For example, during the second half of 2007, the methanol industry experienced a severe supply shortage caused by several planned and unplanned supplier outages, including outages at our own production facilities in Chile – refer to the *Production Summary* section on page 15 for more information. Using our flexible global distribution and supply network we were able to adjust our operations and meet our commitments to customers during this period of severe market tightness.

We continue to actively investigate options to grow our production capacity over the long term in order to maintain our leadership position in the industry. In May 2007, we completed the financing for our new project to construct a 1.3 million tonne per year methanol facility at Damietta on the Mediterranean Sea in Egypt. We are developing the project through a joint venture in which we have a 60% interest and marketing rights for 100% of the production. We expect this facility to begin commercial operations in early 2010.

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 2007, this site has allowed us to further enhance our distribution network and to cost-effectively supply methanol to customers in the Pacific Northwest region of North America. In 2007, we also added additional storage capacity in Vancouver, Washington.

In the Asia Pacific region in 2007, we added additional storage capacity in Zhangjiagang, China and expanded our offices in Shanghai and Hong Kong in order 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 strengthening presence in Asia has also helped us to identify several opportunities to develop applications for methanol in the energy sector. In September 2007, we purchased a 20% interest in a 200,000 tonne per year DME facility in China from the XinAo Group for $5 million. This DME facility represents the first phase of plans to expand the annual DME capacity of this site to one million tonnes. Through our 20% interest in the first phase, we have the ability to participate in the future phases of the site. In December 2007, we also entered into a memorandum of understanding to develop a similar DME facility in Egypt through a joint venture. The joint venture will include Methanex and the XinAo Group as minority interests, with the government-owned Egyptian Petrochemicals Holding Company (EChem) holding the majority interest. EChem is also a joint venture partner in our new methanol project in Egypt.

During 2007, we also opened an office in Dubai, UAE to enhance our corporate presence and capitalize on future opportunities in the Middle East.

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.

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.

Our Corporate Social Responsibility (CSR) policy is a natural extension of our Responsible Care ethic and encompasses corporate governance, employee engagement and development, community involvement and social investment.

Value Creation

Maintaining a competitive 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 competitive cost structure and return value to shareholders. 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. Our production facilities in Chile represent 3.8 million tonnes of annual production capacity and, when operating at capacity, we would source approximately 60% of their natural gas feedstock from Argentina. The remainder of our natural gas supply to our Chile facilities is from natural gas suppliers in Chile.

Over the past few years, we have experienced ongoing challenges to the cost and security of natural gas supply from Argentina. The government of Argentina has significantly increased the export duty on natural gas from Argentina and since June 2007, has curtailed all of the natural gas supply from Argentina to our Chile facilities. Future purchases of natural gas from suppliers in Argentina will depend on whether natural gas exports are reinstated by the Argentina government, whether we can reach commercially acceptable arrangements with our gas suppliers and other factors. Refer to the *Risk Factors and Risk Management* section on page 27 for more information.

We believe that the solution to these issues of natural gas supply from Argentina is to source more natural gas from suppliers in Chile. We are actively pursuing investment opportunities to accelerate natural gas exploration and development in areas of southern Chile that are relatively close to our production facilities. During 2007, we signed an agreement with one of our suppliers in Chile, GeoPark Chile Limited (GeoPark), under which we will provide US$40 million in financing to support and accelerate GeoPark's natural gas exploration and development activities in southern Chile. Under the arrangement, GeoPark will also provide us with natural gas supply under a 10-year exclusive supply agreement. As a result, GeoPark currently supplies us with approximately 4% of our natural gas requirements for our Chile facilities and we believe natural gas supply from GeoPark will increase over time.

In November 2007, the government of Chile completed its first international bidding round to assign oil and gas exploration areas which lie close to our production facilities. Five international oil and gas companies were successful in the bidding process and exploration and development activities in these areas in southern Chile are expected to commence during the first half of 2008. We are optimistic that this activity will ultimately provide us with more secure long-term gas supply for our plants in Chile.

Our production facilities in Trinidad represent 1.9 million tonnes of annual competitive cost production capacity. These facilities are underpinned by long-term take-or-pay natural gas purchase agreements that vary with methanol prices. During 2007 we had excellent operating performance at these facilities and produced at 96% of design capacity.

We have positioned our facilities in New Zealand as flexible production assets. These assets include our 530,000 tonne per year production facility in Waitara Valley which we have operated over the past few years, as well as our two Motunui facilities that are currently idle and have a total annual operating capacity of up to 1.9 million tonnes. We recently announced our intention to restart one idled 900,000 tonne per year Motunui methanol plant in mid-2008. We expect to continue to operate the Waitara Valley facility until the Motunui plant restarts.

The strategic location of our Chile, Trinidad and New Zealand production sites allows us to deliver methanol cost-effectively to our customers in Asia Pacific, Europe, North America and Latin America.

We believe the 1.3 million tonne methanol facility in Egypt, expected to be completed in early 2010, will further enhance our competitive positioning with its low cost structure and excellent location to supply the European market.

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 maximize the use of our shipping fleet to reduce costs. We take advantage of prevailing conditions in the shipping market by varying the type and length of term of ocean vessel contracts. We are continuously investigating opportunities to further improve the efficiency and cost-effectiveness of distributing methanol from our production facilities to customers. We also look for opportunities to leverage our global asset position by entering into product exchanges with other methanol producers to reduce distribution costs.

We operate in a highly competitive commodity industry. Accordingly, we believe it is important to maintain financial flexibility and we have adopted a prudent approach to financial management. 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 maintaining a reasonable balance between growing our business and returning excess cash to shareholders.

Over the past two years, we have achieved an average annual return on capital employed of approximately 22% (refer to the *Supplemental Non-GAAP Measures* section on page 37). Over the same period, we have also returned a total of $500 million of cash to shareholders through a combination of share repurchases and dividends.

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 the *Supplemental Non-GAAP Measures* section on page 37 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 Methanex-produced methanol sales from purchased methanol sales as the margin characteristics of each are very different.

Methanex-Produced Methanol

The level of Adjusted EBITDA is highly dependant on the margin earned from Methanex-produced methanol from our facilities in Chile, Trinidad and New Zealand. Sales volumes of Methanex-produced methanol depend on the amount of production from these methanol facilities, which in turn is based on how well the plants operate, the timing of scheduled maintenance and other factors. Our analysis of Adjusted EBITDA separately discusses the impact of changes in average realized price, sales volumes and cash costs for our Methanex-produced methanol.

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

PRICE	The change in Adjusted EBITDA as a result of changes in average realized price is calculated as the difference from period to period in the selling price of Methanex-produced methanol multiplied by the current period sales volume of Methanex-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 Methanex-produced methanol. Accordingly, the selling price of Methanex-produced methanol will differ from the selling price of purchased methanol.
CASH COST	The change in Adjusted EBITDA as a result of changes in cash costs is calculated as the difference from period to period in cash costs per tonne multiplied by the sales volume of Methanex-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 Methanex-produced methanol.
VOLUME	The change in Adjusted EBITDA as a result of changes in sales volumes is calculated as the difference from period to period in the sales volumes of Methanex-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 Methanex-produced methanol less absorbed fixed cash costs per tonne and variable cash costs per tonne (excluding Argentina natural gas export duties 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 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 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 Adjusted EBITDA is discussed on a net margin basis.

Commission Sales

We also sell methanol on a commission basis. 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.

FINANCIAL HIGHLIGHTS

($ Millions, except where noted)	2007	2006
Sales volumes (thousands of tonnes):		
Methanex-produced methanol	4,569	5,310
Purchased methanol	1,453	1,101
Commission sales[1]	590	584
	6,612	6,995
Methanex average non-discounted posted price ($ per tonne)[2]	451	396
Average realized price ($ per tonne)[3]	375	328
Revenue	2,266	2,108
Adjusted EBITDA[4]	652	800
Net income	376	483
Income before unusual items (after-tax)[4]	376	457
Basic net income per share	3.69	4.43
Diluted net income per share	3.68	4.41
Diluted income before unusual items (after-tax) per share[4]	3.68	4.18
Cash flows from operating activities[4, 5]	494	623
Common share information (millions of shares):		
Weighted average number of common shares outstanding	102	109
Diluted weighted average number of common shares outstanding	102	109
Number of common shares outstanding	98	106

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

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

3 Average realized price is calculated as revenue, net of commission income, divided by total sales volumes of produced and purchased methanol.

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 *the Supplemental Non-GAAP Measures* section on page 37 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 represent 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 2007 or 2006:

(Thousands of tonnes)	Annual Operating Capacity[1]	2007	2006
Chile I, II, III and IV (Chile)	3,840	1,841	3,186
Atlas (Trinidad) (63.1% interest)	1,073	982	1,057
Titan (Trinidad)	850	861	864
Waitara Valley (New Zealand)	530	435	404
	6,293	4,119	5,511

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.

Chile

Our methanol facilities in Chile produced 1.8 million tonnes during 2007 compared with production capacity in 2007 of 3.8 million tonnes. We have natural gas supply contracts for approximately 60% 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. From mid-June 2007, we have not received any natural gas supply from Argentina and this resulted in approximately 1.6 million tonnes of lost production during 2007. In mid-June, a compressor failure seriously impacted the natural gas delivery infrastructure in the province of Tierra del Fuego in Argentina and this issue, combined with increased domestic demand for natural gas in Argentina as a result of cold temperatures in the winter months, resulted in the curtailment of all of our natural gas supply from Argentina. During the third quarter of 2007, the compressor issue was resolved and the domestic demand for natural gas in Argentina stabilized with warmer temperatures. We believe that there currently is sufficient natural gas production capability in the region to meet our full contracted supply from Argentina and that all pipeline capacity to transport natural gas from southern Argentina to the more populated areas in central Argentina is full. However, the government of Argentina has not yet permitted the restoration of natural gas supply to our facilities for reasons which we believe include maintaining domestic natural gas reserves that have decreased due, in part, to a lower level of oil and gas exploration and development activity in Argentina.

We have natural gas contracts for approximately 40% of our natural gas requirements for our production facilities in Chile from natural gas suppliers in Chile, primarily from Empresa Nacional del Petroleo (ENAP), the Chilean state-owned energy company, and from GeoPark Chile Limited (GeoPark). As a result of our Argentinean natural gas supply issues, all of the methanol production at our Chile facilities in the second half of 2007 was produced with natural gas from Chile. During 2007, we received less than our full natural gas supply from ENAP, our primary gas supplier in Chile, as a result of ongoing deliverability and production issues and this resulted in methanol production losses of approximately 0.4 million tonnes.

We believe the solution to these issues of natural gas supply from Argentina is to source more natural gas from suppliers in Chile. We are pursuing investment opportunities with ENAP and GeoPark to help accelerate natural gas exploration and development in southern Chile. Both parties are undertaking gas exploration and development programs in areas that are relatively close to our production facilities. Their exploration and development efforts are encouraging, with both ENAP and GeoPark recently announcing discoveries of commercial gas in this area. On November 26, 2007, we announced that we signed an agreement with GeoPark under which we will provide US$40 million in financing to support and accelerate GeoPark's natural gas exploration and development activities in the Fell Block in southern Chile. Under the arrangement, GeoPark will also provide us with natural gas supply sourced from the Fell Block under a 10-year exclusive supply agreement. In 2007, GeoPark increased deliveries to our plants. We expect our natural gas supply from GeoPark to increase further over time. In November 2007, the government of Chile completed its first international bidding round to assign natural gas exploration areas that lie close to our production facilities and announced the participation of five international oil and gas companies. Exploration and development activities in these areas in southern Chile are expected to begin during the first half of 2008. We cannot provide assurance that ENAP, GeoPark or others will be successful in the exploration and development of natural gas or that we would obtain any additional natural gas from suppliers in Chile on commercially acceptable terms.

