United States
Securities and Exchange Commission

Washington, D.C. 20549

FORM 40-F

(Check One:)

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

[X] ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003. Commission File Number 0-20115

METHANEX CORPORATION

(Exact name of Registrant as specified in its charter)

CANADA
(Province or other jurisdiction of incorporation or organization)

2869	N.A.
(Primary Standard Industrial Classification Code (if applicable))	(I.R.S. Employer Identification Number (if applicable))

1800 Waterfront Centre, 200 Burrard Street
Vancouver, British Columbia, Canada V6C 3M1
telephone number: (604) 661-2600
(Address and telephone number of Registrant's principal executive office)

CT Corporation System
1633 Broadway, New York, New York 10019
telephone number: (202) 664-1666
(name, address (including zip code)and telephone number
(including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

None

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares	Nasdaq National Market

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Title of each class

7.75% Senior Notes due August 15, 2005
8.75% Senior Notes due August 15, 2012

For annual reports, indicate by check mark the information filed with this Form:

[X] Annual Information Form [X] Audited Annual Financial Statements

Indicate number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

120,007,767 Common Shares were outstanding as of December 31, 2003

Indicate by check mark whether the registrant by filing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the Registrant in connection with such Rule.

Yes [ ] 82 - ____ No [X]

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

CONTROLS AND PROCEDURES

Disclosure controls and procedures are defined by the Securities and Exchange Commission as those controls and procedures that are designed to ensure that information required to be disclosed in the Registrant's filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. The Registrant's Chief Executive Officer and Chief Financial Officer have evaluated the Registrant's disclosure controls and procedures as of December 31, 2003 and have determined that such disclosure controls and procedures are effective.

No change in internal control over financial reporting occurred during the financial year ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, internal controls over financial reporting.

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

AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant's Board of Directors has determined that it has at least one audit committee financial expert serving on its audit committee. Mr. A. Terence Poole has been determined to be such audit committee financial expert. The Commission has indicated that the designation of Mr. Poole as an audit committee financial expert does not make Mr. Poole an "expert" for any other purpose, impose any duties, obligations or liability on Mr. Poole that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of the audit committee.

CODE OF ETHICS

The Registrant has adopted a code of ethics that applies to directors, officers and employees including the Registrant's principal executive officer, principal financial officer and principal accounting officer. A copy of the Registrant's code, entitled "Code of Business Conduct", can be found on the Registrant's website at www.methanex.com.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

US$000s	2003	2002
Audit Fees	388	310
Audit-Related Fees	60	19
Tax Fees	242	255
All Other Fees	—	92
Total	**690**	**676**

Audit Fees:

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

Audit-Related Fees:

Audit-Related Fees consist of fees for financial audits of employee benefit plans; procedures and audit or attest services not required by statute or regulation; advice and documentation assistance with respect to internal controls over financial reporting and disclosure controls; and due diligence services pertaining to potential business acquisitions/dispositions.

Tax Fees:

Tax Fees consist of fees billed for professional services rendered for tax compliance, tax advice, and tax planning.

All Other Fees:

All Other Fees for the year ended December 31, 2002 consist principally of payroll processing services and services to review the Registrant's system of financial controls. For the year ended December 31, 2003, KPMG LLP no longer provided to the Company any services which would fall within this category.

OFF-BALANCE SHEET ARRANGEMENTS

Disclosure of off-balance sheet arrangements is made on page 34 of the Registrant's "Management's Discussion and Analysis" for the year ended December 31, 2003, filed as Exhibit No. 2 to this report.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Tabular disclosure of contractual obligations is made on page 34 of the Registrant's "Management's Discussion and Analysis" for the year ended December 31, 2003, filed as Exhibit No. 2 to this report.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Registrant's audit committee is comprised of the following directors: Brian D. Gregson (chair), R.J. (Jack) Lawrence, A. Terence Poole, John M. Reid and Graham D. Sweeney.

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities in relation to which the obligation to file an annual report on Form 40-F arises, or transactions in the said securities.

CONSENT TO SERVICE OF PROCESS

A Form F-X signed by the Registrant and the Registrants' agents for service of process with respect to the Common Shares was filed with the Commission together with the Form 40-F of the Registrant on June 16, 1995; with respect to the 7.75% Senior Notes due August 15, 2005 was filed with the Commission together with the Form F-9 of the Registrant on June 16, 1995

and; with respect to the 8.75% Senior Notes due August 15, 2012 was filed with the Commission together with the Form F-9 of the Registrant on May 31, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing on Form 40-F, and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

METHANEX CORPORATION

Date: March 26, 2004

By: /s/RANDY MILNER

Name: Randy Milner
Title: Senior Vice President,
General Counsel & Corporate Secretary

LIST OF EXHIBITS

Exhibit No.	Description
1.	Annual Information Form of the Registrant dated March 5, 2004.
2.	Management's Discussion and Analysis for the Year Ended December 31, 2003.
3.	Audited Consolidated Financial Statements of the Registrant for the year ended December 31, 2003 and the Independent Auditor's Report thereon.
4.	Reconciliation with United States Generally Accepted Accounting Principles of the Registrant.
23.	Consent of KPMG LLP dated March 5, 2004 and Report of Independent Accountants thereon.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Senior Vice President, Finance and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Senior Vice President, Finance and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 1



METHANEX CORPORATION

ANNUAL INFORMATION FORM

March 5, 2004

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REFERENCE INFORMATION

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

The Company uses the US dollar as its reporting currency. Accordingly, unless otherwise indicated, all dollar amounts in this AIF are stated in US dollars.

In this AIF, unless the context otherwise indicates, all references to "methanol" are to chemical-grade methanol.

Approximate conversions of certain units of measurement used in this AIF into alternative units of measurement are as follows:

1 tonne	=	2,205 pounds or 1,000 kilograms
1 tonne of methanol	=	332.6 US gallons

Historical price data and supply and demand statistics for methanol contained in this AIF are derived by the Company from recognized industry reports regularly published by independent consulting and data compilation organizations in the methanol industry, including Chemical Market Associates Inc., DeWitt & Company Incorporated, Petrochemical Consultants International and SRI International, Tecnon (UK) Ltd.

Responsible Care® is a registered trademark of the Canadian Chemical Producers' Association and is used under license by us.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this document that are based on our current objectives, expectations, estimates and projections constitute 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. By their very nature, forward-looking statements involve assumptions, uncertainties and risks that may cause the stated outcome to differ materially from the actual outcome.

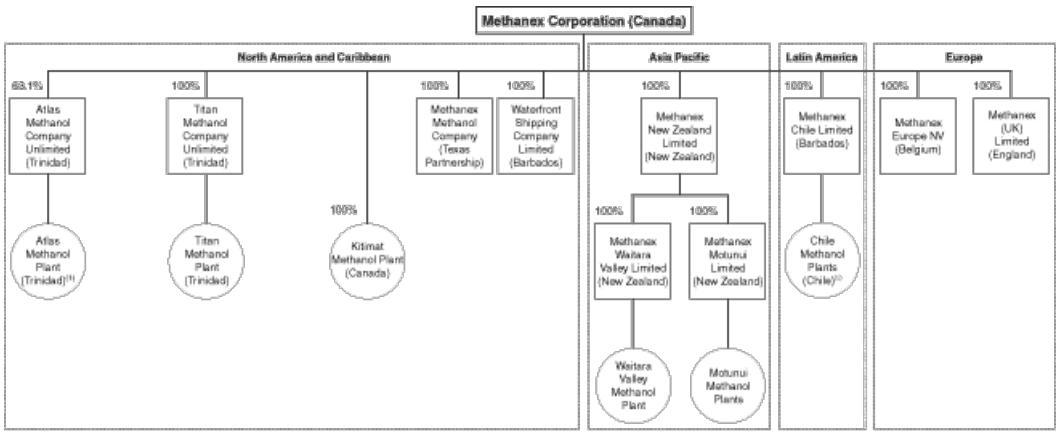
Important factors that can cause anticipated outcomes to differ materially from actual outcomes include but are not limited to worldwide economic conditions; conditions in the methanol and other industries, including the supply of methanol; demand for methanol and its derivatives such as methyl tertiary butyl ether ("MTBE"); actions of competitors; changes in laws or regulations; the ability to implement business strategies, pursue business opportunities and maintain and enhance our competitive advantage; the risks attendant with methanol production and marketing, including operational disruption; risks attendant with carrying out capital expenditure projects including the ability to obtain financing and completing the Atlas and Chile IV projects on time and on budget; availability and price of natural gas feedstock; foreign exchange risks; raw material and other production costs; transportation costs; the ability to attract and retain qualified personnel; risks associated with investments and operations in multiple jurisdictions; and other risks which we may describe in publicly available documents filed from time to time with securities commissions.

Having in mind these and other factors, investors and other readers are cautioned not to place undue reliance on forward-looking statements. We cannot guarantee that anticipated outcomes made in forward-looking statements will be realized and we do not undertake to update any forward-looking statements.

THE COMPANY

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

The following chart includes the principal operating subsidiaries and partnerships of the Company as of December 31, 2003 and, for each subsidiary or partnership, its place of organization and the Company's percentage of voting interests beneficially owned or over which control or direction is exercised. The chart also shows our principal production facilities and their locations.



(1) The Atlas plant is currently under construction.

(2) The Chile facilities are comprised of three operating plants and a fourth plant which is currently under construction.

BUSINESS OF THE COMPANY

We are the world's largest producer and marketer of methanol. Methanol is a liquid commodity chemical produced primarily from natural gas and is typically used as a chemical feedstock in the manufacture of other products. Roughly 80% of all methanol is used in the production of formaldehyde, acetic acid and a variety of other chemicals which form the basis of a large number of chemical derivatives. These derivatives are used in the manufacture of a wide range of products including building materials, foams, resins and plastics. The remainder of methanol demand comes from the fuel sector, principally as a component in the production of MTBE, which is blended with gasoline as a source of octane and as an oxygenate to reduce the amount of tailpipe emissions from motor vehicles. Methanol is also being used on a small scale as a direct fuel for motor vehicles and is actively being considered as a fuel for fuel cells. Due to the diversity of the end-products in which methanol is used, methanol demand is influenced by a broad range of economic, industrial and environmental factors.

We operate methanol production facilities located in Chile, Trinidad, New Zealand and Canada. In addition, we source additional methanol produced by others throughout the world in order to meet customer needs and support our marketing efforts. In a joint venture with BP, we are currently building next to our Titan plant in Trinidad the Atlas methanol plant, a 1.7 million tonne per year facility, which we expect will commence commercial operation in the second quarter of 2004. We have a 63.1% interest in Atlas and will market 100% of its production. We are also currently constructing Chile IV, an 840,000 tonne per year expansion of our methanol production hub in Chile which is expected to be completed in early 2005. We sell methanol through an extensive global marketing and

distribution system. This has enabled us to become the largest supplier of methanol to each of the major international markets of North America, Asia Pacific and Europe as well as Latin America.

As a result of our worldwide production, marketing and distribution capabilities, we believe we have a competitive advantage as a supplier of methanol to major chemical and petrochemical producers for whom quality of service and reliability of supply are important. We believe we benefit from this competitive advantage through greater stability and security of demand, resulting marketing and transportation synergies, and an improved customer mix.

The following table shows certain financial and operating data for our operations:

For the years ended December 31

(Revenue in millions of US dollars; Production and Sales Volume in thousands of tonnes)	2003	2002	2001
Revenue	$1,394	$1,009	$1,149
Methanol production	4,698	5,691	5,361
Methanol sales volume			
Company-produced product	4,933	5,686	5,390
Purchased product	1,392	809	1,280
Commission sales[(1)]	254	725	720
Total methanol sales volume	6,579	7,220	7,390

(1) Commission sales includes production that we marketed on a commission basis from the 850,000 tonne per year Titan Methanol Company facility in Trinidad prior to our acquiring this facility effective May 1, 2003.

Our operations consist of the production and sale of methanol, which constitutes a single operating segment. See “Selected Consolidated Financial Information — Segmented Information” on page 16.

DEVELOPMENT OF THE BUSINESS AND CORPORATE STRATEGY

Since the early 1990s, we have expanded our global methanol production and marketing reach and have carried out a strategy designed to enable us to become a low cost producer and preferred supplier in the methanol industry. As a result of this strategy, we have developed a global presence in the methanol industry, allowing us to provide reliable, efficient and cost-effective delivery of methanol from geographically diverse locations to customers in the world’s methanol markets.

Our primary objective continues to be to maintain and enhance our leadership in the production, marketing and delivery of methanol to our customers. The key elements of our strategy to achieve this objective are:

- striving at all times to reduce all aspects of our cost structure;
- maintaining our world leadership in methanol marketing, logistics and sales; and
- focusing on operational excellence in manufacturing and other key areas of our business.

Reducing Our Cost Structure. We believe that a low cost structure is critical to maintaining a strong competitive position. The most significant component of our cost structure is natural gas for feedstock and, accordingly, access to low cost natural gas is a critical success factor for our business. In the mid-1990s we began to reduce our operating exposure to the volatile North American natural gas market by shutting down higher cost plants in North America and constructing new facilities with long-term, low cost natural gas supply contracts. We started production at new plants in Chile in 1996 and 1999, representing approximately 2.1 million tonnes of capacity under long-term low cost natural gas contracts, permanently shut down higher cost plants in Canada in 1997 and 1999 and shut down higher cost plants in Louisiana in 1999 and in Canada in 2001. The 850,000 tonne per year Titan facility in Trinidad commenced production in 2000. Prior to May 2003, we had a 10% interest in Titan and marketed its entire production on a commission basis. Effective May 1, 2003, we acquired the remaining 90% equity interest in the Titan plant from Beacon Energy Investment Fund and BP by exercising a fixed-price option. A portion of the Titan plant’s production is underpinned by long-term marketing contracts and the acquisition of the entire interest in Titan allows us to realize the full margin on the sale of methanol produced from the facility. The Titan plant is underpinned by a long-term natural gas supply contract and further strengthens our position as a low

cost global producer of methanol. Initiatives such as these have reduced our North American production from 49% of total production in 1994 to 9% in 2003.

We continue to take steps to strengthen our position as a low cost global producer. Next to the Titan plant, we are currently constructing the 1.7 million tonne per year Atlas methanol plant, a joint venture between BP and us. We have a 63.1% interest in Atlas and will market 100% of its production. Atlas is underpinned by a long-term low cost natural gas supply contract and is expected to be completed in the second quarter of 2004. Titan and Atlas provide us with the benefits of a low cost hub and the ability to supply North America and the European Union on a duty-free basis.

We are also constructing an 840,000 tonne per year expansion of our methanol production hub in Chile, expected to be completed in early 2005. This expansion is underpinned by a low cost 20-year natural gas supply contract. In addition to favourable natural gas contracts, recent free trade agreements now provide for duty-free supply of methanol from Chile to North America and the European Union.

In July 2003, we entered into a transaction with Pacific Ammonia Inc., a subsidiary of Mitsui, to acquire its ammonia production assets which are located adjacent to our Kitimat methanol facilities. As part of the transaction, we entered into an off-take agreement to supply Mitsui with 100% of the ammonia produced from the facility through to the end of 2005 without any cost or market risk to Methanex. This transaction gives us future operating flexibility for the methanol facility.

Distribution costs from our plants to major markets are also a significant part of our cost structure. Over the last few years we have taken a number of steps to reduce these costs, in part by seeking to take advantage of our large production hubs. For example, we seek to use larger vessels where possible and to maximize the utilization of our shipping fleet in order to reduce costs. We also seek to take advantage of prevailing conditions in the shipping market by varying the type and length of term of our ocean shipping contracts. In 2000, we completed construction of a terminal in Korea that has allowed us to more efficiently and cost-effectively service our customer base in northeast Asia. We are investigating the opportunity to increase the number of in-market terminal storage facilities, particularly in Asia, to further improve the efficiency and cost-effectiveness of servicing our customers. We also look for opportunities to enter into product exchanges to reduce duty and other distribution costs.

We believe our production of methanol from large facilities having access to low cost natural gas and our initiatives in reducing our distribution costs have allowed us to be a low cost supplier in the markets we serve.

Maintaining our world leadership in methanol marketing, logistics and sales. We sell methanol through an extensive global marketing and distribution system. We believe this has enabled us to become the largest supplier of methanol to each of the major international markets of North America, Asia Pacific and Europe, as well as Latin America.

We have played a role in the consolidation of the methanol industry and have positioned ourselves as the supplier of choice for global methanol producers as they face the decision of producing or purchasing their methanol feedstock requirements. Over the past five years, we have permanently shut down 1.7 million tonnes of our own higher cost capacity. Other producers have also shut down plants, allowing us to gain new customers. For example, in 2000 we entered into long-term arrangements with BP and Sterling Chemicals to supply BP's methanol needs and exercised our option to idle Sterling's 450,000 tonne per year methanol plant. In 2000, we also acquired ICI's methanol assets located primarily in the United Kingdom, including a customer base and logistics infrastructure but excluding the 500,000 tonne per year methanol plant which ICI closed thereafter. In 2002, we entered into an exclusive agreement with Lyondell Chemical Company to supply their methanol feedstock requirements in North America and Europe commencing January 2003. We also acquired Lyondell's methanol customer list and a number of contracts in North America effective January 2004 and obtained certain production rights to its 750,000 tonne per year methanol facility in Texas during 2004. In December 2003, we acquired all of Terra Industries' methanol customer contracts relating to its 700,000 tonne per year methanol facility located in Beaumont, Texas, together with certain production rights to that facility until the end of 2008. Through these arrangements with Lyondell and Terra, we are able to determine the level of production from these facilities. We also entered into a marketing offtake agreement for the output of Terra's 100,000 tonne per year methanol plant located in Woodward, Oklahoma. The combination of our having production rights at the Lyondell and Beaumont production facilities and their associated customer supply contracts will assist us in introducing to the market production from the new Atlas plant during 2004.

In 2002, we entered into an agreement to market export volumes from YPF/Repsol's 400,000 tonne per year methanol plant in Argentina and have since extended this agreement until at least mid-2005. In 2003, we marketed almost 300,000 tonnes of this methanol in North America. In May 2003, we also acquired Solvadis Chemag AG's North American methanol marketing business, including its customer list and its contract to purchase approximately 250,000 tonnes per year of Titan's production.

It is part of our strategy to maintain our strong market position in Asia Pacific and we are advancing plans to provide long-term, secure supply to the region. In February 2003, an independent expert redetermined the economically recoverable gas reserves from New Zealand's Maui gas field. The redetermination meant that we lost substantially all of our remaining contractual entitlements from the Maui field with the result that, in 2003, our New Zealand facilities produced methanol at less than 40% of their operating capacity. Based on contracted gas and additional gas that we believe we will contract, we expect 2004 production from our New Zealand facilities to be between 0.5 million tonnes and 1.0 million tonnes. Currently, due to the flexibility of our global supply chain, we are able to supply our Asia Pacific customers with methanol sourced from our plants in New Zealand, Chile and Kitimat. Over the period 2001 to 2003 we were developing a methanol facility in Western Australia. However, high capital costs prevented the project from providing an acceptable return on investment for our shareholders and in 2003 we abandoned the project and wrote-off the related development costs. We are continuing to actively investigate options for supplying the expanding Asia Pacific markets over the long term.

We continue to pursue opportunities that allow us to maintain our market leadership. For example, during 2002 we initiated a regional posted pricing mechanism for methanol. In 2003, we made substantial progress implementing this pricing initiative in our customer contracts. We have also launched e-commerce platforms focused on key customer connectivity in North America and Asia Pacific and plan to provide on-line inventory management services, further integrating our distribution network with our customers.

We believe that it is important to exhibit manufacturing and technological leadership and to play a role in developing new markets for methanol. To this end, we maintain active involvement with leading technology vendors to our industry and have made selected investments in technological innovations. With respect to new markets for methanol, we are, for example, investigating the potential for methanol to be used as a fuel for fuel cells, as a source of hydrogen and for wastewater denitrification.

Focusing on operational excellence in manufacturing and other key areas of our business. We believe that methanol consumers view reliability of supply as critical to the success of their businesses. In order to differentiate ourselves from our competitors, we strive to be a premier operator in all aspects of our business. Our goal is to build new and efficient plants on time and deliver product to our customers reliably and cost effectively. Through our Responsible Care program we believe we have achieved an excellent overall environmental and safety record at all of our facilities. This reduces the likelihood of unscheduled shutdowns and lost-time accidents. Our focus on operational excellence includes both excellence in our manufacturing process and in the leadership of our human resources. By maintaining and improving our plant operating reliability, we believe we have become a preferred supplier of methanol globally.

Our focus on operating excellence includes excellence in the management of our finances. We operate in a highly competitive cyclical industry. Accordingly, we believe it is important to maintain financial flexibility throughout the methanol price cycle and we have deliberately adopted a prudent approach to our liquidity. We have similarly established a disciplined approach to capital spending and have set minimum target return criteria for methanol capacity additions and other investments. We are focused on financial discipline and value creation.

METHANOL INDUSTRY INFORMATION

General

Methanol (chemical formula CH_3OH and also known as methyl alcohol) is a clear colourless liquid that is typically used as a chemical feedstock in the manufacture of other products.

Approximately 80% of all methanol is used in the production of formaldehyde, acetic acid and a variety of other chemicals that form the foundation of a large number of chemical derivatives. These derivatives are used in the manufacture of a wide range of products including plywood, particleboard, foams, resins and plastics. The remainder of methanol demand is in the fuel sector, principally as a component in the production of MTBE which is blended

with gasoline as a source of octane [1] and as an oxygenate [2] to reduce the amount of harmful exhaust emissions from motor vehicles. Methanol is also being used on a small scale as a direct fuel.

Methanol is a typical commodity chemical and the methanol business is characterized by cycles of oversupply resulting in lower prices and idling of capacity, followed by periods of shortage and rising prices as demand catches up and exceeds supply until increased prices lead to new plant investment or the re-start of idled capacity. In addition, the expanding number of different uses for methanol and its derivatives over the last several years has resulted in the methanol market becoming more complex and subject to increasingly diverse influences.

Demand Factors

Reflecting the diversity of its uses, methanol demand is influenced by a wide range of economic, industrial, environmental and other factors. The use of methanol to make chemical derivatives accounts for about 80% of world methanol demand. Because of the importance and relative stability of chemical derivative demand, methanol traditionally had been considered to be a mature commodity. The remainder of world methanol demand comes largely from its use as a feedstock for MTBE. While we believe it is likely that over time the demand for methanol for MTBE consumed in the US will be reduced, or possibly eliminated, demand for MTBE outside the US continues to grow. As we enter 2004, we are experiencing trends towards improving global economic conditions and stronger demand for methanol. We believe that demand growth for MTBE outside the US, together with global chemical derivative demand growth for methanol, has made and will continue to make the issue of MTBE reduction in the US a manageable one for the methanol industry.

Chemical Derivative Demand. Methanol makes up approximately 45% of formaldehyde by weight. The largest use for formaldehyde is as a component of urea-formaldehyde and phenol-formaldehyde resins, which are used as wood adhesives for plywood, particleboard, oriented strand board, medium-density fibreboard and other reconstituted or engineered wood products. There is also demand for formaldehyde as a raw material for engineering plastics and in the manufacture of a variety of other products, including elastomers, paints, building products, foams, polyurethane and automotive products.

Methanol makes up approximately 55% of acetic acid by weight. Acetic acid is a chemical intermediate employed principally in the production of vinyl acetate monomer (“VAM”), acetic anhydride, purified terephthalic acid and acetate solvents, which are used in a wide variety of products including adhesives, paper, paints, plastics, resins, solvents, pharmaceuticals and textiles. The acetic acid industry has been benefiting from increasing demand for water-based solvents produced with VAM for use in paints and adhesives due to environmental concerns associated with emissions of volatile organic compounds from other types of solvents.

As a basic chemical building block, methanol is also used in the manufacture of methylamines, methyl methacrylate and a diverse range of other chemical products which in turn are ultimately used to make such products as adhesives, coatings, plastics, film, textiles, paint, solvent, paint remover, polyester resins and fibres, explosives, herbicides, pesticides and poultry feed additives. Other end-uses include silicone products and as a substitute for chlorofluorocarbons in aerosol products. Methanol is also used as a de-icer and windshield washer fluid for automobiles and as an antifreeze for pipeline dehydration.

Reflecting the diversity of methanol’s end-use products, changes in chemical derivative demand is generally dependent upon levels of global gross domestic product and changes in economic conditions. The use of derivatives of formaldehyde, acetic acid and other products in the building industry means that building and construction cycles and the level of wood production, housing starts, refurbishments and consumer spending are important factors in determining the level of chemical derivative demand. Demand is also affected by automobile production, durable goods production, industrial investment and environmental and health trends, as well as new product development in the panelboard and plastic packaging industries. Historically, chemical derivative demand for methanol has been relatively insensitive to changes in methanol prices. We believe this demand inelasticity is due to the fact that there are few cost-effective substitutes for methanol-based chemical derivative products and because methanol costs typically account for only a small portion of the value of many of the end-products.

(1) “Octane” is used in broad terms to denote the “octane number” specification commonly associated with gasoline.
(2) An “oxygenate” contains oxygen and improves the combustion of gasoline in engines, thus reducing emissions.

MTBE and Fuel Demand. Methanol makes up approximately 36% of MTBE by weight. Methanol for the production of MTBE represents approximately 20 percent of global methanol demand. MTBE is used primarily as a source of octane and as an oxygenate for gasoline. MTBE was developed as a source of octane when unleaded gasolines were introduced. Over the past several years, environmental concerns and legislation have also increased demand for MTBE as an oxygenate in gasoline in order to reduce automobile tailpipe emissions.

Concerns have been raised in the US regarding the use of MTBE in gasoline. Gasoline containing MTBE has leaked into groundwater in the US principally from underground gasoline storage tanks and has been discharged directly into drinking water reservoirs. MTBE is more easily detectable in water than other gasoline components. Despite the proven air quality benefits of MTBE, California and other states in the US, as well as the US federal government, have initiated actions that may limit, or even eliminate, the use of MTBE as a gasoline component in the US and this is a major issue for our industry. California, New York and Connecticut, all major consuming states, have passed legislation banning MTBE effective January 1, 2004 and we believe that as of December 31, 2003, MTBE has been substantially phased out from these states. We estimate that the remaining demand for methanol for MTBE production in the US at January 1, 2004 is approximately 2.5 million tonnes per year. At the US federal government level there have been legislative proposals to ban MTBE however, to date, no legislation has been passed. It is likely, however, that over time the demand for methanol for MTBE consumed in the US will be reduced, or possibly eliminated, as a result of these developments. Limiting or eliminating the use of MTBE in gasoline in the US will reduce demand for MTBE and methanol in the US and negatively impact the viability of MTBE and methanol plants in the US.