Refer to the *Risk Factors and Risk Management – Chile* section on page 27 for more information.

Trinidad

During 2007, our Trinidad facilities operated well and produced a total of 1.8 million tonnes compared with 1.9 million tonnes during 2006. We completed planned maintenance activities at our Atlas facility during the first half of 2007 and this reduced production by approximately 100,000 tonnes.

New Zealand

We have positioned our facilities in New Zealand as flexible production assets. These assets include our 530,000 tonne per year production facility in Waitara Valley which we have operated over the past few years, as well as our Motunui facilities that have a total annual operating capacity of up to 1.9 million tonnes. During 2007, we produced 435,000 tonnes, or 82% of total capacity, at our Waitara Valley facility compared with 404,000 tonnes during 2006. Production in 2007 was lower than capacity at this facility primarily as a result of planned maintenance activities that were completed in November 2007. We have secured sufficient natural gas supply that will allow us to produce at this facility until at least mid-2008.

We recently announced our intention to restart one idled 900,000 tonne per year Motunui methanol plant in mid-2008. We expect to continue to operate the Waitara Valley facility until the Motunui plant restarts. The continued operations of the flexible New Zealand facilities is dependant upon industry supply and demand and the availability of natural gas on commercially acceptable terms.

RESULTS OF OPERATIONS

($ Millions, except where noted)	2007	2006
Consolidated statements of income:		
Revenue	$ 2,266	$ 2,108
Cost of sales and operating expenses	1,614	1,308
Adjusted EBITDA[1]	652	800
Depreciation and amortization	112	107
Operating income	540	693
Interest expense	(44)	(45)
Interest and other income	27	10
Income taxes	(147)	(175)
Net income	$ 376	$ 483
Income before unusual items (after-tax)[1]	$ 376	$ 457

[1] 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 the *Supplemental Non-GAAP Measures section* on page 37 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, the value of energy and changes in general economic conditions, which can vary across the major international methanol markets.

Methanex Average Realized Price 2006-2007

Revenue for 2007 was $2.3 billion compared with $2.1 billion during 2006. Total sales volumes of produced and purchased methanol during 2007 were 6.0 million tonnes compared with 6.4 million tonnes in 2006. The increase in revenue was primarily due to our higher average realized price in 2007 compared with 2006, which was partially offset by lower sales volumes. We experienced a significant increase in methanol pricing towards the latter half of 2006 due to tight supply conditions brought on by planned and unplanned supplier outages. We entered 2007 with tight market conditions due to these industry supply constraints combined with high global energy prices and healthy demand. The supply and demand fundamentals improved and prices moderated in the first half of 2007. During the latter half of 2007, significant planned and unplanned supplier outages, including outages at our own facilities in Chile, caused a severe shortage of global inventories. This led to another significant increase in pricing that continued throughout the fourth quarter of 2007. Our average realized price for 2007 was $375 per tonne compared with $328 per tonne in 2006. Our higher average realized price during 2007 increased revenue by $285 million compared with 2006 while lower sales volumes decreased revenue by $127 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 2007 was $451 per tonne compared with $396 per tonne in 2006. Our average realized price was approximately 17% lower than our average non-discounted published reference price for both 2007 and 2006.

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 2007, sales under these contracts represented approximately 22% of our total sales volumes. The discount from our non-discounted published reference prices is expected to narrow during periods of lower pricing.

Distribution of Revenue

The distribution of revenue for 2007 and 2006 is as follows:

($ Millions, except where noted)	2007			2006		
Canada	$	237	10%	$	167	8%
United States		753	33%		679	32%
Europe		500	22%		494	23%
Korea		259	11%		213	10%
Japan		148	7%		158	8%
Other Asia		142	7%		203	10%
Latin America		227	10%		194	9%
	$	2,266	100%	$	2,108	100%

Our revenue distribution for 2007 is relatively comparable to 2006 except for changes in Canada and Other Asia. 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. Our Kitimat terminal is a convenient base to supply this market. Revenue related to customers in Other Asia decreased as a proportion of our total revenue as a result of a decrease in sales volumes in China in 2007. When prices are high we believe China has an incentive to operate at higher production rates which reduces the requirement for imports and provides an economic incentive to export.

Adjusted EBITDA

We review our results of operations by analyzing changes in the components of Adjusted EBITDA. The operating results for our production facilities represent a substantial proportion of Adjusted EBITDA and, accordingly, we separately discuss changes in average realized price, sales volumes and total cash costs related to these facilities. In addition to the methanol that we produce at our facilities, we also purchase and re-sell methanol produced by others which we refer to as purchased methanol. Sales of purchased methanol represent a lower proportion of Adjusted EBITDA and, accordingly, the analysis of purchased methanol is discussed on a net margin basis.

2007 Adjusted EBITDA was $652 million compared with $800 million in 2006. The decrease in Adjusted EBITDA of $148 million resulted from changes in the following:

($ Millions)	2007 vs. 2006
Methanex-produced methanol:	
Average realized price	$ 181
Sales volumes	(161)
Total cash costs[1]	(187)
	(167)
Margin on the sale of purchased methanol	19
Decrease in Adjusted EBITDA	$ (148)

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

Average Realized Price

The higher average realized price of Methanex-produced methanol increased Adjusted EBITDA by $181 million.

Sales Volumes

Sales volumes of Methanex-produced methanol for the year ended December 31, 2007 were lower by 741,000 tonnes compared with 2006 primarily as a result of lower production in Chile (refer to the *Production Summary* section on page 15 for more information). Lower sales volumes in 2007 decreased Adjusted EBITDA by $161 million compared with 2006.

Total Cash Costs

Cash costs for Methanex-produced methanol were higher in 2007 compared with 2006 and this decreased Adjusted EBITDA by $187 million. The primary changes in cash costs were as follows:

($ Millions)	2007 vs. 2006
Higher natural gas costs and other costs related to higher methanol prices	$ 96
Impact of sharing the cost of Argentina export duties	53
Higher distribution costs	27
Lower selling, general and administrative expenses	(7)
Unabsorbed fixed production costs	18
	$ 187

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

Natural gas supply contracts for our assets in Chile, Trinidad and New Zealand 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 2007 increased our natural gas and other costs related to our produced product and this decreased Adjusted EBITDA by approximately $96 million compared with 2006. For additional information regarding our natural gas agreements refer to the *Summary of Contractual Obligations and Commercial Commitments* section on page 23.

Impact of Sharing the Cost of Argentina Export Duties

During 2006, the government of Argentina increased the duty on exports of natural gas from Argentina to Chile. While our natural gas contracts provide that our natural gas suppliers are to pay any duties levied by the government of Argentina, we were contributing towards some of the cost of these duties prior to the curtailment of our natural gas supply from Argentina beginning in mid-June 2007. The total costs of sharing export duties on sales of methanol produced with natural gas from Argentina was $61 million in 2007 and $8 million in 2006. At December 31, 2007, none of our inventory was produced with natural gas from Argentina. Refer to the *Risk Factors and Risk Management – Chile* section on page 27 for more information.

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 fleet of ocean-going vessels under long-term time charter that contribute to our objective of cost-effectively delivering methanol to customers. Our ocean shipping costs increased by $16 million in 2007 compared with 2006. The increase in shipping costs in 2007 compared with 2006 was primarily due to increased fuel costs resulting from higher global energy prices.

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 recover a substantial proportion of these costs from customers. These costs increased during 2007 by $11 million, primarily due to an increase in in-market distribution costs as a result of an increase in sales volumes to customers in 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.

Lower Selling, General & Administrative Expenses

Our selling, general and administrative expenses decreased by $7 million in 2007 compared with 2006 primarily as a result of the impact of changes in our share price on our stock-based compensation expense. Our stock-based compensation expense for deferred, restricted and performance share units is impacted by changes in our share prices as these changes are recognized in earnings for the proportion of the service that has been rendered at each reporting date.

Unabsorbed Fixed Production Costs

We record fixed production costs per tonne based on normal operating rates for our production facilities. In periods when our production facilities operate below normal capacity, we record a charge to earnings related to unabsorbed fixed production costs. Unabsorbed fixed production costs increased by $18 million in 2007 compared with 2006 primarily as a result of lower Chile production.

Margin on the Sale of Purchased Methanol

We purchase methanol produced by others through methanol offtake contracts and on the spot market 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 purchase and resale. In 2007, our cash margin was $39 million on resale of 1.5 million tonnes of purchased methanol compared with a cash margin of $20 million on resale of 1.1 million tonnes during 2006.

Depreciation and Amortization

Depreciation and amortization expense in 2007 was $112 million compared with $107 million in 2006. The increase in depreciation and amortization of $5 million is primarily the result of a draw down of Methanex produced methanol inventories in 2007 which includes depreciation charges.

Interest Expense

($ Millions)	2007	2006
Interest expense before capitalized interest	$ 48	$ 45
Less capitalized interest related to Egypt project under construction	(4)	–
	$ 44	$ 45

Interest expense before capitalized interest in 2007 was $48 million compared with $45 million in 2006. In May 2007, we reached financial close and secured limited recourse debt of $530 million for our joint venture project to construct a 1.3 million tonne per year methanol facility in Egypt. The increase in interest expense before capitalized interest relates primarily to the interest on the Egypt project limited recourse debt during 2007.

Interest and Other Income

Interest and other income was $27 million in 2007 compared with $10 million in 2006. The increase in interest and other income of $17 million was primarily due to higher returns on cash balances in 2007 compared with 2006.

Income Taxes

The effective tax rate for 2007 was 28%. The effective tax rate for 2006 was 27%. After excluding the unusual item related to the Trinidad tax adjustment (see below), the effective tax rate for 2006 was 31%. The statutory tax rate in each of 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 tier tax that is payable when income is earned and a second tier 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.

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 the first quarter of 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.

For additional information regarding income taxes, refer to note 11 of our 2007 consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Highlights

($ Millions)	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from operating activities[1]	$ 494	$ 623
Changes in non-cash working capital	33	(154)
	527	469
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for shares repurchased	(205)	(187)
Dividend payments	(55)	(53)
Proceeds on issue of long-term debt	132	–
Equity contribution by non-controlling interest	32	9
Repayment of long-term debt	(14)	(14)
Proceeds on issue of shares on exercise of stock options	10	8
Financing costs	(9)	–
Other, net	(5)	(8)
	(114)	(245)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant and equipment	(76)	(42)
Plant and equipment construction costs, net	(202)	(21)
Other assets	(20)	–
Changes in non-cash working capital related to investing activities	18	35
	(280)	(28)
Increase in cash and cash equivalents	133	196
Cash and cash equivalents, end of year	$ 488	$ 355

[1] Before changes in non-cash working capital.

Cash Flows from Operating Activities

Cash flows from operating activities before changes in non-cash working capital were $494 million in 2007 compared with $623 million in 2006. The decrease in cash flows from operating activities before changes in non-cash working capital is primarily the result of lower earnings in 2007 compared with 2006.