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 US. Our belief is based on the actions being taken around the world to reduce lead, benzene and other aromatics content in gasoline and to improve the emissions performance of vehicles generally. In December 2001, the European Union confirmed the suitability and continued use of MTBE as a fuel component. Implementation of clean air standards is continuing in Western Europe and the need for Central and Eastern European countries to have automotive fuels complying with European Union fuel emission standards also represents large MTBE growth potential. Demand for MTBE in Asia, specifically Taiwan, Korea and China, is also increasing as many countries work towards removing lead and aromatics from gasoline to improve air quality. For example, the Chinese government introduced new gasoline specifications in July 2003 and since that time, we have witnessed a significant increase in MTBE imports to China. Also, we believe that the Middle East, particularly Iran, represents sizeable incremental demand for MTBE.

We are claiming damages under the provisions of the North American Free Trade Agreement (“NAFTA”) as a result of California’s decision to ban MTBE. The NAFTA tribunal has issued a preliminary award relating to the jurisdiction of the tribunal to adjudicate the claim. In June 2004, a further hearing is scheduled which will hear arguments relating to both jurisdictional issues and the merits of our claim. At present, we cannot determine what the final disposition of our NAFTA claim will be.

Over the longer term, methanol has potential to power fuel cells, an alternative means of generating electrical energy in an environmentally friendly manner that does not use traditional combustion. We are devoting resources to the advancement of new technologies and are supporting the development of opportunities to supply methanol for use in fuel cells. Additionally, methanol is already used to remove harmful nitrates from wastewater. We are working to play a role in this sector as environmental concerns and regulations drive long-term growth potential.

Supply Factors

While a significant amount of new methanol capacity came on stream from 1998 to 2002, a large number of higher cost North American and European producers shut down plants that remain shut down. In addition, the industry has consistently operated significantly below stated capacity, even in periods of high methanol prices, due primarily to shutdowns for planned and unplanned repairs and maintenance.

Newer methanol plants are generally constructed in remote coastal locations with access to low cost natural gas, although this advantage is sometimes offset by higher distribution costs due to their distance to major markets. There is typically a span of two-and-a-half to four years to plan and construct a new methanol plant. No significant new capacity was introduced into the marketplace in 2003. The only new significant capacity to start production in 2002 was a 400,000 tonne per year facility in Argentina owned by YPF/Repsol. We entered into a contract to market all export volume from this plant and in 2003 this agreement was extended until at least mid-2005. Our

1.7 million tonne per year Atlas project is currently in the final construction and commissioning phases and we expect to begin delivery of this production in the second quarter of 2004. The one million tonne per year NPC methanol facility in Iran is also planning to commence production in 2004.

Production from our New Zealand facilities declined to less than one million tonnes in 2003 as a consequence of the reduction of our gas entitlements from New Zealand's Maui field. Based on contracted gas and additional gas that we believe we will contract, we expect 2004 production from our New Zealand facilities to be between 0.5 million tonnes and 1.0 million tonnes. In addition, the price we pay for natural gas in New Zealand will be higher in 2004 compared with 2003.

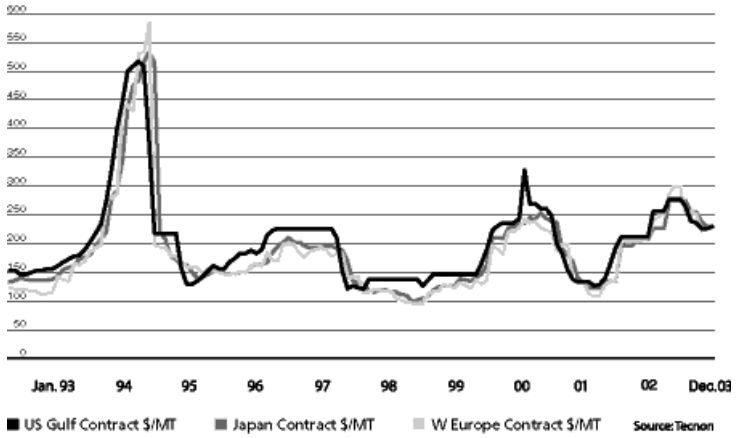
Additional methanol supply can potentially become available by re-starting methanol plants whose production has been idled, by carrying out major expansions of existing plants and by debottlenecking existing plants to increase their production capacity. We have certain production rights to Terra's 750,000 tonne per year Beaumont, Texas facility and, in 2004, to Lyondell's 750,000 tonne per year Channelview, Texas facility. Through these arrangements we are able to determine the level of production from these facilities.

Typical of most cyclical commodity chemicals, extended periods of relatively high methanol prices encourage construction of new plants and major expansion projects, leading to the possibility of an oversupply in the market. With approximately 25% of global methanol market share, we intend to maintain and enhance our strong competitive position in the methanol industry and we continue to look at opportunities to underpin our sales volumes with low cost methanol production capacity.

Methanol Prices

Methanol is an internationally traded commodity. Methanol prices have historically been volatile and have been sensitive to overall production capacity relative to demand, the price of natural gas feedstock and general economic conditions. In addition, the price of natural gas in North America impacts the cash production cost of North American methanol producers. Historically, this cost affects the minimum expected methanol selling price in North America.

The following chart shows methanol contract prices (in US dollars per tonne) in the world's major methanol markets:



Methanol prices in the United States, Europe and Asia Pacific have largely tracked each other, though often with leads or lags. In times when prices in different markets diverge, product from offshore suppliers moves into the higher priced market, bringing the prices in different markets back into alignment.

The majority of methanol sold in the US and Europe is priced with reference to published regional contract prices to which discounts may be applied. Spot market transactions, though limited in nature and representing a relatively small portion of the total volume that is transacted, are widely reported in weekly industry newsletters. The

third major market, Asia Pacific, has contract prices which are either based on a formula primarily related to the US and European contract prices or based on regional market conditions. Discounts may be applied and spot transactions also occur. In 2003, we introduced a process of posting non-discounted reference prices in each major selling region and the majority of our sales agreements now include this price in the pricing formula.

PRODUCTION

Production Processes

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

Operating Data and Other Information

We endeavour to operate our production facilities around the world in an optimal manner, by balancing our production with customer demand throughout our global supply chain and by taking advantage of our operating flexibility to switch production to the lowest cost plants to lower our overall delivered cost of methanol. Scheduled shutdowns of plants every three or more years are necessary to change catalysts or perform maintenance activities which cannot otherwise be completed with the plant operating (a process commonly known as a turnaround) and these shutdowns typically take between three and four weeks. Catalysts generally need to be changed every four years, although there is flexibility to extend catalyst life if market conditions warrant, at the expense of some production efficiency or capacity. Careful planning and scheduling is required to ensure that maintenance and repairs can be carried out during turnarounds. In addition, both scheduled and unscheduled shutdowns may also occur between turnarounds. We prepare a comprehensive eight-year turnaround plan that is updated annually for all of our production facilities.

The following table sets forth certain operating data and other information for our methanol operations at each of our existing facilities:

	Year Built	Operating Capacity[1]	2003 Production	2002 Production
		(tonnes/year)	(tonnes)	(tonnes)
Punta Arenas, Chile				
Chile I	1988	925,000	774,789	895,049
Chile II	1996	1,010,000	983,159	997,294
Chile III	1999	1,065,000	945,996	1,039,364
Titan, Trinidad[2]	1999	850,000	576,864	—
Waitara Valley, New Zealand[3]	1983	530,000	148,825	466,959
Motunui, New Zealand[3]	(4)	1,900,000	818,890	1,814,418
Kitimat, Canada	1982	500,000	449,119	477,897
Total		6,780,000	4,697,642	5,690,981

(1) Actual operating rates can vary. Our Fortier, Louisiana plant (570,000 tonnes per year) was idled in March 1999 and our Medicine Hat Plant 3 (470,000 tonnes per year) was idled in June 2001. Both facilities are now permanently shut down.

(2) 100% of Titan was acquired effective May 1, 2003 and the table indicates production in 2003 from that date. Titan's total annual production in 2003 was 870,186 tonnes.

(3) Our ability to operate the New Zealand plants at capacity has been significantly impacted as a consequence of the reduction of our gas entitlements from the Maui gas field. Please refer to page 12 for more information on this matter.

(4) The facilities at Motunui, New Zealand were constructed between 1985 and 1995.

MARKETING

We sell methanol on a worldwide basis to every major market through an extensive marketing and distribution system with marketing offices in North America (Dallas and Vancouver), Europe (Brussels and Billingham, England), Asia Pacific (Auckland, Shanghai, Tokyo and Seoul) and Latin America (Santiago, Chile).

We have a methanol marketing strategy based on three principles: develop and maintain a strong customer base in the methanol markets of North America, Europe, Asia Pacific and Latin America as well as in other markets that are strategically located in relation to our production facilities; form direct customer relationships rather than sell to methanol traders; and secure and maintain long-term sales contracts with major end-users.

We believe our ability to sell methanol from our geographically dispersed, multiple production sites enhances our ability to secure major chemical and petrochemical producers as customers, for whom reliability of supply and quality of service are important. Our network of marketing offices, together with our storage and terminal facilities and worldwide shipping company, also allow us to provide larger customers with multinational sourcing of product and other customized arrangements. As a result of our worldwide production, marketing and distribution capabilities, we believe we are a preferred supplier in the methanol industry and the largest supplier to each of the major international methanol markets.

We augment our marketing operations by identifying surplus product from other producers and buying in the US and European methanol spot markets. This enables us to service a portion of the contract and spot requirements of our customers when the economics are favourable. We continually evaluate our ability to cost-effectively serve markets from our facilities and we maintain internal flexibility to quickly decide whether to produce or buy methanol. Methanol that is purchased outside of contracted offtake arrangements also provides us the opportunity to build our sales base prior to bringing on our own new capacity.

Currently, about 90% of our sales are covered by long-term or rolling one-year sales contracts. Pricing formulas under these contracts are generally determined on the basis of posted contract or other market prices at the time of shipment. Sales contracts generally specify a minimum and maximum volume and may include a “meet or release” clause that enables the customer to temporarily suspend the contract if another supplier of methanol offers a more favourable price.

We engage in additional merchant methanol marketing through the purchase of methanol produced by others. We have an agreement in place until at least mid-2005 to market the export volumes from the 400,000 tonne per year YPF/Repsol facility located in Argentina. In 2003, we marketed about 300,000 tonnes from this facility, primarily into the North American market. In addition, we source additional methanol through purchases made in Europe and North America. During 2003, we purchased a total of 1.4 million tonnes of methanol from third parties which we used to meet contractual sales commitments and support our marketing efforts and which largely offset the production shortfall from our New Zealand facilities.

Trade in methanol is subject to duty in a number of jurisdictions. See “Foreign Operations and Government Regulation” on page 13 for more information.

DISTRIBUTION AND LOGISTICS

The cost of methanol distribution represents a significant portion of our total costs and is important to our overall profitability. Our facility in Chile currently supplies customers primarily in Asia Pacific, Europe and Latin America. The Titan plant supplies customers primarily in the US and Europe. The New Zealand plant supplies customers in Asia Pacific. The Kitimat plant supplies customers in Asia Pacific, the US and Western Canada.

Methanol is pumped from our coastal plants by pipeline to adjacent deepwater ports for shipping. We manage a fleet of vessels to ship this methanol. In order to retain optimal flexibility in the management of the fleet, we have entered into short-term and long-term time charters covering vessels with a range of capacities. We also ship methanol under contracts of affreightment and through spot arrangements. We use larger vessels as key elements in our supply chain to move product from our production facilities to storage facilities located in major ports. We use smaller vessels capable of entering into restricted ports to deliver directly to customers. We also lease or own storage and terminal facilities in the US, Canada, Europe and Asia. In North America and Europe we use barge, rail and, to a lesser extent, truck transport in our delivery system.

NATURAL GAS SUPPLY

General

Natural gas is the principal feedstock for methanol and accounts for a significant portion of its total production costs. Accordingly, our profitability depends in large part on both the security of supply and the price of natural gas. Part of our long-term strategy has been to secure continuity of gas supply at favourable prices through a combination of long-term contracts and activity in the open market. Since we are able to deliver methanol to our customers from a number of production facilities located throughout the world, dependency on any one source of gas as well as the impact of gas market conditions in any one production region is diminished.

If, for any reason, we are unable to obtain sufficient natural gas for any of our plants on commercially acceptable terms, we could be forced to curtail production or close such plants.

Chile

The majority of the natural gas for the Chilean facilities is supplied from suppliers in Argentina that are affiliates of major international petrochemical companies. The remainder is supplied by Empresa Nacional del Petroleo de Chile. Natural gas for the Chile I, II and III plants is supplied under arrangements terminating between 2025 and 2029. Natural gas for Chile IV will be supplied under contracts expiring in 2025.

The purchase price of natural gas for the Chile I, II and III facilities is based on a minimum US dollar price adjusted by formulas related to methanol prices. The Chile IV gas contracts contain a fixed escalation of the minimum price. Under the terms of the contracts, the sellers are obligated to supply, and we are obligated to take or pay for, a specified annual quantity of natural gas. We also have an option to purchase up to an additional specified amount each year.