Non-cash working capital related to operating activities at December 31, 2007 decreased by $33 million compared with an increase of $154 million at December 31, 2006. The changes in non-cash working capital are primarily driven by the impact of changes in methanol pricing on our non-cash working capital balances, changes in inventory levels and timing of cash payments and collections.

Cash Flows from Financing Activities

Over the past two years we have returned a total of $500 million of cash to shareholders through share repurchases of $392 million and through regular quarterly dividend payments of $108 million.

In 2006, we commenced a normal course issuer bid that expired on May 16, 2007. On May 17, 2007, we commenced a new bid that expires on May 16, 2008. During 2007, we repurchased a total of 8.0 million common shares under these bids at an average price of US$25.45 per share, totaling $205 million. At December 31, 2007, we had repurchased a total of 4.4 million common shares under the current bid which has a maximum allowable repurchase of 8.7 million common shares. During 2006, we repurchased a total of 8.5 million common shares at an average price of US$21.91 per share, totaling $187 million.

We increased our regular quarterly dividend by 12% to US$0.14 per share per quarter, beginning with the dividend payable on June 30, 2007. Total dividend payments in 2007 were $55 million compared with $53 million in 2006.

In May 2007, we reached financial close and secured limited recourse debt of $530 million for a project to construct a 1.3 million tonne per year methanol facility at Damietta on the Mediterranean Sea in Egypt. We own 60% of Egyptian Methanex Methanol Company S.A.E. ("EMethanex"), which is the company that is developing the project. We account for our investment in EMethanex using consolidation accounting. This results in 100% of the assets and liabilities of EMethanex being included in our financial statements. The other investors' interest in the project is presented as "non-controlling interest". During 2007, a total $117 million of this limited recourse debt was drawn for construction activities. The remaining proceeds on limited recourse debt of $15 million relates to debt facilities obtained on the acquisition of an ocean-going vessel during 2007.

We repaid $14 million in principal on our Atlas limited recourse debt facilities in each of 2007 and 2006.

We received proceeds of $10 million and issued 0.6 million common shares on the exercise of stock options during 2007, compared with proceeds of $8 million on the issuance of 0.7 million common shares in 2006.

Cash Flows from Investing Activities

Additions to property, plant and equipment, which are comprised of turnarounds, catalyst and other capital expenditures, were $76 million for 2007 compared with $42 million in 2006. In 2007, we performed ongoing maintenance at all of our production facilities and completed major turnarounds at our New Zealand and Atlas facilities. Included in additions to property, plant and equipment for 2007 is $20 million for the acquisition of an ocean-going vessel that we acquired through a 50% interest in a joint venture.

During 2007, total capital expenditures were $202 million for the development and construction of the Egypt project. We estimate that the total remaining capital expenditures, excluding capitalized interest and working capital, to complete the construction of the Egypt methanol facility will be approximately $665 million and that these expenditures will be funded from cash generated from operations and cash on hand, cash contributed by the non-controlling shareholders and proceeds from the limited recourse debt facilities. At December 31, 2007, our 60% share of remaining cash equity contributions, excluding financing costs and working capital, is estimated to be approximately $175 million.

During 2007, our investments in other assets of $20 million primarily related to a financing agreement with one of our natural gas suppliers in Chile. During the fourth quarter of 2007, we entered into an agreement to provide US$40 million in financing to GeoPark Chile Limited to support and accelerate its natural gas exploration and development activities in southern Chile. During 2007, we funded $14 million under this agreement and this amount was recorded as an addition to other assets.

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, 2007 is as follows:

($ Millions)	2008	2009-2010	2011-2012	After 2012	Total
Long-term debt repayments	15	34	247	308	604
Long-term debt interest obligations	43	81	69	65	258
Repayment of other long-term liabilities	15	10	6	27	58
Capital lease obligations	9	18	17	–	44
Natural gas and other, excluding Argentina	159	265	312	1,931	2,667
Argentina natural gas	69	143	155	779	1,146
Operating lease commitments	115	197	181	572	1,065
Project under construction	333	332	–	–	665
	758	1,080	987	3,682	6,507

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 represent the total expected principal repayments relating to the Egypt project and other limited recourse debt facilities, as well as our proportionate share of total expected principal repayments related to the Atlas limited recourse debt facilities. Interest obligations related to variable interest rate long-term debt were estimated using current interest rates in effect at December 31, 2007. For additional information, refer to note 6 of our 2007 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(b) of our 2007 consolidated financial statements.

Natural Gas and Other, Excluding Argentina

We have commitments, other than those described in the *Argentina Natural Gas* section below, 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 facilities in Chile and Trinidad and the natural gas supply contract for the methanol project under construction in Egypt are take-or-pay contracts, 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 natural 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 and provides gas suppliers with attractive returns. The amounts disclosed in the table for these contracts represent only the base price component. The above table also includes remaining obligations under a fixed price take-or-pay natural gas supply contract for our Waitara Valley facility which allows us to operate the facility until mid-2008.

Approximately 40% of the natural gas for our Chilean facilities is purchased from suppliers in Chile, primarily from Empresa Nacional del Petroleo (ENAP), the Chilean state-owned energy company, with a small percentage from GeoPark Chile Limited (GeoPark), an independent natural gas producer with operations in Chile. The natural gas commitments for our Chile facilities included in the above table relate to our natural gas contracts with ENAP. One of these natural gas supply contracts, which represents 20% of the contractual entitlements for our Chile facilities, has a base component and a variable price component determined with reference to our average realized price of methanol for the current calendar year and runs until mid-2009. Our remaining natural gas contracts with ENAP have a base component and variable price component determined with reference to 12-month trailing average published industry methanol prices. The expiration dates for these contracts range from 2017 to 2025.

We also have commitments for natural gas purchases under a 10-year exclusive natural gas supply agreement with GeoPark under which we will purchase all natural gas produced by GeoPark from the Fell Block in southern Chile. GeoPark has recently increased natural gas supply to our plants which has resulted in GeoPark currently supplying us with approximately 4% of our natural gas requirements in Chile. The pricing under this contract has a base component and a variable component determined with reference to a 3-month trailing average of industry methanol prices. The amount of natural gas purchased under this supply contract will depend on the amount of natural gas produced by GeoPark from the Fell Block.

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.

We have a long-term take-or-pay natural gas supply contract for the methanol project under construction in Egypt. We expect this facility to begin commercial operations in early 2010. The pricing for natural gas under this contract includes base and variable price components. The variable component of the natural gas contract in Egypt commences mid-2012 and is determined with reference to Methanex average realized prices of methanol each quarter. This contract expires 25 years from the start of the commercial operation of the facility.

Argentina Natural Gas

We have long-term take-or-pay natural gas supply contracts with suppliers in Argentina for approximately 60% of our current natural gas requirements for our Chilean operations and 80% of our natural gas requirements commencing mid-2009. The expiration dates range from 2017 to 2025 and natural gas export permits are in place for these contracts. The government of Argentina has significantly increased the tax on exports of natural gas from Argentina. In addition, since June 2007, the government of Argentina has curtailed all of the natural gas supply from Argentina to our Chile facilities. Future purchases of natural gas under these contracts will depend on whether natural gas exports are reinstated by the Argentina government, whether we can reach commercially acceptable arrangements with our gas suppliers and other factors.

Operating Lease Commitments

The majority of these commitments relate to time charter vessel agreements with terms of up to 15 years. Time charter vessels typically meet most of our ocean shipping requirements. We also secure additional vessels 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.

Project under construction

Project under construction includes the estimated total remaining capital expenditures to complete the construction of the 1.3 million tonne methanol facility in Egypt, excluding financing costs and working capital.

Financial Instruments

From time to time we enter into derivative financial instruments to limit our exposure to foreign exchange volatility and to variable interest rate volatility and to contribute towards achieving cost structure and revenue targets.
At December 31, 2007, the fair value of our derivative financial instruments used to limit our exposure to foreign exchange volatility and to variable interest rate volatility approximates their carrying value of negative $9.8 million. Until settled, the fair value of the derivative financial instruments will fluctuate based on changes in foreign exchange rates and variable interest rates.

Off-Balance Sheet Arrangements

At December 31, 2007, we did 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 and we focus on maintaining our financial strength and flexibility through prudent financial management.

($ Millions, except where noted)		2007		2006
LIQUIDITY				
Cash and cash equivalents	$	488	$	355
Undrawn credit facilities		250		250
		738		605
CAPITALIZATION				
Unsecured notes		346		350
Limited recourse debt facilities, including current portion		251		137
Total debt		597		487
Non-controlling interest		41		9
Shareholders' equity		1,335		1,209
Total capitalization	$	1,973	$	1,705
Total debt to capitalization[1]		30%		29%
Net debt to capitalization[2]		7%		10%

[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.

We have excellent financial capacity and flexibility. Our cash balance at December 31, 2007 was $488 million and we have an undrawn $250 million credit facility that expires in 2010. We invest cash only in highly rated instruments that have maturities of three months or less to ensure preservation of capital and appropriate liquidity. Planned capital maintenance expenditures directed towards major maintenance, turnarounds and catalyst changes are estimated to be approximately $95 million for the period to the end of 2010. In addition, the costs to restart our 900,000 tonne per year Motunui facility in 2008 are estimated to be approximately $40 million.

We reached financial close and secured limited recourse debt of $530 million in May 2007 for a methanol project to construct a 1.3 million tonne per year methanol facility in Egypt. We estimate that the total remaining capital expenditures, excluding capitalized interest and working capital, to complete the construction of the Egypt methanol facility will be approximately $665 million and that these expenditures will be funded through our limited recourse debt facilities, cash generated from operations, cash on hand and cash contributed by the non-controlling shareholders. At December 31, 2007, our 60% share of remaining cash equity contributions, excluding financing costs and working capital, is estimated to be approximately $175 million.

We believe we are well positioned to meet financial requirements related to the methanol project in Egypt, complete our capital maintenance spending program, complete the restart of the Motunui facility, pursue new opportunities to enhance our leadership position in the methanol industry, pursue investment opportunities to accelerate the development of natural gas in southern Chile, 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, 2007 were as follows:

Standard and Poor's Rating Services	BBB– (stable)
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 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* section on page 34, to be among the most important for understanding the issues that face our business and our approach to risk management.

Security of Natural Gas Supply and Price

We use natural gas as the principal feedstock for methanol and it 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 would be forced to reduce production or close plants, which could have an adverse effect on our results of operations and financial condition.

Chile

In Chile, we purchase all natural gas through long-term take-or-pay supply agreements. Currently, if we were receiving all of our gas contract entitlements, approximately 60% of the natural gas for our Chilean facilities would be purchased from suppliers in Argentina with the remainder supplied from gas suppliers in Chile, mainly by Empresa Nacional del Petroleo (ENAP), the Chilean state-owned energy company, and with a small percentage supplied by GeoPark Chile Limited (GeoPark), an independent natural gas producer with operations in Chile. Under current long-term natural gas supply contracts for our Chile facilities, the percentage of natural gas supplied from Argentina would increase to approximately 80% commencing mid-2009.

Since mid-June 2007, we have not received any natural gas supply from suppliers in Argentina, and as a result, we have been operating our facilities in Chile at significantly reduced rates since that time.

Over the past few years, Argentina has been experiencing energy shortages. To mitigate these shortages, the government of Argentina passed regulations that require Argentinean gas suppliers to give priority to supplying the domestic market. This, along with other delivery infrastructure issues, resulted in curtailments of gas supply to Chile. Prior to 2007, our production facilities in Chile suffered minor curtailments, primarily during the winter period in the southern hemisphere. Between 2004 and 2006, we lost between 50,000 to 100,000 tonnes of methanol production annually.

In 2007, the curtailments were much more significant as we lost approximately 1.6 million tonnes of methanol production. In mid-June of 2007, a compressor failure seriously impacted the natural gas delivery infrastructure in the province of Tierra del Fuego in Argentina and this issue, combined with increased domestic demand for natural gas in Argentina as a result of cold temperatures during the winter months, resulted in the curtailment of all of our natural gas supply from Argentina. Later in the year, the compressor issue was resolved and the domestic demand for natural gas in Argentina stabilized with warmer temperatures. We believe that there is currently sufficient natural gas production capability in the region to meet our full contracted supply from Argentina and that the pipeline that transports natural gas from southern Argentina to the more populated areas in central Argentina is operating at full capacity. However, the government of Argentina has not yet permitted the restoration of natural gas supply to our plants for reasons which, we believe, include maintaining domestic natural gas reserves that have decreased due, in part, to a lower level of oil and gas exploration and development activity in Argentina.

Prior to 2007, our Chilean operations had been somewhat isolated from this curtailment issue because of the location of our plants in the southernmost region of Chile and limited 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. The government of Argentina is pursuing and has committed to pipeline expansion projects, although the timing of the commencement and completion of these projects is uncertain.

In July 2006, the government of Argentina increased the duty on exports of natural gas from Argentina to Chile from approximately $0.30 per mmbtu to $2.25 per mmbtu. This duty is reviewed quarterly and is adjusted with reference to a basket of international energy prices.

While our gas contracts provide that the gas suppliers must pay any duties levied by the government of Argentina, we contributed toward some of the cost of these duties when we were receiving natural gas from Argentina in 2006 and the first half of 2007. We have not received any gas from Argentina since June 2007, and we are in continuing discussions with our natural gas suppliers to reach commercially acceptable arrangements in the event that natural gas supply from Argentina is restored. There can be no assurance that we will be successful in entering into commercially acceptable arrangements with our natural gas suppliers from Argentina or that the impact of this export duty will not have an adverse effect on our results of operations and financial condition. As well, there can be no assurance that the natural gas suppliers will not take the position that the imposition of such duties or other actions of the Argentinean government relieves them of the obligation to deliver natural gas under the contracts.

There are many variables beyond our control that could affect whether we receive natural gas supply from Argentina and we are currently unable to provide a reasonable view as to the amount of natural gas supply, if any, that we might receive in 2008 and beyond. These variables include the actions of the government of Argentina, the level of future oil and gas exploration activity in Argentina, actions of our gas suppliers (including claims for contractual relief or 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. We cannot provide assurance as to whether and when and to what extent our natural gas supply from Argentina will be restored or that we will be able to reach commercially acceptable arrangements with our natural gas suppliers, or that the impact of these issues will not have an adverse effect on our results of operations and financial condition.

During 2007, we also received less than our full natural gas supply from ENAP, our primary gas supplier in Chile, as a result of ongoing deliverability and production issues. This resulted in methanol production losses of approximately 0.4 million tonnes. We cannot provide assurance that ENAP will not continue to have deliverability and production issues or that the loss of natural gas supply to our plants in Chile as a result of such issues will not be greater than it has been in the past. Such losses could have an adverse effect on our results of operations and financial condition.

We continue to work on sourcing additional natural gas supply for our Chile facilities from alternative sources in Chile. We are pursuing investment opportunities with ENAP and GeoPark to help accelerate the development of natural gas in southern Chile. Both parties are undertaking gas exploration and development programs in areas of southern Chile that are relatively close to our production facilities. Their exploration and development efforts are encouraging, with ENAP and GeoPark recently announcing discoveries of commercial gas in this area. On November 26, 2007, we announced that we signed an agreement with GeoPark under which we will provide US$40 million in financing to support and accelerate GeoPark's natural gas exploration and development activities in the Fell Block in southern Chile. Under the arrangement, GeoPark will also provide us with all natural gas supply sourced by GeoPark from the Fell Block under a 10-year exclusive supply agreement. In 2007, GeoPark increased deliveries to our plants. We expect our natural gas supply from GeoPark to further increase over time. In November 2007, the government of Chile completed an international bidding round to assign natural gas exploration areas that lie close to our production facilities and announced the participation of five international oil and gas companies. Exploration and development activities in these areas in southern Chile are expected to commence during the first half of 2008. We cannot provide assurance that ENAP, GeoPark or others will be successful in the exploration and development of natural gas or that we would obtain any additional natural gas from suppliers in Chile on commercially acceptable terms.

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.

Over the past few years, large industrial natural gas consumers in Trinidad, including Methanex, experienced periodic curtailments of natural gas supply. These curtailments 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 put stress on the natural gas delivery system. In 2007, one of the major gas producers in Trinidad brought on-stream two new gas platforms. As a result, we have seen a marked improvement in gas supply. While curtailments of natural gas to our facilities in Trinidad in 2007 were not significant, we cannot provide assurance that we will not experience further curtailments due to problems with gas delivery infrastructure in Trinidad 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 idled two plants (with a total capacity of up to 1.9 million tonnes per year) at our Motunui site. Since then, we have been operating our 530,000 tonne per year Waitara Valley facility and have recently announced our intention to restart one idled 900,000 tonne per year Motunui methanol plant in mid 2008. We expect to continue to operate the Waitara Valley facility until the Motunui plant restarts. However, there can be no assurance that we will be able to secure additional gas for either of these facilities on commercially acceptable terms.

Commodity Price Cyclicality and Methanol Supply and Demand

The methanol business is a highly competitive commodity industry and prices are affected by supply and demand fundamentals and global energy prices. 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 global industrial production, changes in general economic conditions and energy price.

We are not able to predict future methanol supply and demand balances, market conditions, methanol prices or global energy 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.

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 its final report is expected to be released in early 2010. 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.

Demand for Methanol in the Production of Formaldehyde

In 2007, methanol for the production of formaldehyde represented approximately 40% of global methanol demand. 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 2008.

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). IRIS is 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) voted to implement new limits for formaldehyde emitted from composite wood products. The new limits will be implemented commencing January 1, 2009.

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 2007, methanol for the production of MTBE represented approximately 14% of global methanol demand. MTBE is used primarily as a source of octane and as an oxygenate for gasoline to reduce the amount of harmful exhaust emissions from motor vehicles. During the 1990s, environmental concerns and legislation in the United States led to the introduction of a federal oxygenate standard for gasoline that resulted in increased demand for MTBE for use in gasoline to reduce automobile tailpipe emissions. Subsequently, concerns were raised regarding the use of MTBE in gasoline because gasoline containing MTBE leaked into groundwater in the United States, principally from underground gasoline storage tanks, and was also discharged directly into drinking water reservoirs from recreational watercraft. MTBE is more easily detectable in water than many other gasoline components. The presence of MTBE in some water supplies led to public concern about MTBE's potential to contaminate drinking water supplies. Several states including California, New York, New Jersey and Connecticut, have, since 2003, banned the use of MTBE as a gasoline component and this reduced demand for methanol in the United States.

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

In 2007, we believe that methanol was not used in the United States to make MTBE for use in domestic fuel blending, however, approximately 0.9 million tonnes per year of methanol continues to be used in the production of MTBE in the United States for non-fuel use and for export markets. Demand for methanol for MTBE in the United States may decline further. The pace of decline of such demand is uncertain and will be determined by various factors including the export economics of MTBE producers in the United States.

Additionally, the Environmental Protection Agency in the United States is preparing an Integrated Risk Information System (IRIS) review of the human health effects of MTBE including its potential carcinogenicity, and its final report is expected to be released in mid-2010. 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 in Europe. Several European MTBE production facilities are now producing ethyl tertiary butyl ether (ETBE), which does not contain methanol, 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 usage 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 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.

All of these recent developments lead us to believe that in 2008 and 2009, global demand for MTBE may decline slightly due to declining MTBE production in the United States and increasing incentives for biofuels in Europe and Latin America. However, we expect that demand for MTBE in Asia and the Middle East will remain healthy.

We cannot provide assurance that further legislation banning or restricting the use of MTBE or promoting alternatives to MTBE will not be passed or that negative public perceptions won't develop outside of the United States, 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 and investments outside of North America, including Chile, Trinidad, New Zealand, Egypt, 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, import or export restrictions, nationalization, war, insurrection, terrorism and other political risks, increases in duties, taxes and governmental royalties, renegotiation of contracts with governmental entities, as well as changes in laws or policies or other actions by governments that may adversely affect our operations.

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 feedstock and ocean shipping costs 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 feedstocks, power failures, longer than anticipated planned maintenance activities, loss of port facilities, natural disasters 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 have an adverse affect on our revenues and operating income. Excess capacity within our fleet of ocean vessels resulting from a prolonged plant shutdown or other event could also have an adverse effect on our operating income. Additionally, disruptions in our distribution system could adversely affect our revenues and operating income. Although we maintain operational and construction insurances, including business interruption insurance and delayed start-up 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 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.

Project under Construction

We are currently constructing a 1.3 million tonne per year methanol facility with our joint venture partners in Egypt. While we believe that our estimates of project costs and anticipated completion for the Egyptian project are reasonable, we cannot provide any assurance that the cost estimates will not be exceeded or that the facility will commence commercial production within the anticipated schedule, if at all.

New Capital Projects

As part of our strategy to strengthen our position as the global leader in the production and marketing of methanol, we intend to continue to pursue new opportunities to enhance our strategic position in the methanol industry.

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 and other feedstock 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 or develop new methanol projects.

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 emissions and the import, export, use, discharge, storage, disposal and transportation of toxic substances. The products we use and produce are subject to regulation under various health, safety and environmental laws. Non-compliance with 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 chemical commodity and our earnings are significantly 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.

We estimate that global demand for methanol in 2007 increased by approximately 4% over 2006 to a total of 40 million tonnes. The increase in demand was driven primarily by an increase in demand for methanol in China, both in traditional chemical derivatives and non-traditional energy applications such as fuel blending and DME. Also there was healthy global demand for methanol in the traditional chemical derivatives markets. During 2007, there were numerous smaller scale capacity additions in China representing approximately 3.5 million tonnes per year. In 2007, the major capacity additions outside of China included the 1.7 million tonne per year Zagros 1 facility in Iran and the 1.0 million tonne per year facility in Oman.

During the second half of 2007 global inventory levels were very low as a result of planned and unplanned supplier outages, including our own Chile facilities, and strong demand. As a result, methanol prices increased substantially in October and continued to increase over the remainder of 2007. During 2008, we expect to see new non-traditional demand growth for methanol for energy related uses such as DME and fuel blending. We believe that supply and demand fundamentals will be balanced to tight during 2008 and that methanol prices will be underpinned by strong demand in China and global energy prices.

Over the two-year period to the end of 2009, it is expected that new capacity and expansions will add approximately 5.1 million tonnes of capacity to the global industry outside of China. We believe that this new capacity could be offset by demand growth outside of China, import growth into China and closures of high cost capacity in the industry. We believe that outside China, approximately 2.0 million tonnes of capacity could shut down as a result of high feedstock prices including various plants in India, Germany, Eastern Europe, the United States and Russia.