Trinidad

Natural gas for the Titan and Atlas facilities is sourced from the major gas fields that are located off the east and southeast coasts of Trinidad. These fields are operated by major international oil and gas exploration companies. The National Gas Company of Trinidad (“NGC”) transports the gas by pipeline to a processing facility located near the Titan and Atlas facilities and from there it is distributed and sold under individual contracts to industrial consumers.

Natural gas is supplied to the Titan and Atlas facilities under contracts with NGC which purchases the gas from gas producers under back-to-back purchase arrangements. Titan’s contract with NGC expires in 2014. The price paid by Titan is based on a fixed escalation of the floor price which is adjusted by a formula that takes into account the methanol market price. Under the contract, NGC is obligated to supply, and we are obligated to take or pay for, a specified annual quantity of natural gas. Gas paid for but not taken by Titan in any year may be received in subsequent years. Atlas’ contract with NGC expires in 2024 and the price formula and take-or-pay obligations are similar to those in the Titan contract.

New Zealand

Prior to 2003, the natural gas for our New Zealand facilities was sourced primarily from the Maui field under contracts with the New Zealand Government and the owners of the Maui field. In 2001, the owners of the Maui field initiated a contractual redetermination of the economically recoverable natural gas of the Maui field. In February 2003, a final redetermination report was issued that determined Maui reserves at a level that is substantially lower than the aggregate of contracted quantities under the Maui contract. As a result of the redetermination, we lost substantially all of our remaining contractual natural gas entitlements from the Maui field. Natural gas for the remainder of 2003 was sourced primarily from the McKee, Mangahewa and Kapuni fields and 2003 methanol production from the New Zealand facilities was limited to approximately 968,000 tonnes, about 40% of total plant capacity.

We have secured sufficient natural gas for 2004 to produce approximately 500,000 tonnes of methanol. Purchases are made through take-or-pay or other contracts reflecting the current market price for natural gas. We continue to seek other supplies of natural gas to supplement this production and to extend the life of the New Zealand plants; however, there can be no assurance that we will be able to secure additional gas on commercially acceptable terms.

Canada

We source natural gas for our Kitimat plant from the gas fields of northeastern British Columbia where substantial volumes of gas are available, a situation that is expected to continue for the foreseeable future. Gas for the Kitimat plant is purchased directly from producers or other marketers under firm, short-term, index-priced contracts. British Columbia gas prices are set in a competitive market and can fluctuate widely.

Natural gas purchased for the Kitimat plant is transported through pipeline transmission systems operated by Duke Gas Transmission ("Duke") and Pacific Northern Gas ("PNG"). PNG and Duke are each regulated public utilities whose tolls, rates and tariffs for processing and transporting gas are approved and set by government agencies through a public hearing process. In 2002, we entered into an agreement with PNG to replace all of the existing contracts with a new take-or-pay contract that terminates at the end of 2008 and that establishes fixed transportation rates for the entire term.

FOREIGN OPERATIONS AND GOVERNMENT REGULATION

General

Our operations in Canada, the US, Chile, Trinidad, New Zealand, Europe and elsewhere are affected by political developments and by federal, provincial, state and other local laws and regulations. To date, we have been able to substantially comply in all material respects with governmental requirements without incurring significant costs.

We are subject to risks inherent in foreign operations, including loss of revenue, property and equipment as a result of hazards such as expropriation, nationalization, war, insurrection, acts of terrorism and other political risks; risks of increases in duties, taxes and governmental royalties and renegotiation of contracts with governmental entities; as well as changes in laws and policies governing operations of foreign-based companies.

In addition, because the Company derives a substantial portion of its 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 to the Company 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 tax), foreign currency exchange and capital repatriation laws and other relevant laws of a variety of foreign jurisdictions. While we believe that such assumptions are correct, there can be no 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.

Trade in methanol is subject to duty in a number of jurisdictions and is paid by customers or distributors. New Zealand methanol sold in the US is subject to a duty of 6.8%. Recent free trade agreements now provide for methanol from Chile to be sold duty-free into North America and the European Union. Methanol from Trinidad may also be sold duty-free into North America and the European Union. Although we do not currently pay any duties in any other major market to which we export product, there can be no assurance that such duties will not be levied in the future or, in such event, that we would be able to mitigate the impact on our business of such duties through techniques such as physical swaps of methanol which we have used to minimize the impact of duties in the past.

Chile

Methanex Chile Limited ("Methanex Chile") is an indirectly wholly owned subsidiary of the Company, owns the Chile I, II and III plants and is currently constructing the Chile IV plant. Chilean foreign investment regulations provide certain benefits and guarantees to companies that enter into a foreign investment contract ("DL 600 Contract") with the Government of Chile. Methanex Chile has entered into three substantially identical DL 600 Contracts, one for each of the three existing plants. Methanex Chile is currently applying to enter into a DL 600 Contract in respect of the Chile IV plant.

Under the DL 600 Contracts, Methanex Chile is authorized to remit from Chile in US dollars or any other freely convertible currency all or part of its profits and, after one year, its equity. Methanex Chile also has the right under the DL 600 Contracts to pay income taxes at a fixed rate of 42% for twenty years. Alternatively, Methanex Chile can make an irrevocable election to pay income tax at the general applicable rates, currently 35%. As of December 31, 2003, Methanex Chile has not made this election.

The DL 600 Contracts provide that they cannot be amended or terminated except by written agreement of Methanex Chile.

Trinidad

Under the Fiscal Incentives Act of Trinidad, our subsidiary that owns the Titan plant has been declared an approved enterprise in respect of the manufacture of methanol and has been granted total relief from Trinidadian corporation tax, customs duties and income tax on dividends or other distributions, other than interest, out of profits or gains derived from the manufacture of methanol until June 2005.

Similarly, our subsidiary that owns the Atlas project has been declared an approved enterprise and has been granted, for a ten-year period, total relief from corporation tax for the first two years of operation, then a rate of 15% for the following five years and a rate of 20% for the following three years. Atlas also has total relief from income tax on dividends or other distributions, other than interest, out of profits or gains derived from the manufacture of methanol and has been granted import duty concessions on building materials and machinery and equipment imported into Trinidad and used in connection with the facility.

The applicable tax rate if either subsidiary did not have a tax holiday is currently 35%. There are no exchange control restrictions relating to the movement of funds into or out of Trinidad.

New Zealand

New Zealand enacted legislation in 1986 to safeguard claims by Maori tribes (the indigenous people of New Zealand) against lands previously owned by state-owned enterprises and subsequently privatized. The land on which certain parts of the infrastructure for the Waitara Valley and Motunui plants are located (for example, a tank farm and various pipelines and pipeline valve and mixing stations) are subject to this legislation. There is a possibility that the tribunal that deals with Maori land claims could recommend the return of such land to Maori ownership. The New Zealand Government would be required to comply with such a recommendation, subject to payment of compensation to the affected owner. We believe that, subject to receiving adequate compensation, such a forced divestment would not likely have a material adverse effect on our operations or financial condition. The land upon which the Waitara Valley and Motunui plants are located and the surrounding buffer zones of farmland owned by us are not subject to such forced divestment procedures.

We are not subject to any exchange control or other governmental restrictions relating to the movement of money into or out of New Zealand.

ENVIRONMENTAL MATTERS

Canada, the US, Chile, Trinidad, New Zealand and other countries in which we produce, store or transport methanol all have laws 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 governing the import, export, use, discharge, storage, disposal and transportation of hazardous substances. The substances we use and produce are subject to regulation under various health, safety and environmental laws. Non-compliance with these laws and regulations may give rise to work orders, fines, injunctions, civil liability and criminal sanctions.

As a result of periodic external and internal audits, we believe that we are currently in substantial compliance in all material respects with all existing environmental, health and safety laws and regulations to which our operations are subject. Laws and regulations protecting the environment have become more stringent in recent years and may, in certain circumstances, impose absolute liability rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. Such laws and regulations may expose us to liability for the conduct of, or conditions caused by others, or for our own acts that complied with law at the time such acts were performed. To date, environmental laws and regulations have not had a material adverse effect on us. However, the ongoing operations of petrochemical manufacturing plants entail risks in this area and there can be no assurance that material costs or liabilities will not be incurred.

As a member of the Canadian Chemical Producers' Association in Canada, the American Chemistry Council in the US, ASIQUIM (Asociacion Gremial de Industriales Quimicos de Chile) in Chile and the Chemical Industry Council in New Zealand, we are committed to the ethics and principles of Responsible Care. Accordingly, we have established policies, systems and procedures to promote and encourage the responsible development, introduction, manufacture, transportation, storage, handling, distribution, use and ultimate disposal of chemicals and

chemical products so as to minimize adverse effects on human health and well-being, the environment and the communities in which we operate. We apply these same policies, systems and procedures in regions where we operate where no chemical association exists, such as Trinidad.

INSURANCE

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

COMPETITION

The methanol industry is highly competitive. Methanol is a global commodity and customers base their purchasing decisions primarily on price and reliability of supply. The relative cost and availability of natural gas and the efficiency of production facilities are also important competitive factors. Some of our competitors are not dependent for revenues on a single product and some have greater financial resources than we do. Because of our ability to service our customers globally, the reliability and cost-effectiveness of our distribution system and the enhanced service we provide our customers, we believe we are well positioned to compete in each of the major international methanol markets.

EMPLOYEES

As of December 31, 2003, we had 733 employees. Other than certain of the maintenance workers at our New Zealand facilities, none of our employees is unionized. Every two years we conduct an employee engagement survey. The last survey, conducted in early 2003, indicates that the relationship that we have with our employees is very good.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Three-Year Summary

(Millions of US dollars except per share amounts)

	Year ended December 31		
	2003	2002	2001
STATEMENT OF INCOME DATA			
Revenue	1,394	1,009	1,149
Net income	8	26	71
Basic and diluted net income per share	0.06	0.21	0.46
Cash dividends declared per share	0.47	0.10	—
BALANCE SHEET DATA			
Total assets	2,082	1,819	1,693
Long-term debt, including current portion	778	547	399

Segmented Information

(Millions of US dollars)

	Canada	United States	Japan	Other Asia	Europe	Latin America	Total
REVENUE							
2003	$57.4	$424.8	$182.3	$306.5	$320.2	$103.3	$1,394.5
2002	$39.6	$300.2	$127.1	$240.4	$225.1	$ 76.4	$1,008.8

	Canada	New Zealand	Chile	Trinidad	Other	Total
PROPERTY, PLANT & EQUIPMENT						
2003	$37.3	$15.1	$702.7	$555.3	$ 9.8	$1,320.2
2002	$72.2	$98.8	$612.6	$161.8	$34.5	$ 979.9

Dividends

Under a covenant set out in the indenture to our 7.75% notes due August 15, 2005, as amended, the Company can pay cash dividends or make other shareholder distributions to the extent that Consolidated Net Worth (as defined in the indenture), which approximates our shareholders' equity plus $200 million, is equal to or greater than $850 million. As at December 31, 2003, the Consolidated Net Worth was approximately $985 million. If Consolidated Net Worth is less than $850 million then the Company is limited to declaring and paying a maximum of $30 million of dividends in any twelve-month period. In September 2003, the Company increased its quarterly dividend from US $0.05 per share to US $0.06 per share. In addition, the Board periodically considers other forms of distributions when general business conditions, financial results, capital requirements and other relevant factors warrant. In January 2003, we declared a special dividend of $0.25 per share.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis, which appears on pages 24 to 43 of our 2003 Annual Report, is incorporated herein by reference.

MARKET FOR SECURITIES

Our Common Shares are listed on the Toronto Stock Exchange in Canada (trading symbol: MX) and are quoted through the Nasdaq National Market in the US (trading symbol: MEOH).

DIRECTORS AND EXECUTIVE OFFICERS

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

Name and Municipality of Residence	Office	Principal Occupations and Positions During Last Five Years	Director Since
CHOQUETTE, PIERRE Vancouver, British Columbia	Chairman of the Board and Chief Executive Officer and Director	Chairman of the Board and Chief Executive Officer of the Company since September 2003; prior thereto President and Chief Executive Officer of the Company since October 1994.	October 1994
FINDLAY, ROBERT B.[2][3][5] West Vancouver, British Columbia	Director	Corporate Director. Prior to October 1997 was President and Chief Executive Officer of MacMillan Bloedel Limited.	July 1994
GREGSON, BRIAN D.[1][5] Vancouver, British Columbia	Director	Corporate Director. Prior to July 1995 was Chairman of Barbican Properties Inc.	July 1994
LAWRENCE, R.J. (JACK)[1][2][3] Toronto, Ontario	Director	Chairman of Lawrence & Company Inc. since November 1995.	January 1995
MORTON, DAVID[2][3][4] Westmount, Quebec	Director	Corporate Director. Chairman of Alcan Aluminium Limited from 1989 to 1995.	January 1995
POOLE, A. TERENCE[1][4] Calgary, Alberta	Director	Executive Vice President, Corporate Strategy and Development of NOVA Chemicals Corporation[6] since May 2000; prior thereto Executive Vice President, Finance and Strategy of NOVA Chemicals Corporation since July 1998.	September 2003, and from February 1994 to June 2003
REID, JOHN M.[1][2] Vancouver, British Columbia	Director	President and Chief Executive Officer of Terasen Inc.[7] since November 1997.	September 2003
SLOAN, MONICA E.[3][5] Calgary, Alberta	Director	Managing Director and Chief Executive Officer of Intervera Ltd.[8] since January, 2004; prior thereto an Independent Consultant for ME Sloan Associates since October 1999; prior thereto President of Kelman Technologies since January 1998.	September 2003
SWEENEY, GRAHAM D.[1][4][5] Sarnia, Ontario	Director	Corporate Director. Prior to October 1995 was President and Chief Executive Officer of Dow Chemical Canada Inc.	July 1994

Name and Municipality of Residence	Office	Principal Occupations and Positions During Last Five Years	Director Since
WEXLER, ANNE L.[2][3][4] Washington, D.C.	Director	Chairman of the Executive Committee of Wexler & Walker Public Policy Associates[9] (formerly The Wexler Group) since January 2000; prior thereto Chairman and Chief Executive Officer of The Wexler Group since 1981.	January 2001

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

(2) Member of the Corporate Governance Committee.