By the end of 2009, we believe that China will add in excess of 10 million tonnes of new methanol capacity. We also believe that most of this new capacity will be coal-based production that will meet domestic Chinese derivative and energy market demand for methanol and is not expected to compete in the international market with natural gas produced methanol. The Chinese methanol industry has historically operated at low rates and there has been increasing pressure on its cost structure as a result of escalating feedstock costs for both coal and natural gas based producers, and the cost for Chinese producers to export has escalated as a result of reduced fiscal incentives and an appreciating local currency. In addition, the majority of the methanol produced in China is coal-based which is typically lower quality and often not suitable for many international customers. We also believe that methanol demand growth for both traditional and energy related uses will remain strong in China which will require significant capacity expansion and good operating rates in China in order to satisfy the growth in its domestic demand. As a result, under a normal pricing environment, we believe that substantially all existing and new methanol capacity in China will be consumed in the local market and that imports of methanol into China will increase over time.

The methanol price will ultimately depend on industry operating rates, global energy prices, 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 the 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 to our 2007 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, 2007, the net book value of our property, plant and equipment was $1,542 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 adversely affected by asset impairment charges or by changes in depreciation and amortization rates related to property, plant and equipment. As at December 31, 2007, we performed asset impairment analysis for certain of our production assets and determined that an impairment charge was not required.

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, 2007, we had accrued $15 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 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, 2007, we had future income tax assets of $299 million that are substantially offset by a valuation allowance of $236 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 2007

Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation*, and Section 3865, *Hedges*. 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.

As a result of the adoption of these new standards, as at December 31, 2007, unrealized losses of $8.7 million relating to derivative financial instruments used to hedge exposure to variability in foreign exchange rates and variable interest rates were recorded in accumulated other comprehensive income.

ANTICIPATED CHANGES TO CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Inventories

In June 2007, the CICA issued Section 3031, *Inventories*, which replaces Section 3030 and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards (IFRS). This Section provides changes to the measurement and more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing; and expands the disclosure requirements to increase transparency. This Section became effective for our Company beginning January 1, 2008. We are currently reviewing the impact of this Section and do not believe this will have a material impact on our financial results.

Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued Section 3862, *Financial Instruments – Disclosure* and Section 3863, *Financial Instruments – Presentation*. These sections revise and enhance disclosure and presentation of financial instruments and place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how those risks are managed. These Sections became effective for our Company beginning January 1, 2008. We are currently reviewing the impact of these Sections and their impact on our disclosure and presentation of financial instruments.

Capital Disclosures

In December 2006, the CICA issued Section 1535, *Capital Disclosures*. This Section established standards for disclosing information about an entity's capital and how it is managed. This Section became effective for our Company beginning January 1, 2008. We are currently reviewing the impact of this Section and its impact on our capital disclosures.

International Financial Reporting Standards

In 2005, the Canadian Accounting Standards Board (AcSB) announced that accounting standards in Canada are to converge with International Financial Reporting Standards (IFRS) which are issued by the International Accounting Standards Board (IASB). On February 13, 2008, the AcSB confirmed January 1, 2011 as the official transition date for publicly listed Canadian companies to report under IFRS. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies that must be addressed. We are currently assessing the future impact of these new standards on our consolidated financial statements.

There are currently provisions under National Instrument (NI) 52-107, as set forth by Canadian Securities Administrators (CSA) that permits SEC issuers, including domestic issuers that are SEC registrants, to file with Canadian securities regulators using financial statements prepared in accordance with US GAAP. However, the CSA have tentatively concluded that they should not allow Canadian companies to use US GAAP as a reporting framework for financial years beginning on or after January 1, 2009, with the exception that SEC registrants filing US GAAP financial statements in Canada for financial years ending on or before December 31, 2008, could continue doing so for five years (i.e. until 2013), at which time they would need to adopt IFRS.

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, return on capital employed, operating income, cash flows from operating activities before changes in non-cash working capital, income before unusual items (after-tax) and diluted income before unusual items (after-tax) per share. 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.

Adjusted EBITDA

This supplemental non-GAAP measure is provided to help readers determine 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, 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)	2007	2006
Cash flows from operating activities	$ 527	$ 469
Add (deduct):		
Changes in non-cash working capital	(33)	154
Stock-based compensation, net	(9)	(13)
Other, net	(11)	1
Interest expense	44	45
Interest and other income	(27)	(10)
Income taxes – current	161	154
Adjusted EBITDA	$ 652	$ 800

Return on Capital Employed (ROCE)

This supplemental non-GAAP measure is provided to assist readers in determining our ability to generate returns in excess of our cost of capital. Return on capital employed is calculated by dividing income before unusual items and interest expense (after tax) by average productive capital employed. Average productive capital employed is calculated as the sum of average total assets less the average of Egypt plant under construction and the average of current non-interest bearing liabilities.

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 statement of income and consolidated statement 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 help readers compare 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 where noted)		2007		2006
Net income	$	376	$	483
Add (deduct) unusual items:				
Future income tax adjustment related to retroactive change in tax legislation		–		(26)
Income before unusual items (after-tax)	$	376	$	457
Diluted weighted average number of common shares outstanding (millions)		102		109
Diluted income before unusual items (after-tax) per share		3.68		4.18

QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three months ended			
($ Millions, except where noted)	Dec 31	Sep 30	Jun 30	Mar 31
2007				
Revenue	731	395	466	674
Net income	172	23	36	145
Basic net income per share	1.74	0.24	0.35	1.38
Diluted net income per share	1.72	0.24	0.35	1.37
2006				
Revenue	668	519	461	460
Net income	173	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

A discussion and analysis of our results for the fourth quarter of 2007 is set out in our fourth quarter of 2007 Management's Discussion and Analysis filed with Canadian Securities Administrators and the US Securities and Exchange Commission and incorporated herein by reference.

SELECTED ANNUAL INFORMATION

($ Millions, except where noted)	2007	2006
Revenue	2,266	2,108
Net income	376	483
Basic net income per share	3.69	4.43
Diluted net income per share	3.68	4.41
Cash dividends declared per share	0.545	0.485
Total assets	2,870	2,453
Total long-term financial liabilities	656	542

CONTROLS AND PROCEDURES

Disclosure 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 the filings under applicable securities regulations is recorded, processed, summarized and reported within the time periods specified. As at December 31, 2007, 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.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. 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 our assets; (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 our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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.

Under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting, as of December 31, 2007, based on the framework set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its evaluation under this framework, management concluded that our internal control over financial reporting was effective as of that date.

KPMG LLP ("KPMG"), an independent registered public accounting firm, who audited and reported on our consolidated financial statements, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2007. The attestation report is included on page 43 of our consolidated financial statements.

Changes in Internal Control over Financial Reporting

There have been no changes during the year ended December 31, 2007 to internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

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 that are included in these forward-looking statements.

Forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated in the forward-looking statements, including, without limitation, worldwide economic conditions; conditions in the methanol and other industries, including the supply of methanol; demand for methanol and its derivatives; actions of competitors and suppliers; 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 complete the projects on time and on budget; availability and price of natural gas feedstock; global energy prices; 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 in the *Risk Factors and Risk Management* section on page 27 in our 2007 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.

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, 2007.

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

February 29, 2008

Auditors' Report

We have audited the consolidated balance sheets of Methanex Corporation ("the Company") as at December 31, 2007 and 2006 and the consolidated statements of income, shareholders' equity, comprehensive income 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 years ended December 31, 2007 and 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, 2007 and 2006 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 Company's internal control over financial reporting as of December 31, 2007, 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 February 29, 2008, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Chartered Accountants
Vancouver, Canada
February 29, 2008

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Methanex Corporation

We have audited Methanex Corporation's ("the Company") internal control over financial reporting as of December 31, 2007, 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, included in the section entitled "Management's Annual Report on Internal Controls over Financial Reporting" included in Management's Discussion and Analysis. Our responsibility is to express 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, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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 years ended December 31, 2007 and 2006, we also have conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our report dated February 29, 2008, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants
Vancouver, Canada
February 29, 2008

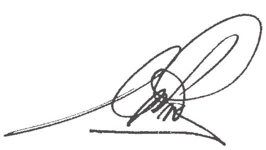
Consolidated Balance Sheets

(thousands of US dollars, except number of common shares)

As at December 31	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 488,224	$ 355,054
Receivables (note 2)	401,843	366,387
Inventories	312,143	244,766
Prepaid expenses	20,889	24,047
	1,223,099	990,254
Property, plant and equipment (note 3)	1,542,100	1,362,281
Other assets (note 5)	104,700	100,518
	$ 2,869,899	$ 2,453,053
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 466,020	$ 309,979
Current maturities on long-term debt (note 6)	15,282	14,032
Current maturities on other long-term liabilities (note 7)	16,965	17,022
	498,267	341,033
Long-term debt (note 6)	581,987	472,884
Other long-term liabilities (note 7)	74,431	68,818
Future income tax liabilities (note 11)	338,602	351,918
Non-controlling interest	41,258	9,149
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, 2007 was 98,310,254 (2006 – 105,800,942)	451,640	474,739
Contributed surplus	16,021	10,346
Retained earnings	876,348	724,166
Accumulated other comprehensive loss (note 1(m))	(8,655)	–
	1,335,354	1,209,251
	$ 2,869,899	$ 2,453,053

Commitments and contingencies (note 16)
See accompanying notes to consolidated financial statements.

Approved by the Board:



Terence Poole
Director

Bruce Aitken
Director

Consolidated Statements of Income

(thousands of US dollars, except number of common shares and per share amounts)

For the years ended December 31	2007	2006
Revenue	$ 2,266,521	$ 2,108,250
Cost of sales and operating expenses	1,614,179	1,308,175
Depreciation and amortization	112,428	106,828
Operating income	539,914	693,247
Interest expense (note 9)	(43,911)	(44,586)
Interest and other income	26,862	9,598
Income before income taxes	522,865	658,259
Income taxes (note 11):		
Current	(160,514)	(154,466)
Future	13,316	(46,597)
Future income tax recovery related to change in tax legislation	–	25,753
	(147,198)	(175,310)
Net income	$ 375,667	$ 482,949
Basic net income per common share	$ 3.69	$ 4.43
Diluted net income per common share	$ 3.68	$ 4.41
Weighted average number of common shares outstanding	101,717,341	109,110,689
Diluted weighted average number of common shares outstanding	102,129,929	109,441,404

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(thousands of US dollars, except number of common shares)

	Number of Common shares	Capital Stock	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (note 1(m))	Total Shareholders' Equity
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
Net income	–	–	–	375,667	–	375,667
Compensation expense recorded for stock options	–	–	9,343	–	–	9,343
Issue of shares on exercise of stock options	552,175	9,520	–	–	–	9,520
Reclassification of grant date fair value on exercise of stock options	–	3,668	(3,668)	–	–	–
Payment for shares repurchased	(8,042,863)	(36,287)	–	(168,440)	–	(204,727)
Dividend payments	–	–	–	(55,045)	–	(55,045)
Other comprehensive loss	–	–	–	–	(8,655)	(8,655)
Balance, December 31, 2007	98,310,254	$ 451,640	$ 16,021	$ 876,348	$ (8,655)	$1,335,354

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

(thousands of US dollars)

For the year ended December 31	2007
Net income	$ 375,667
Other comprehensive loss:	
Change in fair value of forward exchange contracts, net of tax (note 1(m), 13(a))	(45)
Change in fair value of interest rate swap contracts, net of tax (note 1(m), 13(c))	(8,610)
	(8,655)
Comprehensive income	$ 367,012

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands of US dollars)

For the years ended December 31	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 375,667	$ 482,949
Add (deduct):		
Depreciation and amortization	112,428	106,828
Future income taxes	(13,316)	20,844
Stock-based compensation, net	8,491	13,500
Other, net	10,669	(1,201)
Cash flows from operating activities before undernoted	493,939	622,920
Changes in non-cash working capital (note 12)	33,396	(154,083)
	527,335	468,837
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for shares repurchased	(204,727)	(186,779)
Dividend payments	(55,045)	(52,520)
Proceeds from limited recourse debt (note 6)	131,574	–
Financing costs	(8,725)	–
Equity contributions by non-controlling interest	32,109	9,149
Repayment of limited recourse debt	(14,344)	(14,032)
Proceeds on issue of shares on exercise of stock options	9,520	7,519
Changes in debt service reserve accounts	1,035	(2,301)
Repayment of other long-term liabilities	(5,153)	(5,897)
	(113,756)	(244,861)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant and equipment	(76,239)	(42,195)
Egypt plant under construction (note 16(d))	(201,922)	(20,796)
Other assets	(19,788)	355
Changes in non-cash working capital related to investing activities (note 12)	17,540	34,959
	(280,409)	(27,677)
Increase in cash and cash equivalents	133,170	196,299
Cash and cash equivalents, beginning of year	355,054	158,755
Cash and cash equivalents, end of year	$ 488,224	$ 355,054
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	$ 38,454	$ 38,577
Income taxes paid, net of amounts refunded	$ 144,169	$ 110,275

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular dollar amounts are shown in thousands of US dollars, except where noted)
Years ended December 31, 2007 and 2006

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 17.