(3) Member of the Human Resources Committee.

(4) Member of the Public Policy Committee.

(5) Member of the Responsible Care Committee.

(6) NOVA Chemicals Corporation is a commodity chemical company.

(7) Terasen Inc. (previously known as BC Gas Inc.) is an energy distribution and transportation company which also provides utility and energy products and services.

(8) Intervera Ltd. is a company which provides data quality products and services to the energy industry.

(9) Wexler & Walker Public Policy Associates is a private government relations consulting firm.

Name and Municipality of Residence	Office	Principal Occupations and Positions During Last Five Years
AITKEN, BRUCE M. Vancouver, British Columbia	President and Chief Operating Officer	President and Chief Operating Officer of the Company since September 2003; prior thereto Senior Vice President, Asia Pacific of the Company and Managing Director of Methanex New Zealand Limited since September 1999; prior thereto Vice President, Asia Pacific of the Company and Managing Director of Methanex New Zealand Limited since December 1997.
CAMERON, IAN P. Vancouver, British Columbia	Senior Vice President, Finance and Chief Financial Officer	Senior Vice President, Finance and Chief Financial Officer of the Company since January 1, 2003; prior thereto Vice President, Finance of the Company since September 1999; prior thereto Corporate Controller of the Company since August 1993.
DUFFY, GERRY F. Vancouver, British Columbia	Senior Vice President, Global Marketing and Logistics	Senior Vice President, Global Marketing and Logistics of the Company since September 2000; prior thereto Vice President, Global Marketing of the Company since September 1999; prior thereto Marketing Director, Asia Pacific of Methanex New Zealand Limited since April 1998.
GORDON, JOHN K. Vancouver, British Columbia	Senior Vice President, Corporate Resources	Senior Vice President, Corporate Resources of the Company since September 1999; prior thereto Vice President, Corporate Resources of the Company since September 1998.

Name and Municipality of Residence	Office	Principal Occupations and Positions During Last Five Years
KRAUSE, RODOLFO L. Santiago, Chile	Senior Vice President, Latin America and Global Manufacturing	Senior Vice President, Latin America and Global Manufacturing of the Company since September 1999 and General Manager, Methanex Chile Limited; prior thereto Vice President, Latin America and Global Manufacturing of the Company and General Manager, Methanex Chile Limited since May 1998.
MACDONALD, MICHAEL G. Vancouver, British Columbia	Senior Vice President, Technology and Corporate Development	Senior Vice President, Technology and Corporate Development of the Company since January 2004; prior thereto Senior Vice President, Technology and Emerging Markets of the Company since October 2002; prior thereto Vice President, Planning and Strategic Development of the Company since September 1999; prior thereto Director, Investor Relations and Corporate Communications of the Company since October 1997.
MILNER, RANDY M. Vancouver, British Columbia	Senior Vice President, General Counsel and Corporate Secretary	Senior Vice President, General Counsel and Corporate Secretary of the Company since October 2002; prior thereto Assistant General Counsel and Corporate Secretary of the Company since June 2000; prior thereto Corporate Counsel and Assistant Corporate Secretary of the Company since March 1998.

As at December 31, 2003, the directors and executive officers of the Company owned, directly or indirectly, or exercised control of or direction over, approximately 1% of the outstanding Common Shares of the Company.

ADDITIONAL INFORMATION

The Company will provide to any person or company, upon request to the Corporate Secretary of the Company:

(a) when the securities of the Company are in the course of a distribution under a preliminary short-form prospectus or a short-form prospectus,

  (i) one copy of this AIF, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this AIF;

  (ii) one copy of the comparative financial statements of the Company for the year ended December 31, 2003 together with the accompanying report of the auditors and one copy of any interim financial statements of the Company subsequent to the financial statements for the year ended December 31, 2003;

  (iii) one copy of the Information Circular of the Company dated March 5, 2004 for the Annual General Meeting of the Company to be held on May 13, 2004; and

  (iv) one copy of any other documents that are incorporated by reference into the preliminary short-form prospectus or the short-form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any of the documents referred to in (a)(i), (ii) and (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person or company that is not a security holder of the Company.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, if applicable, is contained in the Information Circular dated March 5, 2004 for the Annual General Meeting of the Company to be held on May 13, 2004. Additional financial information is provided in the consolidated financial statements of the Company for the year ended December 31, 2003. Copies of these documents may be obtained upon request from:

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

a clear choice methanex methanol

Management's Discussion & Analysis

At March 5, 2004, we had 121,594,542 common shares issued and outstanding and stock options exercisable for 4,648,650 additional common shares.

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This Management's Discussion and Analysis should be read in conjunction with our consolidated financial statements and the accompanying notes for the year ended December 31, 2003. Except where otherwise noted, all dollar amounts are stated in United States dollars. Additional information relating to Methanex, including our Annual Information Form, is available on SEDAR at www.sedar.com.

OVERVIEW

Methanol is a liquid commodity chemical produced primarily from natural gas. Approximately 80 percent of all methanol is used to produce formaldehyde, acetic acid and other chemical derivatives for which demand is influenced by levels of global economic activity. The remainder of all methanol is used in the fuel sector principally to produce the gasoline additive MTBE, for which demand is driven by air quality improvement legislation and levels of gasoline demand.

We are the world's largest producer and marketer of methanol. We operate methanol production facilities in Chile, Trinidad, New Zealand and Canada. In addition, we source additional methanol produced by others either on a contract basis or on the spot market in order to meet customer needs and support our marketing efforts. We believe our global positioning, including our extensive network of storage terminals and world-class expertise in the global distribution of methanol, is a competitive advantage.

OUR STRATEGY

Our primary objective is to create value through maintaining and enhancing our leadership in the production, marketing and delivery of methanol to our customers. The key elements of our strategy to achieve this objective may be summarized as follows:

Low Cost Structure

The most significant components of our costs are natural gas for feedstock and distribution costs associated with delivering methanol to customers.

An important element of our strategy is to ensure security of natural gas supply at favourable prices. Over time, we have been reducing our reliance on North American production, where natural gas is purchased on a short-term basis and prices are extremely volatile, by selecting locations for new facilities where we can purchase natural gas through long-term contracts with favourable pricing.

Chile represents our largest production hub with three methanol plants and current annual production capacity of three million tonnes. We purchase all of our natural gas requirements for our Chilean facilities through favourably priced long-term take-or-pay supply contracts. The purchase price for natural gas is adjusted by a formula related to methanol prices and this enables our facilities in Chile to be very competitive at all points throughout the methanol price cycle. We are currently expanding our operations in Chile with the construction of Chile IV, an 840,000 tonne per year methanol plant, which is expected to be completed in early 2005. In addition to favourable natural gas contracts, recent free trade agreements now provide for duty-free supply from Chile to North America and the European Union.

Trinidad is our second largest production hub and this strategic location benefits from abundant sources of natural gas and duty-free access to North America and the European Union. The 850,000 tonne per year Titan Methanol Company facility ("Titan") commenced operations in 2000. Prior to May 2003, we had a 10% interest in Titan and marketed its entire production on a commission basis. Effective May 1, 2003, we acquired the remaining 90% interest in Titan by exercising a fixed-price option. We are pleased with Titan's operating results during 2003 and believe that we have created significant shareholder value by exercising a fixed-price option during a period of high methanol prices.

Together with BP, we are currently constructing Atlas, a 1.7 million tonne per year methanol facility in Trinidad located adjacent to Titan. Atlas is expected to be completed during the second quarter of 2004. We have a 63.1% joint venture interest in Atlas and will market 100% of its production. Similar to our Chilean operations, Atlas and Titan are underpinned by favourably priced long-term take-or-pay natural gas contracts that are adjusted by formulas related to methanol prices.

We are also focused on reducing our ocean shipping and other distribution costs. We seek to use larger vessels where possible and to maximize the utilization of our shipping fleet in order to reduce costs. We take advantage of prevailing conditions in the shipping market by varying the type and length of term of our ocean shipping contracts. We are investigating the opportunity to increase the number of in-market storage terminal facilities, particularly in Asia, to further improve the efficiency and cost-effectiveness of servicing our customers. We also look for opportunities to enter into product exchanges to reduce duty and other distribution costs.

Global Industry Leadership

We sell methanol through an extensive global marketing and distribution system. We believe this has enabled us to become the largest supplier of methanol to each of the major international markets of North America, Asia Pacific and Europe, as well as Latin America.

We have played a role in the consolidation of the methanol industry and have positioned ourselves as the supplier of choice for global methanol consumers as they face the decision of producing or purchasing their methanol feedstock requirements. Over the past few years we have permanently shut down 1.7 million tonnes of our own higher-cost capacity. Other producers have also shut down plants and this has allowed us to enter into long-term supply contracts and gain new customers. In 2002, we completed a long-term exclusive agreement with Lyondell Chemical to supply their methanol requirements in North America and Europe, and we gained certain production rights for their methanol plant in Texas during 2004. In 2003, we acquired certain production rights for Terra Industries' methanol facility located in Texas until the end of 2008 and the related methanol customer contracts. Through the production rights agreements with Lyondell and Terra we are able to determine the level of production from these facilities, which have a combined annual capacity of approximately 1.5 million tonnes. These arrangements provide our supply chain with valuable flexibility as we bring two important increments of low cost capacity in Trinidad and Chile to market over the next year.

Operational Excellence

Our focus on operational excellence includes excellence in our manufacturing process, in the leadership of our human resources and in the management of our finances.

In order to differentiate ourselves from our competitors, we strive to be the premier operator in all aspects of our business. 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. Through our Responsible Care program, we believe we have achieved an excellent overall environmental and safety record at all of our facilities and have reduced the likelihood of unplanned shutdowns and lost-time incidents. By maintaining and improving our plant operating reliability, as a result of our focus on operational excellence, we believe we have become a preferred supplier of methanol globally.

We operate in a highly competitive cyclical industry. Accordingly, we believe it is important to maintain financial flexibility throughout the methanol price cycle and we have deliberately adopted a prudent approach to our liquidity. We have similarly established a disciplined approach to capital spending and have set minimum target return criteria for methanol capacity additions and other investments. We are focused on financial discipline and value creation.

HOW WE ANALYZE OUR BUSINESS

Our operating results are affected by the market price for methanol, our production volumes and related costs of production and distribution and, to a lesser extent, the margins we earn on the sale of purchased methanol.

We believe that our results of operations are best examined by analyzing changes in the components of our operating income, interest expense, interest and other income, unusual items and income taxes. The margin characteristics of our sales of purchased methanol and our sales of produced methanol are very different and therefore we believe that separate discussion of the revenue and cost of sales line items is less meaningful. The discussion of purchased methanol and its impact on our results of operations is more meaningfully discussed on a net margin basis, because the cost of sales 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. The cost for purchased methanol also includes allocated storage and handling costs. The discussion of produced methanol is more meaningful if we separately analyze the individual elements that impact operating income. These elements are selling price and sales volumes, total cash cost (which is included in cost of sales and operating expenses in the income statement) and depreciation and amortization. Total cash cost includes cash production and distribution costs (which we call delivered cash cost) and selling, general and administrative expenses.

FINANCIAL HIGHLIGHTS

($ MILLIONS EXCEPT AS NOTED)	2003	2002
Sales volumes (thousands of tonnes):		
Company produced	**4,933**	5,686
Purchased	**1,392**	809
Commission sales[1]	**254**	725
	6,579	7,220
Average realized methanol price ($ per tonne)	**220**	155
Revenue	**1,394**	1,009
Net income	**8**	26
Income before unusual items (after-tax)[2]	**187**	112
Operating income	**296**	158
Cash flows from operating activities[3]	**330**	245
EBITDA[4]	**392**	270
Basic and diluted net income per share	**0.06**	0.21
Basic income before unusual items (after-tax) per share[2]	**1.52**	0.89
Number of common shares outstanding at December 31 (millions of shares)	**120**	126
Weighted average number of common shares outstanding (millions of shares)	**123**	127

1 *Commission sales includes production that we marketed on a commission basis from the 850,000 tonne per year Titan Methanol Company facility in Trinidad prior to our acquisition of this facility on May 1, 2003.*

2 *Unusual items include items that are considered by management to be non-operational and/or non-recurring. For a reconciliation of net income to income before unusual items (after-tax) and the basis for the calculation of basic income before unusual items (after-tax) per share, refer to "Supplemental Non-GAAP Measures" on page 41.*

3 *Before changes in non-cash working capital and the utilization of prepaid natural gas.*

4 *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 and the utilization of prepaid natural gas, cash flows related to interest, income taxes, asset restructuring charges and other unusual items. For a reconciliation of cash flows from operating activities to EBITDA, refer to "Supplemental Non-GAAP Measures" on page 41.*

OUR RESULTS OF OPERATIONS

For the year ended December 31, 2003, net income was $8 million compared with $26 million for 2002.

Income before unusual items (after-tax) in 2003 was $187 million compared with $112 million in 2002.

For a description and analysis of unusual items recorded in 2003 and 2002 refer to Unusual Items on page 31.

Production Summary

The following table details the annual operating capacity and production for facilities that operated in 2003.

(THOUSANDS OF TONNES)	ANNUAL OPERATING CAPACITY	2003	2002
Chile I, II and III (Chile)	**3,000**	**2,704**	2,932
Titan (Trinidad)	**850**	**577**	—
Motunui & Waitara Valley (New Zealand)	**2,430**	**968**	2,281
Kitimat (Canada)	**500**	**449**	478
	6,780	**4,698**	5,691

In addition to the facilities listed in the table above, we currently have idled facilities in Medicine Hat (Alberta, Canada) and Fortier (Louisiana, USA), which have been idled since July 2001 and March 1999, respectively. These facilities are now permanently shut down.

During 2003, we had planned and unplanned shutdowns at our facilities in Chile and this resulted in lower production compared with 2002.

Titan was acquired effective May 1, 2003 and operated at 102% of annual operating capacity in 2003 subsequent to acquisition.

The Maui natural gas field has been the primary source of natural gas for our New Zealand facilities. A contractual process was initiated in December 2001 to re-determine the economically recoverable reserves in the Maui field. On February 6, 2003, a final determination report of the economically recoverable reserves in the Maui field was released and based on this report we lost substantially all of our remaining contractual entitlements from this field. Based on contracted natural gas and additional natural gas that we believe we will contract, we expect 2004 production from our New Zealand facilities to be between 0.5 million tonnes and 1.0 million tonnes. In addition, the price we will pay for natural gas in New Zealand will be higher in 2004 compared with 2003.

Operating Income

2003 operating income was $296 million compared with $158 million in 2002. The increase in operating income of $138 million resulted from:

2003 VS. 2002	($ MILLIONS)
Higher realized price of produced methanol[1]	**325**
Higher total cash cost[2]	**(110)**
Lower sales volume of produced methanol[3]	**(61)**
Lower margin on the sale of purchased methanol[4]	**(32)**
Lower depreciation and amortization[5]	**16**
	138

1 *Calculated as the difference in the selling price of methanol that we produce multiplied by the sales volume of produced methanol in the current year.*

2 *Calculated as the difference in delivered cash cost per tonne multiplied by the sales volume of produced methanol in the current year plus the change in selling, general and administrative expenses.*

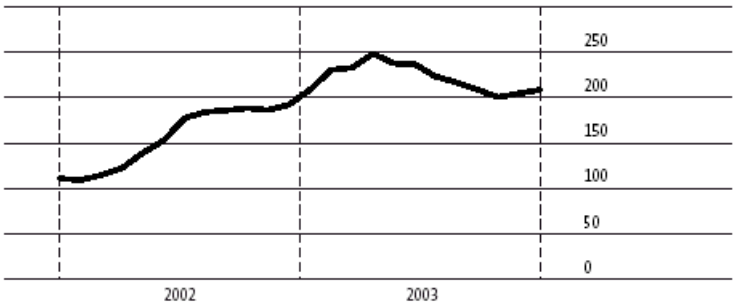
3 *Calculated as the difference in the sales volume of methanol that we produce multiplied by the difference between the selling price and delivered cash cost per tonne for the prior year.*

4 *Calculated as the difference in the margins earned on the sale of purchased methanol.*

5 *Calculated as the difference in depreciation and amortization.*

Higher Realized Price of Produced Methanol

METHANEX AVERAGE REALIZED PRICE 2002-2003 ($ per tonne)



The average realized price for 2003 was $220 per tonne compared with $155 per tonne in 2002. The higher average realized price in 2003 increased operating income by $325 million compared with 2002. Consistent with general economic conditions, methanol prices were low during the first part of 2002. Methanol prices increased throughout 2002 as a result of planned and unplanned methanol plant outages. Continuing industry supply constraints resulted in tight market conditions and high methanol prices during 2003. These supply constraints include the loss of approximately 1.5 million tonnes of our own production in New Zealand as a result of the Maui natural gas field re-determination. Strong industry operating performance and slightly lower North American natural gas prices resulted in balanced market conditions and slightly lower methanol prices during the second half of 2003. We believe overall industry demand for 2003 remained consistent with 2002 as the impact of the phase-out of MTBE by California, New York and Connecticut gasoline producers was offset by increases in demand for methanol for MTBE elsewhere in the world as well as increases in demand for methanol for other chemical derivatives.

Higher Total Cash Cost

Our total cash cost was higher in 2003 compared with 2002 and this resulted in decreased operating income of $110 million. The primary changes in total cash costs were as follows**:**

2003 VS. 2002	($ MILLIONS)
Higher natural gas costs	73
Higher logistics costs	13
Higher costs resulting from higher methanol prices	9
Impact of production mix on average cash costs	10
Other, net	5
	110

Higher Natural Gas Costs

Higher natural gas costs decreased operating income by $73 million in 2003 compared with 2002. We purchase natural gas for our North American facilities on a short-term basis. North American gas prices are set in a competitive market and can fluctuate widely. Costs for natural gas were higher for our Kitimat facility in 2003 compared with 2002 and this decreased operating income by $33 million. Natural gas costs for our Chilean facilities are adjusted by a formula related to methanol prices. Higher natural gas costs in Chile, resulting from higher average methanol prices in 2003, decreased operating income by $27 million compared with 2002. As a result of the Maui gas field re-determination, we utilized higher cost gas in New Zealand for 2003 and this decreased operating income by $13 million**.**

Higher Logistics Costs

Logistics costs were higher in 2003 compared with 2002 and this decreased operating income by $13 million. Logistics costs increased primarily as a result of higher fuel costs for our ocean vessels and changes in shipping patterns due to reduced production in New Zealand.

Higher Costs Resulting from Higher Methanol Prices

We incur costs, in addition to natural gas, that are related to methanol prices. As a result of higher methanol prices in 2003 compared with 2002, these costs increased and this decreased operating income by $9 million.

Impact of Production Mix on Average Cash Costs

In addition to factors that increase or decrease cash costs at each of our manufacturing facilities and our logistics costs, our total cash costs per tonne of produced product sold is impacted by the proportion of production we sell from our low cost facilities. As a result of lower production and a lower proportion of sales from our low cost facilities in 2003, our operating income decreased by $10 million compared with 2002. The decrease is primarily a result of lower sales of New Zealand product due to the re-determination of the Maui natural gas field. This impact was partially offset by the acquisition of Titan in May 2003.

Lower Sales Volume of Produced Methanol

Our sales volume of produced methanol in 2003 has been impacted by lower production from our facilities in New Zealand; however, sales of production from Titan acquired in May 2003 have partially offset this impact. Lower sales volume of produced methanol decreased operating income for 2003 by $61 million compared with 2002.

Lower Margin on the Sale of Purchased Methanol

We purchase methanol at market prices in order to satisfy customer requirements. As a consequence, we incur holding gains or losses on the resale of this product depending on the methanol price at the time of resale. The cost for purchased methanol also includes allocated storage and handling costs. In 2003, we incurred a loss of $40 million on the sale of approximately 1,392,000 tonnes of purchased methanol compared with a loss of $8 million on the sale of approximately 809,000 tonnes of purchased methanol in 2002. Allocated storage and handling costs, which are included in the cost of purchased methanol, were $10 million in 2003 compared with $5 million in 2002.

Lower Depreciation and Amortization

Depreciation and amortization expense was $95 million in 2003 compared with $111 million in 2002. Depreciation expense was lower due primarily to reduced sales volume of produced methanol. In addition, we wrote off our Fortier facility at the end of 2002 and this has resulted in lower depreciation expense for 2003.

Interest Expense

($ MILLIONS)	2003	2002
Interest expense before capitalized interest	**59**	38
Capitalized interest	**(20)**	(9)
	39	29

The increase in interest expense relates primarily to an increase in the level of long-term debt.

Interest and Other Income

Interest and other income was $14 million in 2003 compared with $10 million in 2002.

Unusual Items

($ MILLIONS)	2003	2002
Asset restructuring charges	**139**	115
Write-off of plant and equipment under development	**40**	—
Site restoration adjustment	**—**	(27)
	179	88

During 2003, we recorded a non-cash asset impairment charge of $130 million to write down property, plant and equipment and related assets in New Zealand and Medicine Hat, Alberta. We also incurred costs and made payments of $9 million, primarily for employee termination benefits to reduce the workforce at our New Zealand operations by approximately 82 employees and for costs to re-mothball the Medicine Hat facility. The Medicine Hat facility has been idled since 2001 and was readied for a potential start-up in 2003. The asset restructuring charges reflect changed economics for natural gas in both New Zealand and North America and complete the restructuring of our assets not supported by long-term low cost natural gas supply.

During 2003, we also recorded a $40 million write-off of plant and equipment under development as a result of our decision to not proceed with the construction of a methanol plant in Western Australia.

During 2002, we recorded a non-cash asset restructuring charge of $115 million related to the write-off of our Fortier, Louisiana facility, which has been idled since March 1999. The Fortier asset restructuring charge was partially offset by a non-cash $27 million reduction in the accrual for site restoration for our New Zealand facilities.

Income Taxes

Unusual items recorded in 2003 and primarily all of the unusual items recorded in 2002 did not attract accounting income taxes. These unusual items were recorded in the United States, New Zealand and Australia, where accounting income and losses have not attracted significant accounting income taxes due to the existence of unrecognized tax benefits. As a result of higher unusual items recorded in 2003, the effective income tax rate was 92% compared with 49% in 2002.

Excluding the impact of unusual items, the effective income tax rate for 2003 was 31% compared with 20% for 2002. As a result of the reduction in our natural gas entitlements in New Zealand, and the resulting lower production levels, we earned a higher proportion of our 2003 earnings from product produced in Chile, where we record accounting income taxes, and this resulted in a higher effective income tax rate compared with 2002.

LIQUIDITY & CAPITAL RESOURCES

Cash Flow Highlights

($ MILLIONS)	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from operating activities [1]	**330**	245
Changes in non-cash working capital and utilization of prepaid natural gas	**31**	(55)
	361	190
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on issue of long-term debt	**47**	298
Repayment of long-term debt	**(41)**	(150)
Shares repurchased	**(89)**	(56)
Dividend payments	**(59)**	(13)
Other, net	**4**	(9)
	(138)	70
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Titan Methanol Company, net of cash acquired	**(74)**	—
Capital maintenance, turnarounds and catalyst and other capital expenditures [2]	**(37)**	(21)
Plant and equipment under construction or development [2]	**(204)**	(146)
Other, net	**(41)**	(4)
	(356)	(171)
Increase (decrease) in cash and cash equivalents	**(133)**	89
Cash and cash equivalents, end of year	**288**	421

1 Before changes in non-cash working capital and the utilization of prepaid natural gas.

2 Including the change in accounts payable and accrued liabilities related to capital expenditures.

Cash Flows from Operating Activities

Cash flows from operating activities before changes in non-cash working capital and the utilization of prepaid natural gas were $330 million in 2003 compared with $245 million in 2002. The increase relates to higher operating income before depreciation and amortization, offset partially by the resulting increase in current income taxes and also higher interest expense.

The increase in cash flows from operating activities related to changes in non-cash working capital for 2003 of $31 million was primarily due to increases in accounts payable and accrued liabilities related to costs impacted by higher methanol prices and changes in the timing of payments.

Cash Flows from Financing Activities

Proceeds on issue of long-term debt in 2003 relate to our proportionate share of proceeds received from the Atlas limited recourse debt facilities.

Upon the acquisition of Titan in May 2003, we repaid $29 million of its limited recourse long-term debt. During 2003, we also made a scheduled payment of principal in the amount of $12 million.

NOVA Chemicals sold its ownership interest in Methanex during 2003 at a price of $9.85 per share. The sale was completed in part through a secondary offering of 37.9 million shares and in part through a share repurchase by Methanex of the remaining 9.0 million shares, for a cost of $89 million. We believe that this targeted buyback was a good use of excess cash. We believe that these transactions benefited our shareholders by reducing the number of common shares outstanding while at the same time increasing the public float of our stock.

We declare and pay dividends in United States dollars. During 2003, we paid total dividends of $59 million compared with $13 million in 2002. We initiated the payment of quarterly dividends of $0.05 per share in mid-2002 and during the third quarter of 2003, we announced a 20% increase in the quarterly dividend to $0.06 per share. In 2003, we also paid a special dividend of $0.25 per share.

Cash Flows from Investing Activities

In May 2003, we acquired the 850,000 tonne per year Titan Methanol Company facility in Trinidad for $74 million.

Capital maintenance and other capital expenditures for 2003, including changes in related accounts payable and accrued liabilities, were $37 million compared with $21 million in 2002. The increase relates primarily to the timing of planned capital maintenance and capital expenditures for information systems.