These consolidated financial statements include the accounts of Methanex Corporation, wholly owned subsidiaries, less than wholly owned entities for which it has a controlling interest and its proportionate share of the accounts of jointly controlled entities (collectively, the Company). For less than wholly owned entities for which the Company has a controlling interest, a non-controlling interest is included in the Company's financial statements and represents the non-controlling shareholder's interest in the net assets of the entity. In accordance with the Accounting Guideline No. 15, *Consolidation of Variable Interest Entities*, the Company also consolidates any variable interest entities of which it is the primary beneficiary, as defined. When the Company does not have a controlling interest in an entity, but exerts a significant influence over the entity, the Company applies the equity method of accounting. 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 US 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. Historically 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.

The Company periodically reviews the carrying value property, plant and equipment for impairment when circumstances indicate an asset's value may not be recoverable. If it is determined that an asset's undiscounted cash flows are less than its carrying value, the asset is written down to its fair value.

(g) 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 related to undrawn credit facilities are capitalized to other assets and amortized to interest expense over the term of the credit facility. Financing costs related to project debt facilities are capitalized to other assets until the project debt is fully drawn. Once the project debt is fully drawn, these costs are reclassified to present long-term debt net of financing costs and amortized to interest expense over the repayment term. Other long-term debt is presented net of financing costs and amortized to interest expense over the repayment term. In 2006, all financing costs were recorded in other assets. Refer to note 1 (m) for more information.

(h) 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 and 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.

(i) 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 to the accrued benefit obligation and the fair value of the plan assets that arise from changes in actuarial assumptions, experience gains and losses and plan amendments that exceed 10% of the greater of the accrued benefit obligation and the fair value of the plan assets 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.

(j) 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 grant-date 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.

1. Significant accounting policies: *(continued)*

(j) Net income per common share: *(continued)*

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

For the years ended December 31	2007	2006
Denominator for basic net income per common share	101,717,341	109,110,689
Effect of dilutive stock options	412,588	330,715
Denominator for diluted net income per common share	102,129,929	109,441,404

(k) 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.

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.

Additional information related to the stock option plan and the deferred, restricted and performance share units of the Company are described in note 8.

(l) 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 and 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 commission income is included in revenue when earned.

(m) Financial instruments:

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation*, and Section 3865, *Hedges*. These new accounting standards, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under these new standards, financial instruments must be classified into one of five categories and, depending on the category, will either be measured at amortized cost or fair value. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost. Held for trading financial assets and liabilities and available-for-sale financial assets are measured on the balance sheet at fair value. Changes in fair value of held-for-trading financial assets and liabilities are recognized in earnings while changes in fair value of available-for-sale financial assets are recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in earnings. Under adoption of these new standards, the Company classified its cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, long-term debt, net of financing costs, and other long-term liabilities are classified as other financial liabilities, which are also measured at amortized cost.

Under these new standards, derivative financial instruments, including embedded derivatives, are classified as held for trading and are recorded on the balance sheet at fair value unless exempted as a normal purchase and sale arrangement. The Company records all changes in fair value of derivative financial instruments in earnings unless the instruments are designated as cash flow hedges. The Company enters into and designates as cash flow hedges certain forward exchange sales contracts to hedge foreign exchange exposure on anticipated sales. The Company also enters into and designates as cash flow hedges certain interest rate swap contracts to hedge variable interest rate exposure on its limited recourse debt. The Company assesses at inception and on an ongoing basis whether the hedges are and continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions. The effective portion of changes in fair value of these forward exchange sales contracts and interest rate swap contracts is recognized in other comprehensive income. Any gain or loss in fair value relating to the ineffective portion is recognized immediately in earnings.

The adoption of these new standards resulted in the reclassification of certain financing costs previously recorded in other assets to long-term debt. These standards have been adopted on a prospective basis beginning January 1, 2007.

(n) 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.

(o) Anticipated Changes to Canadian Generally Accepted Accounting Principles:

In June 2007, the CICA issued Section 3031, *Inventories*, which provides changes to the measurement and more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing; and expands the disclosure requirements to increase transparency. This new standard became effective for the Company on January 1, 2008.

In December 2006, the CICA issued three new accounting standards: Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosure* and Section 3863, *Financial Instruments – Presentation*. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. Sections 3862 and 3863 revise and enhance disclosure and presentation of financial instruments and place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how those risks are managed. These new standards became effective for the Company on January 1, 2008.

2. Receivables:

As at December 31	2007	2006
Trade	$ 369,269	$ 317,961
Value-added and other tax receivable	19,988	34,670
Other	12,586	13,756
	$ 401,843	$ 366,387

3. Property, plant and equipment:

As at December 31	Cost	Accumulated Depreciation	Net Book Value
2007			
Plant and equipment	$ 2,774,392	$ 1,530,947	$ 1,243,445
Egypt plant under construction (note 16(d))	227,783	–	227,783
Other	124,779	53,907	70,872
	$ 3,126,954	$ 1,584,854	$ 1,542,100
2006			
Plant and equipment	$ 2,728,837	$ 1,451,162	$ 1,277,675
Egypt plant under construction (note 16(d))	25,861	–	25,861
Other	102,597	43,852	58,745
	$ 2,857,295	$ 1,495,014	$ 1,362,281

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	2007	2006
Cash and cash equivalents	$ 20,128	$ 19,268
Other current assets	107,993	62,420
Property, plant and equipment	263,942	264,292
Other assets	16,329	22,471
Accounts payable and accrued liabilities	56,495	28,644
Long-term debt, including current maturities (note 6)	119,891	136,916
Future income tax liabilities (note 11)	16,099	10,866

Consolidated Statements of Income for the years ended December 31	2007	2006
Revenue	$ 258,418	$ 219,879
Expenses	214,981	182,656
Income before income taxes	43,437	37,223
Income tax recovery (expense)	(9,458)	9,997
Net income	$ 33,979	$ 47,220

Included in income tax recovery (expense) for 2006, is an adjustment related to a retroactive change in tax legislation. Refer to note 11 for more information.

4. Interest in Atlas joint venture: *(continued)*

Consolidated Statements of Cash Flows for the years ended December 31	2007	2006
Cash inflows from operating activities	$ 40,317	$ 23,465
Cash outflows from financing activities	(12,997)	(14,032)
Cash outflows from investing activities	(16,380)	(3,137)

5. Other assets:

As at December 31	2007	2006
Marketing and production rights, net of accumulated amortization	$ 34,728	$ 42,344
Restricted cash for debt service reserve account	16,329	17,362
Deferred financing costs, net of accumulated amortization	10,138	10,924
Defined benefit pension plans (note 15)	13,487	11,745
Natural gas prepayment (note 16(f))	13,681	–
Other	16,337	18,143
	$ 104,700	$ 100,518

As of January 1, 2007, as a result of the adoption of new accounting standards related to financial instruments (note 1 (g), 1(m)), the Company reclassified certain deferred financing costs to long-term debt. These changes were applied prospectively.

For the year ended December 31, 2007, amortization of marketing and production rights included in depreciation and amortization was $7.6 million (2006 – $7.6 million) and amortization of deferred financing costs included in interest expense was $0.3 million (2006 – $1.1 million).

6. Long-term debt:

As at December 31		2007		2006
Unsecured Notes:				
(i) 8.75% due August 15, 2012 (effective yield 8.88%)	$	197,776	$	200,000
(ii) 6.00% due August 15, 2015 (effective yield 6.10%)		148,340		150,000
		346,116		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.		34,541		49,207
(ii) Senior secured notes bearing an interest rate with semi-annual interest payments of 7.95% per annum. Principal will be paid in nine semi-annual payments commencing December 2010.		61,477		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.		14,684		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.		9,189		9,465
		119,891		136,916
Egypt limited recourse debt facilities				
(i) International facility to a maximum amount of $139 million with interest payable semi-annually with rates based on LIBOR plus a spread ranging from 1.1% to 1.5% per annum. Principal is paid in 24 semi-annual payments which will commence in September 2010.		23,074		–
(ii) Euromed facility to a maximum amount of $146 million with interest payable semi-annually with rates based on LIBOR plus a spread ranging from 1.1% to 1.4%. Principal is paid in 24 semi-annual payments which will commence in September 2010.		93,500		–
(iii) Article 18 facility to a maximum amount of $77 million with interest payable semi-annually with rates based on LIBOR plus a spread ranging from 1.0% to 1.4%. Principal is paid in 24 semi-annual payments which will commence in September 2010.		–		–
(iv) Egyptian facility to a maximum amount of $168 million with interest payable semi-annually with rates based on LIBOR plus a spread ranging from 1.0% to 1.6% per annum. Principal is paid in 24 semi-annual payments which will commence in September 2010.		–		–
		116,674		–
Other limited recourse debt		14,688		–
		597,269		486,916
Less current maturities		(15,282)		(14,032)
	$	581,987	$	472,884

As of January 1, 2007, as a result of the adoption new accounting standards related to financial instruments (note 1(g), 1(m)), the Company reclassified certain deferred financing costs to long-term debt. These changes were applied prospectively. For the year ended December 31, 2007, amortization of these deferred financing costs included in interest expense was $1.4 million.

The minimum principal payments in aggregate and for each of the five succeeding years are as follows:

2008	$ 15,282
2009	15,282
2010	19,077
2011	23,187
2012	223,619
	$ 296,447

During the second quarter of 2007, the Company achieved financial close to construct a methanol plant in Egypt as described in note 16 (d). The LIBOR-based interest payments on approximately half of the projected outstanding debt balance have been fixed at 5.1% through interest rate swap agreements for the period September 28, 2007 to March 31, 2015 as described in note 13 (c).

The limited recourse debt facilities of Egypt and Atlas are described as limited recourse as they are secured only by the assets of the Egypt entity and the Atlas joint venture, respectively. Under the terms of these limited recourse debt facilities, the entities can make cash or other distributions after fulfilling certain conditions.

Other limited recourse debt is payable over twelve years in equal quarterly principal payments beginning October 2007. Interest on this debt is payable quarterly at LIBOR plus 0.75%.

As at December 31, 2007, 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	2007	2006
Asset retirement obligations (a)	$ 14,566	$ 16,111
Capital lease obligation (b)	24,676	28,330
Deferred, restricted and performance share units (note 8)	21,355	22,620
Chile retirement arrangement (note 15)	21,233	17,476
Fair value of derivative financial instruments (note 13)	9,566	1,303
	91,396	85,840
Less current maturities	(16,965)	(17,022)
	$ 74,431	$ 68,818

(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, 2007, cash expenditures applied against the accrual for asset retirement obligations were $0.7 million (2006 – $4.9 million). At December 31, 2007, the total undiscounted amount of estimated cash flows required to settle the obligation was $15.5 million (2006 – $16.9 million).

7. Other long-term liabilities: *(continued)*

(b) Capital lease obligation:

As at December 31, 2007, 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:

2008	$ 8,664
2009	8,752
2010	8,839
2011	8,927
2012	7,846
	43,028
Less executory and imputed interest costs	(18,352)
	$ 24,676

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, 2007, the Company had 1.3 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, 2007 and 2006 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, 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
Granted	–	–	1,109,491	24.96
Exercised	(42,300)	8.87	(509,875)	18.14
Cancelled	(15,500)	11.28	(83,560)	20.33
Outstanding at December 31, 2007	104,450	$ 7.79	2,920,981	$ 21.17

Information regarding incentive stock options outstanding at December 31, 2007 is as follows:

	Options Outstanding			Options Exercisable	
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 $11.60	2.1	104,450	$ 7.79	104,450	$ 7.79
Options denominated in US$					
$6.45 to $11.56	5.0	201,150	$ 8.59	201,150	$ 8.59
$17.85 to $22.52	5.0	1,632,400	20.20	446,816	19.90
$23.92 to $25.21	6.2	1,087,431	24.96	–	–
	5.4	2,920,981	$ 21.17	647,966	$ 16.39

(ii) Performance stock options:

As at December 31, 2007 and 2006, 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	2007	2006
Risk-free interest rate	4.5%	4.9%
Expected dividend yield	2%	2%
Expected life of option	5 years	5 years
Expected volatility	31%	40%
Expected forfeitures	5%	5%
Weighted average fair value of options granted (US$ per share)	$ 7.06	$ 8.82

For the year ended December 31, 2007, compensation expense related to stock options was $9.3 million (2006 – $8.6 million).

8. Stock-based compensation: *(continued)*

(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, 2007 and 2006 are as follows:

	Number of Deferred Share Units	Number of Restricted Share Units	Number of Performance Share Units
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
Granted	127,359	6,000	325,779
Granted in lieu of dividends	6,275	8,803	15,672
Redeemed	(92,696)	(501,961)	–
Cancelled	–	(17,117)	(22,271)
Outstanding at December 31, 2007	359,684	14,482	725,262

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, 2007 was $29.8 million (2006 – $36.2 million) compared with the recorded liability of $21.4 million (2006 – $22.6 million). The difference between the fair value and the recorded liability at December 31, 2007 of $8.4 million will be recognized over the weighted average remaining service period of approximately 1.4 years.

For the year ended December 31, 2007, compensation expense related to deferred, restricted and performance share units was $13.1 million (2006 – $22.6 million). Included in compensation expense for the year ended December 31, 2007 was $3.5 million (2006 – $12.2 million) related to the effect of the increase in the Company's share price. As at December 31, 2007, the Company's share price was US$27.60 per share.

9. Interest expense:

For the years ended December 31	2007	2006
Interest expense before capitalized interest	$ 48,104	$ 44,586
Less capitalized interest related to Egypt project under construction	(4,193)	–
Interest expense	$ 43,911	$ 44,586

Interest incurred during construction of the Egypt methanol facility is capitalized until the plant is substantively complete and ready for productive use. In May 2007, the Company reached financial close and secured limited recourse debt of $530 million for its joint venture project to construct a 1.3 million tonne per year methanol facility in Egypt. For the year ended December 31, 2007, interest costs of $4 million related to this project were capitalized.

10. Segmented information:

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

During the year ended December 31, 2007 and 2006, 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								
2007	753,400	500,420	259,108	147,445	142,217	227,045	236,886	2,266,521
2006	679,014	493,926	213,246	157,970	203,364	194,362	166,368	2,108,250

As at December 31, 2007 and 2006, the net book value of property, plant and equipment by country was as follows:

	Chile	Trinidad	Egypt	New Zealand	Canada	Korea	Other	Total
Property, plant and equipment								
2007	707,508	500,205	227,783	26,417	19,987	16,452	43,748	1,542,100
2006	744,924	517,485	25,861	5,952	22,348	17,507	28,204	1,362,281

11. 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	2007	2006
Canadian statutory tax rate	34.1%	34.1%
Income tax expense calculated at Canadian statutory tax rate	$ 178,401	$ 224,598
Increase (decrease) in income tax expense resulting from:		
Income taxed in foreign jurisdictions	(8,379)	(5,823)
Previously unrecognized loss carryforwards and temporary differences	(27,717)	(19,356)
Adjustments related to retroactive change in tax legislation (i)	–	(25,753)
Other	4,893	1,644
Total income tax expense	$ 147,198	$ 175,310

(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.

11. Income and other taxes: *(continued)*

(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		2007		2006
Future income tax liabilities:				
Property, plant and equipment	$	205,726	$	193,413
Other		196,023		198,212
		401,749		391,625
Future income tax assets:				
Non-capital loss carryforwards		216,663		232,755
Property, plant and equipment		28,702		34,961
Other		53,671		34,632
		299,036		302,348
Future income tax asset valuation allowance		(235,889)		(262,641)
		63,147		39,707
Net future income tax liabilities	$	338,602	$	351,918

At December 31, 2007, the Company had non-capital loss carryforwards available for tax purposes of $580 million in Canada, $10 million in the United States and $57 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 2008 to 2024, inclusive. In New Zealand the loss carryforwards do not have an expiry date.

12. Changes in non-cash working capital:

Changes in non-cash working capital for the years ended December 31, 2007 and 2006 are as follows:

For the years ended December 31		2007		2006
Decrease (increase) in non-cash working capital:				
Receivables	$	(35,456)	$	(69,865)
Inventories		(67,377)		(104,662)
Prepaid expenses		3,158		(10,492)
Accounts payable and accrued liabilities		156,041		74,079
		56,366		(110,940)
Adjustments for items not having a cash effect		(5,430)		(8,184)
Changes in non-cash working capital having a cash effect	$	50,936	$	(119,124)
These changes relate to the following activities:				
Operating	$	33,396	$	(154,083)
Investing (i)		17,540		34,959
Changes in non-cash working capital	$	50,936	$	(119,124)

(i) Included in changes in non-cash working capital related to investing activities for the year ended December 31, 2007 are accruals related to the construction of the Egypt methanol plant and major turnarounds, which are recorded in accounts payable and accrued liabilities. 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 $28 million related to the construction of the Chile IV methanol production facility.

13. Derivative financial instruments:

(a) Forward exchange sales and purchase contracts:

As at December 31, 2007, the Company has outstanding forward exchange contracts to sell a notional amount of 4 million euro in exchange for US dollars at an average exchange rate of 1.4236 US dollars to 1 euro. These contracts mature in the first half of 2008. As at December 31, 2007, the carrying value of forward exchange sales contracts was a liability of $0.1 million (2006 – $0.2 million) which approximates the fair value of these contracts.

(b) Interest rate swap contract:

As at December 31, 2007, the Company had an interest rate swap contract recorded in other long-term liabilities at fair value in the amount of $1.0 million (2006 – $1.0 million). As at December 31, 2007, this interest rate swap contract had a remaining notional principal amount of $25 million (2006 – $35 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) Egypt debt interest rate swap contracts:

In August 2007, the Company entered into interest rate swap contracts to hedge the variability in LIBOR-based interest payments on its Egypt limited recourse debt facilities described in note 6. The term of the interest rate swap contracts is from September 28, 2007 to March 31, 2015. As at December 31, 2007 these interest rate swap contracts had outstanding notional amounts of $95 million. The maximum notional amount under the term of the interest rate swap contracts is $266 million. This represents the peak notional amount during the term of the interest rate swap contracts. The notional amount increases over the period of expected drawdowns on the Egypt limited recourse debt and decreases over the expected repayment period. These contracts swap the LIBOR-based interest payments to a fixed rate of 5.1% on approximately half of the projected outstanding debt for the period September 28, 2007 to March 31, 2015. The interest rate swap contracts are recorded at their fair value of negative $8.6 million in other long-term liabilities with the effective portion of the change in fair value recorded in other comprehensive income.

14. Fair value disclosures:

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

	2007		2006	
As at December 31	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$ 597,269	$ 606,020	$ 486,916	$ 505,613

The fair value of the Company's fixed interest rate long-term debt is estimated by reference to current market prices for other debt securities with similar terms and characteristics. The fair value of the Company's variable interest rate long-term debt, recalculated at current interest rates, approximates its carrying value excluding deferred financing fees.

The fair values of the Company's derivative financial instruments as disclosed in note 13 are determined based on quoted market prices received from counterparties.

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 nil at December 31, 2007 (2006 — $1.9 million).

15. 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:

As at December 31	2007	2006
Accrued benefit obligations:		
Balance, beginning of year	$ 58,297	$ 59,611
Current service cost	2,272	1,980
Interest cost on accrued benefit obligations	3,016	2,948
Benefit payments	(3,858)	(11,263)
Gain on curtailment	–	(94)
Loss on settlement	–	395
Actuarial losses (gains)	(568)	4,629
Foreign exchange losses	7,592	91
Balance, end of year	66,751	58,297
Fair values of plan assets:		
Balance, beginning of year	38,118	38,954
Actual returns on plan assets	59	2,919
Contributions	3,274	7,077
Benefit payments	(3,858)	(11,263)
Foreign exchange gains	6,504	431
Balance, end of year	44,097	38,118
Unfunded status	22,654	20,179
Unamortized actuarial losses	(14,907)	(14,448)
Accrued benefit liabilities, net	$ 7,747	$ 5,731

The Company has an unfunded retirement arrangement for its employees in Chile that will be funded at retirement. At December 31, 2007, the balance of accrued benefit liabilities, net is comprised of $21.2 million recorded in other long-term liabilities for an unfunded retirement arrangement in Chile and $13.5 million recorded in other assets for defined benefit plans in Canada.

The Company's net defined benefit pension plan expense for the years ended December 31, 2007 and 2006 is as follows:

For the years ended December 31	2007	2006
Net defined benefit plan pension expense:		
Current service cost	$ 2,272	$ 1,980
Interest cost on accrued benefit obligations	3,016	2,948
Actual return on plan assets	(59)	(2,919)
Settlement and curtailment	–	1,671
Other	(1,061)	1,557
	$ 4,168	$ 5,237

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, 2007 in Chile. The next actuarial reports for funding purposes for our Chilean and Canadian defined benefit pension plans are scheduled to be completed as of December 31, 2008 and December 31, 2009, respectively.