Plant and equipment under construction or development includes expenditures on the following projects, including changes in related accounts payable and accrued liabilities:

($ MILLIONS)	2003	2002
Atlas (Trinidad)	**73**	103
Chile IV (Chile)	**114**	23
Asia Pacific (Australia)	**17**	20
	204	146

During 2003, our proportionate share of capital expenditures for the Atlas project was $73 million. The Atlas project is expected to be completed in the second quarter of 2004. We estimate that our proportionate share of remaining capital expenditures to complete the construction of Atlas, including capitalized interest and funding of a debt service reserve account, will be approximately $56 million and that these expenditures will be funded from cash generated from operations, cash and cash equivalents and the proceeds from the limited recourse debt facilities. At December 31, 2003, we estimate that our remaining cash equity contribution to complete the construction of Atlas and fund the debt service reserve account will be approximately $44 million.

Chile IV, an 840,000 tonne per year expansion of our Chilean facilities, is expected to cost approximately $275 million, including capitalized interest of $25 million. As at December 31, 2003, total capital expenditures for the project were $142 million, including $6 million of capitalized interest. Construction of Chile IV is expected to be completed in early 2005. We anticipate that the remaining expenditures will be funded from cash generated from operations and cash and cash equivalents.

Over the period 2001 to 2003 we were developing a methanol facility in Western Australia. We incurred $17 million in development costs during 2003 prior to our decision to not proceed with the project. High capital costs prevented the project from providing an acceptable return on investment for our shareholders and we abandoned the project and wrote off the development costs totaling $40 million.

Other investing activities during 2003 primarily includes the cost of acquiring marketing and production rights in North America. We acquired certain production rights and exclusive rights to all methanol produced at Terra Industries' 700,000 tonne per year methanol facility in Texas and the related methanol contracts for $25 million. We also paid $10 million to acquire Lyondell Chemical's methanol customer contracts in North America, effective January 1, 2004.

Summary of Contractual Obligations, Commercial Commitments and Off-Balance Sheet Arrangements

The following table presents a summary of our contractual obligations and commercial commitments as at December 31, 2003:

($ MILLIONS)	LESS THAN 1 YEAR	1 – 3 YEARS	4 – 5 YEARS	AFTER 5 YEARS	TOTAL
Long-term debt repayments	21	314	68	375	778
Repayments of other long-term liabilities	12	21	4	44	81
Natural gas and related commitments	211	362	376	3,027	3,976
Operating lease commitments	105	216	195	555	1,071
Projects under construction	136	33	—	—	169
	485	946	643	4,001	6,075

Planned capital maintenance expenditures directed towards major maintenance, turnarounds and catalyst changes are not included in the above table. We estimate that the total cost for the capital maintenance program will be approximately $80 million for the three-year period to the end of 2006.

We have a foreign exchange hedging program designed to limit our exposure to foreign exchange volatility and to contribute towards achieving strategic cost structure and revenue targets. At December 31, 2003, we have forward exchange contracts with a fair value of positive $31 million (see notes 16 and 17 to the consolidated financial statements). Gains and losses on forward exchange contracts are recognized as an adjustment to the related operating costs, revenue or capital expenditures when the hedged transactions are recorded. These contracts are not subject to rating triggers or margin calls and rank equally with all our unsecured and unsubordinated indebtedness.

Except for forward exchange contracts, we do not have any off-balance sheet arrangements at December 31, 2003 that have, or are reasonably likely to have, a current or future material effect on our results of operations or financial condition.

Long-Term Debt Repayments

We have $250 million of unsecured notes maturing in 2005. The remaining long-term debt repayments are for the minimum required principal repayments relating to the Atlas and Titan limited recourse long-term debt facilities.

Repayments of Other Long-Term Liabilities

Repayments of other long-term liabilities represent minimum required contractual obligations or, if the timing is not known, management's best estimate of the timing of repayment.

Natural Gas and Related Commitments

We have commitments under take-or-pay contracts to purchase annual quantities of natural gas supplies and to pay for transportation capacity related to these supplies. Take-or-pay means that we are obliged to pay for the natural gas regardless of whether we take delivery of the natural gas contracted. Such commitments are typical in the methanol industry.

In Chile, we purchase all of our natural gas through long-term take-or-pay supply contracts. The majority of the natural gas for our Chilean facilities is purchased from suppliers in Argentina that are affiliates of major international petrochemical companies, with the remainder supplied by Empresa Nacional del Petroleo de Chile, the Chilean state-owned energy company. The purchase price of natural gas is based on a minimum United States dollar price adjusted by a formula related to methanol prices. The natural gas contracts for our Chilean facilities expire over the period from 2025 to 2029.

In Trinidad, we have long-term take-or-pay supply contracts for natural gas. The purchase price of the natural gas is adjusted quarterly by a formula related to methanol prices. The Titan natural gas contract expires in 2014 and the Atlas natural gas contract has a term of 20 years.

In New Zealand, we purchase natural gas through take-or-pay and other purchase contracts reflecting the current market price for natural gas.

We do not have commitments for natural gas expenditures in North America as we purchase natural gas on a short-term basis. However, we do have commitments related to payments for pipeline transportation capacity related to supplying our Kitimat facility.

Operating Lease Commitments

The majority of these commitments relate to time charter ocean shipping agreements with terms of up to 15 years. Time charter vessels meet approximately 70 percent of our ocean shipping requirements with the remainder of our requirements secured under a mix of contracts with terms of one to two years and through spot arrangements. We believe this structure provides an appropriate mix of shipping capacity, reflecting factors such as the location of our production facilities, the location and restrictions of the destination ports, and the risks associated with production, customer requirements and the general shipping market.

Projects Under Construction

Projects under construction include our proportionate share of the estimated construction costs and funding of a debt service reserve fund for Atlas and the estimated construction costs for Chile IV. The timing of these estimated expenditures is subject to change. These estimates do not include capitalized interest.

Liquidity and Capitalization

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

($ MILLIONS)	2003	2002
LIQUIDITY		
Cash and cash equivalents	**288**	421
Undrawn credit facilities	**250**	291
	538	712
CAPITALIZATION		
Unsecured notes	**450**	450
Limited recourse debt facilities, including current portion	**328**	98
Total debt	**778**	548
Shareholders' equity	**784**	904
Total capitalization	**1,562**	1,452
Total debt to capitalization[1]	**50%**	38%
Net debt to capitalization[2]	**38%**	12%

1 Defined as total debt divided by total capitalization.

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

Our cash balance at December 31, 2003 was $288 million. In December 2003, we finalized a $250 million three-year revolving credit facility replacing the expiring facility, allowing us to maintain our strong and flexible financial position. The revolving credit facility was undrawn at December 31, 2003.

We improved our financial flexibility during 2003 by amending the restricted payments test in the covenants for our 2005 unsecured notes. We are able to pay cash dividends or make other shareholder distributions to the extent that Consolidated Net Worth (as defined in the indenture), which approximates our shareholders' equity plus $200 million, is equal to or greater than $850 million. At December 31, 2003, Consolidated Net Worth was approximately $985 million. If Consolidated Net Worth is less than $850 million, then the Company is limited to declaring and paying a maximum of $30 million of dividends in any twelve-month period.

We believe that our current financial position, combined with our low cost production capacity, provides us with the financial capacity to carry out our capital maintenance spending program, fund our remaining cash equity contribution to complete the Atlas project, complete the construction of Chile IV and pursue new opportunities to enhance our strategic position in methanol.

The credit ratings for our unsecured notes at December 31, 2003 were as follows:

Standard & Poor's	BBB- (stable)
Moody's Investor Service	Ba1 (stable)
Fitch	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 & RISK MANAGEMENT

We believe our strategy of creating value through maintaining and enhancing our leadership in the production, marketing and delivery of methanol to our customers provides us with strategic advantages. However, as with any business, we are subject to risks that require prudent risk management. We believe the following risks to be among the most important in order to understand the issues that face our business and our approach to risk management.

Commodity Price Volatility

The methanol business is a highly competitive commodity industry and prices are affected by supply/ demand fundamentals. Methanol prices have historically been, and are expected to continue to be, characterized by significant volatility. 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. Demand for methanol is in large part dependent upon levels of global gross domestic product and changes in general economic conditions.

Demand for Methanol in the Production of MTBE

Methanol for the production of MTBE represents approximately 20 percent of global methanol demand. MTBE is used primarily as a source of octane and as an oxygenate for gasoline. MTBE was developed as a source of octane when unleaded gasolines were introduced. Over the past several years, environmental concerns and legislation have also increased demand for MTBE as an oxygenate in gasoline in order to reduce automobile tailpipe emissions.

Concerns have been raised in the United States regarding the use of MTBE in gasoline. Gasoline containing MTBE has leaked into groundwater in the United States, principally from underground gasoline storage tanks, and has been discharged directly into drinking water reservoirs. MTBE is more easily detectable in water than other gasoline components. Despite the proven air quality benefits of MTBE, California and other states in the United States, as well as the United States federal government, have initiated actions that may limit, or even eliminate, the use of MTBE as a gasoline component in the United States, and this is a major issue for our industry. California, New York and Connecticut, all major consuming states, have passed legislation banning MTBE effective January 1, 2004 and we believe that as of December 31, 2003, MTBE has been substantially phased out from these states. We estimate that the remaining demand for methanol for MTBE production in the United States at January 1, 2004 is approximately 2.5 million tonnes per annum. At the US federal government level there have been legislative proposals to ban MTBE; however, to date no legislation has been passed. It is likely, however, that over time the demand for methanol for MTBE consumed in the United States will be reduced, or possibly eliminated, as a result of these developments. Limiting or eliminating the use of MTBE in gasoline in the United States will reduce demand for MTBE and methanol in the United States and negatively impact the viability of MTBE and methanol plants in the United States.

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 of MTBE demand outside the United States. Our belief is based on the actions being taken around the world to reduce lead, benzene and other aromatics content in gasoline and to improve the emissions performance of vehicles generally. In December 2001, the European Union confirmed the suitability and continued use of MTBE as a fuel component. Implementation of clean air standards is continuing in Western Europe and the need for Central and Eastern European countries to have automotive fuels complying with European Union fuel emission standards also represents a large MTBE growth potential. Demand for MTBE in Asia, specifically Taiwan, Korea and China, is also increasing as many countries work towards removing lead and aromatics from gasoline to improve air quality. For example, the Chinese government introduced new gasoline specifications in July 2003 and since that time, we have witnessed a significant increase in MTBE imports to China. Also, we believe that the Middle East, particularly Iran, represents sizeable incremental demand potential for MTBE.

Security of Natural Gas Supply and Price

Natural gas is the principal feedstock for methanol and accounts for a significant portion of our cost of sales and operating expenses. Accordingly, our results from operations depend in large part on the availability and security of supply and the price of natural gas.

An important element of our strategy is to ensure security of natural gas supply at favourable prices. Over time, we have been reducing our reliance on North American production, where natural gas is purchased on a short-term basis and prices are extremely volatile, by selecting locations for new facilities where we can purchase natural gas through long-term contracts with favourable pricing. However, if we are unable to obtain continued access to sufficient natural gas for any of our plants on commercially acceptable terms, we could be forced to reduce production or close plants.

Operational Risks

Our business is subject to the risks of operating methanol production facilities, such as unforeseen equipment breakdowns, interruptions in the supply of natural gas, power failures, loss of port facilities or any other event, including any event of force majeure, which could result in a prolonged shutdown of any of our plants. We are also subject to environmental laws and regulations.

A focus on operational excellence in all areas of our business is a key element of our strategy. Through our Responsible Care program we believe we have achieved an excellent overall environmental and safety record at all of our facilities and have reduced the likelihood of unplanned shutdowns and lost-time incidents. As part of our overall risk management program we also maintain insurance, including business interruption insurance.

Projects under Construction

We are currently building the Atlas methanol plant in Trinidad and an expansion to our Chilean facility. While we believe our estimates of project costs and dates of anticipated completion are reasonable, there can be no assurance that the anticipated costs of these projects will not be exceeded or that these projects will commence operations within the contemplated schedules.

Foreign Operations

We are subject to risks inherent in foreign operations, including foreign currency risk, political and/or security risks.

The dominant currency in which we conduct business is the United States dollar, which is our reporting currency. At our production facilities in Chile, Trinidad, New Zealand and Canada, certain of the underlying operating costs and capital expenditures are incurred in currencies other than the United States dollar. 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. We also have some revenues in Euros and British pounds. We are exposed to risks of 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 revenue.

We have implemented a foreign exchange hedging program designed to limit our exposure to foreign exchange volatility and to contribute towards achieving strategic cost structure and revenue targets. We manage our exposure to foreign currencies through forward exchange contracts. These instruments are used solely for hedging purposes, not for speculation. Hedging activity is reviewed regularly by the Audit, Finance and Risk Committee of our Board.

OUTLOOK

Methanol is a global commodity and our earnings are primarily affected by fluctuations in the price of methanol, which is directly impacted by the balance of methanol supply and demand.

We are entering 2004 in an environment of tight methanol market conditions and strong pricing. We are seeing stronger demand growth, particularly in Asia, driven by the significant growth in industrial production in China. Global inventories are low and North American natural gas prices continue to be high. Also, the phase-out of MTBE in California, New York and Connecticut is largely behind us.