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

	2007	2006
Benefit obligation at December 31:		
Weighted average discount rate	5.56%	5.40%
Rate of compensation increase	4.13%	4.10%
Net expense for year ended December 31:		
Weighted average discount rate	5.71%	5.43%
Rate of compensation increase	4.56%	4.14%
Expected rate of return on plan assets	7.00%	7.25%

The asset allocation for the defined benefit pension plan assets as at December 31, 2007 and 2006 are as follows:

	2007	2006
Equity securities	62%	59%
Debt securities	35%	34%
Cash and other short-term securities	3%	7%
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, 2007 was $2.7 million (2006 – $2.4 million).

16. Commitments and contingencies:

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

The Company has commitments under take-or-pay natural gas supply contracts to purchase annual quantities of feedstock supplies and to pay for transportation capacity related to these supplies to 2034. The minimum estimated commitment under these contracts, excluding Argentina natural gas supply contracts, is as follows:

2008	2009	2010	2011	2012	Thereafter
$ 158,745	$ 122,690	$ 141,600	$ 153,687	$ 157,908	$ 1,930,764

(b) Argentina natural gas supply contracts:

The Company has take-or-pay natural gas supply contracts with suppliers in Argentina for approximately 60% of its current natural gas requirements for its Chilean operations and 80% of its natural gas requirements commencing mid-2009.

The minimum estimated commitment under these contracts is as follows:

2008	2009	2010	2011	2012	Thereafter
$ 68,970	$ 66,457	$ 77,036	$ 77,490	$ 77,948	$ 778,692

16. Commitments and contingencies: *(continued)*

(b) Argentina natural gas supply contracts: *(continued)*

The government of Argentina has significantly increased the tax on exports of natural gas from Argentina. In addition, since June 2007, the government of Argentina has curtailed all of the natural gas supply from Argentina to the Company's operations in Chile. Future purchases of natural gas under these contracts will depend on whether natural gas exports are reinstated by the Argentina government, whether the Company can reach commercially acceptable arrangements with its gas suppliers and other factors

(c) Operating lease commitments:

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

2008	2009	2010	2011	2012	Thereafter
$ 114,873	$ 108,150	$ 88,763	$ 94,636	$ 86,725	$ 571,588

(d) Egypt methanol project:

During 2007, the Company reached financial close for its project to construct a 1.3 million tonne per year methanol facility at Damietta on the Mediterranean Sea in Egypt. The Company owns 60% of Egyptian Methanex Methanol Company S.A.E. ("EMethanex"), which is the company that is developing the project. EMethanex has secured limited recourse debt of $530 million. The Company expects commercial operations from the methanol facility to begin in early 2010 and the Company will purchase and sell 100% of the methanol from the facility. The total estimated future costs to complete the project over the next two years, excluding financing costs and working capital, are expected to be approximately $665 million. Our 60% share of future equity contributions, excluding financing costs and working capital, over the next two years is estimated to be approximately $175 million and the Company expects to fund these expenditures from cash generated from operations and cash on hand.

The Company's investment in EMethanex is accounted for using consolidation accounting. This results in 100% of the assets and liabilities of the Egypt entity being included in our balance sheet. The non-controlling shareholder's interest is presented as "non-controlling interest" on our balance sheet. Certain comparative figures related to this investment have been adjusted to conform with accounting treatment in the current period.

(e) Purchased methanol:

The Company has commitments to purchase methanol in 2008 at prices determined by specified margins at the time of purchase.

(f) GeoPark agreements:

During 2007, the Company entered into a financing agreement with GeoPark Chile Limited (GeoPark) under which the Company will provide up to US$40 million in financing over the period to December 31, 2008 to support and accelerate GeoPark's natural gas exploration and development activities in the Fell Block in southern Chile. As at December 31, 2007, the amount provided under the financing agreement was $14 million which has been recorded in other assets. Under the arrangement, GeoPark will also provide the Company with natural gas supply under a ten year exclusive supply agreement in which the Company will purchase all natural gas produced by GeoPark from the Fell Block in southern Chile.

17. 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 ("US GAAP"). The significant differences between Canadian GAAP and US GAAP with respect to the Company's consolidated financial statements as at and for the years ended December 31, 2007 and 2006 are as follows:

Condensed Consolidated Balance Sheets as at December 31	2007 Canadian GAAP	2007 US GAAP	2006 Canadian GAAP	2006 US GAAP
ASSETS				
Current Assets	$ 1,223,099	$ 1,223,099	$ 990,254	$ 990,254
Property, plant and equipment (a)	1,542,100	1,576,500	1,362,281	1,398,593
Other assets (d) (g)	104,700	102,803	100,518	93,041
	$ 2,869,899	$ 2,902,402	$ 2,453,053	$ 2,481,888
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	$ 498,267	$ 503,722	$ 341,033	$ 341,033
Long-term debt (g)	581,987	588,864	472,884	472,884
Other long-term liabilities (d)	74,431	80,705	68,818	75,788
Future income taxes (d) (f)	338,602	348,994	351,918	363,232
Non-controlling interest	41,258	41,258	9,149	9,149
Shareholders' equity:				
Capital stock (a) (b)	451,640	857,349	474,739	880,619
Additional paid-in capital (b)	–	16,627	–	11,059
Contributed surplus (b)	16,021	–	10,346	–
Retained earnings	876,348	486,935	724,166	341,175
Accumulated other comprehensive loss	(8,655)	(22,052)	–	(13,051)
	1,335,354	1,338,859	1,209,251	1,219,802
	$ 2,869,899	$ 2,902,402	$ 2,453,053	$ 2,481,888

Condensed Consolidated Statements of Income for the years ended December 31	2007	2006
Net income in accordance with Canadian GAAP	$ 375,667	$ 482,949
Add (deduct) adjustments for:		
Depreciation and amortization (a)	(1,911)	(1,911)
Stock-based compensation (b)	277	(482)
Uncertainty in income taxes (c)	(5,455)	–
Income tax effect of above adjustments (f)	669	669
Net income in accordance with US GAAP	$ 369,247	$ 481,225
Per share information in accordance with US GAAP:		
Basic net income per common share	$ 3.63	$ 4.41
Diluted net income per common share	$ 3.62	$ 4.40

17. United States Generally Accepted Accounting Principles: *(continued)*

Consolidated Statements of Comprehensive Income for the years ended December 31	2007 Canadian GAAP	2007 Adjustments	2007 US GAAP	2006 US GAAP[1]
Net income	$ 375,667	$ (6,420)	$ 369,247	$ 481,225
Change in fair value of forward exchange contracts, net of tax	(45)	–	(45)	–
Change in fair value of interest rate swap, net of tax	(8,610)	–	(8,610)	–
Change related to pension, net of tax (d) (f)	–	(346)	(346)	–
Comprehensive income	$ 367,012	$ (6,766)	$ 360,246	$ 481,225

Consolidated Statements of Accumulated Other Comprehensive Loss for the years ended December 31	2007 Canadian GAAP	2007 Adjustments	2007 US GAAP	2006 US GAAP[1]
Balance, beginning of year	$ –	$ (13,051)	$ (13,051)	$ (2,926)
Change in fair value of forward exchange contracts, net of tax	(45)	–	(45)	–
Change in fair value of interest rate swap, net of tax	(8,610)	–	(8,610)	–
Change related to pension, net of tax (d) (f)	–	(346)	(346)	(10,125)
Comprehensive income	$ (8,655)	$ (13,397)	$ (22,052)	$ (13,051)

[1] A Consolidated Statement of Comprehensive Income was introduced under Canadian GAAP upon the adoption of section 1530 on January 1, 2007. Accordingly, there is no reconciliation of Canadian GAAP to US GAAP for the prior periods.

(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 US GAAP, the business combination would have been accounted for as a purchase with the Company identified as the acquirer. For US GAAP purposes, property, plant and equipment at December 31, 2007 has been increased by $34.4 million (2006 – $36.3 million) to reflect the business combination as a purchase. For the year ended December 31, 2007, an adjustment to increase depreciation expense by $1.9 million (2006 – $1.9 million) has been recorded in accordance with US 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 US 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 US GAAP for the Company, except as disclosed in (i) below, no adjustment to operating expenses was required for the years ended December 31, 2007 and 2006.

(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 US 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 US 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, 2007, an adjustment to decrease operating expenses by $0.3 million (2006 – increase of $0.5 million) was recorded in accordance with US GAAP.

(c) Accounting for uncertainty in income taxes:

On January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 (FIN48)*. 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. In accordance with the interpretation, the Company has recorded the cumulative effect adjustment as a $4.8 million increase to opening retained earnings, with no restatement of prior periods. During the year ended December 31, 2007, adjustments to increase income tax expense by $5.5 million (2006 – nil) was recorded in accordance with US GAAP.

(d) Defined benefit pension plans:

Effective January 1, 2006, under US 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 other comprehensive income. As at December 31, 2007, the impact of this standard on the Company is the reclassification of unrecognized actuarial losses for Canadian GAAP of $14.9 million, net of a future income tax recovery of $1.6 million to accumulated other comprehensive loss in accordance with US GAAP.

(e) Interest in Atlas joint venture:

US 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 US 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, 2007.

(f) Income tax accounting:

The income tax differences include the income tax effect of the adjustments related to accounting differences between Canadian and US GAAP. During the year ended December 31, 2007, this resulted in an adjustment to increase net income by $0.7 million (2006 – $0.7 million) and no adjustment to other comprehensive income (2006 – $1.4 million).

(g) Deferred financing costs:

Effective January 1, 2007, under Canadian GAAP, the Company prospectively adopted section 3855, *Financial Instruments*, which requires the Company to present long-term debt net of deferred financing costs. Under US GAAP, the Company is required to present the long-term debt and related finance costs on a gross basis. As at December 31, 2007, the Company is required to record an adjustment to increase other assets and long-term debt by $6.9 million in accordance with US GAAP.

BOARD OF DIRECTORS

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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 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

Thomas Hamilton
Member of the Corporate Governance, Public Policy and Responsible Care Committees
Board member since 2007

Douglas Mahaffy
Chair of the Corporate Governance Committee and member of the Human Resources Committee
Board member since May 2006

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

John Reid
Chair of the Human Resources Committee and member of the Audit, Finance & Risk and Responsible Care Committees
Board member since 2003

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

Monica Sloan
Member of the Corporate Governance, 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

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Ian Cameron
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John Floren
Senior Vice President, Global Marketing and Logistics

John Gordon
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Randy Milner
Senior Vice President, General Counsel and Corporate Secretary

Paul Schiodtz
Senior Vice President, Latin America

Harvey Weake
Senior Vice President, Asia Pacific

Jorge Yanez
Senior Vice President, Caribbean and Global Manufacturing

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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:

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INVESTOR RELATIONS INQUIRIES
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Director, Investor Relations
T: 604 661 2600

Annual General Meeting
The Annual General Meeting will be held at the Vancouver Convention & Exhibition Centre in Vancouver, British Columbia on Tuesday, May 6, 2008 at 10:30 a.m. (Pacific Time).

Shares Listed
Toronto Stock Exchange – MX
Nasdaq Global Market – MEOH
Santiago Stock Exchange – Methanex

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 head office.

This annual report is printed on FSC certified paper. The cover paper contains 10% post-consumer recycled fibre and the inside pages are printed on paper made from 100% post-consumer recycled fibre. By printing on FSC certified paper, Methanex is supporting responsible forest management.
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METHANEX'S GLOBAL OPERATIONS

- Current Production
- Egypt Project [2010]
- Head Office
- Marketing Offices

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.

Our 2007 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.

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