The 1.7 million tonne Atlas methanol facility, in which we have a 63.1% interest, is expected to be the first increment of new production in 2004. NPC in Iran is also planning for new capacity in 2004. We believe that the impact of planned new capacity additions for 2004 is likely to be largely offset by further shut-downs of high cost North American production and growth in global methanol demand. During 2004, we have certain production rights for the methanol plants owned by Lyondell and Terra Industries in Texas. Through these arrangements we are able to determine the level of production from these facilities, which have a combined annual capacity of approximately 1.5 million tonnes. These arrangements provide our supply chain with valuable flexibility as we bring two important increments of low cost capacity in Trinidad and Chile to market over the next year.

At December 31, 2003, global methanol capacity was approximately 38 million tonnes. A summary of significant methanol capacity additions where construction is known to be underway and which we expect to be completed during the period from 2004 to 2005 is as follows:

(CAPACITY FIGURES IN THOUSANDS OF TONNES)	CAPACITY	EXPECTED COMPLETION
Atlas – Methanex/BP (Trinidad)	1,700	2004
NPC 3 (Iran)	1,000	2004
Methanex Chile IV (Chile)	840	2005
SIPC (Saudi Arabia)	1,000	2005
MHTL M5 (Trinidad)	1,800	2005

There are also higher-cost small scale domestic methanol capacity additions expected in China and we estimate that net capacity additions in China over the period to the end of 2005 could be in the range of one to two million tonnes.

We believe that the impact of planned capacity additions will be largely offset by growth in the global demand for methanol and shut-downs of higher-cost production. A large portion of industry capacity is high cost, particularly in North America, Eastern and Western Europe and Asia. In addition, there is considerable uncertainty surrounding the operation of our methanol facilities in New Zealand after 2004.

In this environment we are continuing to focus on maximizing the value generated from our low cost facilities and maintaining our global market position. The methanol price will ultimately depend on industry operating rates, the rate of industry restructuring and the strength of global demand. We believe that our financial position and financial flexibility, outstanding global supply network and low cost position will ensure that Methanex continues 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 consolidated financial statements for our significant accounting policies.

Recoverability of 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, 2003, the net book value of our property, plant and equipment was $1,320 million. 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 remaining useful life. In cases where the undiscounted expected future cash flows from an asset are less than the net book value of the asset, a write-down is recognized equal to the difference.

A prolonged economic downturn impacting methanol demand, or an increase in supply, could intensify competitive pricing pressure, create an imbalance of industry supply and demand, or otherwise diminish volumes or profits. Such events would impact our estimates of future net cash flows to be generated by our production facilities. Consequently, it is possible that our future operating results could be materially and adversely affected by impairment charges related to the recoverability of our property, plant and equipment.

Site Restoration

As at December 31, 2003, we had accrued $28 million for obligations for future site restoration costs for those sites where a reasonably definitive estimate of the costs can be made. Inherent uncertainties exist because the restoration activities will take place, for the most part, many years 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 estimates are based on today's regulations and technology. Because of uncertainties related to estimating future site restoration activities, future costs related to the currently identified sites could differ from the amounts estimated.

Future 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 income tax assets, when appropriate, to reflect the uncertainty of realization of future income 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 utilization 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 utilized to offset future taxable income otherwise calculated. Management routinely reviews these judgments. At December 31, 2003, we had future income tax assets of $317 million that are substantially offset by a valuation allowance of $282 million.

ANTICIPATED CHANGES TO CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Stock Based Compensation

In October 2003, the Canadian Institute of Chartered Accountants (CICA) amended Handbook Section 3870, Stock Based Compensation and Other Stock Based Payments. The amended section requires recognition of an estimate of the fair value of stock based awards in earnings, rather than allowing note disclosure of pro forma income as if a fair value based method had been used. We will retroactively adopt the amended standard effective January 1, 2004 with restatement of the 2003 comparative figures. The cumulative adjustment on January 1, 2004 balances will increase contributed surplus and decrease retained earnings by $7.2 million, with no net effect on shareholders' equity. The adjustment represents the total compensation expense which would have been recorded had a fair value based method been used for stock options granted after January 1, 2002.

Asset Retirement Obligations

Effective January 1, 2004, we will adopt the new CICA recommendations for accounting for asset retirement obligations, which include site restoration costs. The new standard requires that obligations associated with the retirement of tangible long-lived assets and associated retirement costs be recognized at fair value in the period in which the obligation is incurred with a corresponding increase in the carrying amount of the related long-lived asset. The asset retirement obligation liability is increased at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the initial fair value measurement. We are currently evaluating the impact of adopting this new standard.

Impairment of Long-Lived Assets

Effective January 1, 2004, we will prospectively adopt the new CICA recommendations for accounting for the impairment of long-lived assets. A long-lived asset is an asset that does not meet the definition of a current asset. The new standard requires recognition of an impairment loss when the carrying value of a long-lived asset is not recoverable and exceeds its fair value. Under the new standard, an impairment loss is measured as the amount by which the carrying value of a long-lived asset exceeds its fair value. This new standard is not expected to have any impact on our consolidated financial position or results of operations on adoption.

SUPPLEMENTAL NON-GAAP MEASURES

In addition to providing measures prepared in accordance with Canadian generally accepted accounting principles (GAAP), Methanex presents certain supplemental non-GAAP measures. These are EBITDA, income before unusual items (after-tax) and basic income before unusual items (after-tax) per share. These measures do not have any standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. These measures are provided to assist readers 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 GAAP.

Income Before Unusual Items (After-Tax) and Basic Income before Unusual Items (After-Tax) Per Share

These supplemental non-GAAP measures are provided to assist readers in comparing earnings from one period to another without the impact of unusual items that are considered to be non-operational and/or non-recurring. Basic income before unusual items (after-tax) per share has been calculated by dividing income before unusual items (after-tax) by the 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 basic income before unusual items (after-tax) per share:

($ MILLIONS, EXCEPT NUMBER OF SHARES AND PER SHARE AMOUNTS)	2003	2002
Net income	**8**	26
Add (deduct) unusual items:		
Asset restructuring charges	**139**	115
Write-off of plant and equipment under development	**40**	—
Site restoration adjustment	**—**	(27)
Income tax recovery related to the above items	**—**	(2)
Income before unusual items (after-tax)	**187**	112
Weighted average number of common shares outstanding (millions of shares)	**123**	127
Basic income before unusual items (after-tax) per share	**1.52**	0.89

EBITDA

This supplemental non-GAAP measure is provided to assist readers in determining the ability of Methanex to generate cash from operations. 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 and the utilization of prepaid natural gas, cash flows related to interest, income taxes, asset restructuring charges and other unusual items.

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

($ MILLIONS)	2003	2002
Cash flows from operating activities	**361**	190
Add (deduct):		
Changes in non-cash working capital and the utilization of prepaid natural gas	**(31)**	55
Other non-cash operating expenses	**(13)**	(10)
Asset restructuring charges – cash settlements	**10**	—
Interest expense	**39**	29
Interest and other income	**(14)**	(10)
Income taxes – current	**40**	16
EBITDA	**392**	270

QUARTERLY FINANCIAL DATA (UNAUDITED)

($ MILLIONS, EXCEPT PER SHARE AMOUNTS)	THREE MONTHS ENDED DEC. 31	SEP. 30	JUN. 30	MAR. 31
YEAR ENDED DECEMBER 31, 2003				
Revenue	**351.6**	**334.7**	**371.5**	**336.7**
Net income (loss)	**(110.2)**	**(7.8)**	**49.9**	**75.5**
Basic net income (loss) per share	**(0.92)**	**(0.06)**	**0.39**	**0.60**
Diluted net income (loss) per share	**(0.92)**	**(0.06)**	**0.38**	**0.58**
YEAR ENDED DECEMBER 31, 2002				
Revenue	307.0	296.5	223.6	181.7
Net income (loss)	(30.4)	58.5	15.7	(17.4)
Basic net income (loss) per share	(0.24)	0.47	0.12	(0.13)
Diluted net income (loss) per share	(0.24)	0.46	0.12	(0.13)

SELECTED ANNUAL INFORMATION

($ MILLIONS, EXCEPT PER SHARE AMOUNTS)	2003	2002	2001
Revenue	**1,394**	1,009	1,149
Net income	**8**	26	71
Basic and diluted net income per share	**0.06**	0.21	0.46
Cash dividends declared per share	**0.47**	0.10	—
Total assets	**2,082**	1,819	1,693
Total long-term financial liabilities	**826**	600	328

FORWARD-LOOKING STATEMENTS

Statements made in this document that are based on our current expectations, estimates and projections constitute forward-looking statements. Forward-looking statements are based on our experience and perception of trends, current conditions, expected future developments and other factors. By their nature, forward-looking statements involve uncertainties and risks that may cause the stated outcome to differ materially from the actual outcome.

Important factors that can cause anticipated outcomes to differ materially from actual outcomes include worldwide economic conditions; conditions in the methanol and other industries, including the supply and demand balance for methanol; actions of competitors; changes in laws or regulations; the ability to implement business strategies, pursue business opportunities and maintain and enhance our competitive advantages; the risks attendant with methanol production and marketing, including operational disruption; the risks associated with carrying out capital expenditure projects, including completing the Atlas and Chile IV projects on time and on budget; availability and price of natural gas feedstock; foreign exchange risk; raw material and other production costs; transportation costs; the ability to attract and retain qualified personnel; the risks associated with investments and operations in multiple jurisdictions and other risks which the Company may describe in publicly available documents filed from time to time with securities commissions.

Having in mind these and other factors, many of which are described in this document, readers are cautioned not to place undue reliance on forward-looking statements. The Company does not guarantee that anticipated outcomes made in forward-looking statements will be realized.

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Consolidated Financial Statements

RESPONSIBILITY FOR FINANCIAL REPORTING

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

Management is responsible for the development of internal controls over the reporting process. Management believes that the system of internal controls, review procedures and established policies provide reasonable assurance as to the reliability and relevance of financial reports.

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 reviews the consolidated financial statements, annual report and management's discussion and analysis, and recommends them to the Board for approval. The Committee considers, for review by the Board and approval by the shareholders, the appointment of the external auditors.

In addition, the Committee reviews and approves unaudited interim financial statements, news releases on interim financial results and the interim management's discussion and analysis before their distribution. 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 have provided an independent professional opinion on the fairness of these consolidated financial statements. Their opinion is included in the annual report.



Brian D. Gregson (signed)

Chairman of the Audit, Finance and Risk Committee



Pierre Choquette (signed)

Chief Executive Officer and Chairman of the Board of Directors



Ian P. Cameron (signed)

Senior Vice President, Finance and Chief Financial Officer

March 5, 2004

AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of Methanex Corporation as at December 31, 2003 and 2002 and the consolidated statements of income and retained earnings 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. 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



KPMG LLP (signed) Chartered Accountants

Vancouver, Canada
March 5, 2004

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Consolidated Balance Sheets

(thousands of US dollars, except number of shares)

AS AT DECEMBER 31	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 287,863**	$ 421,387
Receivables (note 3)	**220,871**	201,037
Inventories	**126,729**	119,125
Prepaid expenses	**14,852**	12,079
	650,315	753,628
Property, plant and equipment (note 4)	**1,320,227**	979,935
Other assets (note 6)	**111,258**	85,748
	$2,081,800	$1,819,311
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 178,420**	$ 136,035
Current maturities on long-term debt and other long-term liabilities	**33,026**	6,079
	211,446	142,114
Long-term debt (note 7)	**756,185**	547,224
Other long-term liabilities (note 8)	**69,377**	52,980
Future income taxes (note 14)	**261,218**	172,915
Shareholders' equity:		
Capital stock (note 9)	**499,258**	517,210
Issued and outstanding common shares at December 31, 2003 was 120,007,767 (2002 – 125,651,639)		
Retained earnings	**284,316**	386,868
	783,574	904,078
	$2,081,800	$1,819,311

See accompanying notes to consolidated financial statements.

Approved by the Board:

Brian D. Gregson (signed)
Director

Pierre Choquette (signed)
Director

Consolidated Statements of Income and Retained Earnings

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

FOR THE YEARS ENDED DECEMBER 31	2003	2002
Revenue	**$ 1,394,450**	$ 1,008,792
Cost of sales and operating expenses	**1,002,853**	739,156
Depreciation and amortization	**95,107**	111,289
Operating income before undernoted items	**296,490**	158,347
Interest expense (note 11)	**(38,815)**	(28,972)
Interest and other income	**13,843**	10,365
Asset restructuring charges (note 12)	**(139,352)**	(115,387)
Write-off of plant and equipment under development (note 4)	**(39,833)**	—
Site restoration adjustment (note 8)	**—**	26,972
Income before income taxes	**92,333**	51,325
Income taxes (note 14):		
Current	**39,586**	16,465
Future	**45,239**	8,446
	84,825	24,911
Net income	**7,508**	26,414
Retained earnings, beginning of year	**386,868**	397,310
Excess of repurchase price over assigned value of common shares (note 9)	**(51,523)**	(24,349)
Dividend payments	**(58,537)**	(12,507)
Retained earnings, end of year	**$ 284,316**	$ 386,868
Weighted average number of common shares outstanding	**122,961,809**	126,610,754
Basic and diluted net income per share	**$ 0.06**	$ 0.21

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

(thousands of US dollars)

FOR THE YEARS ENDED DECEMBER 31	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 7,508**	$ 26,414
Add (deduct) non-cash items:		
Depreciation and amortization	**95,107**	111,289
Future income taxes	**45,239**	8,446
Asset restructuring charges (note 12)	**129,565**	115,387
Write-off of plant and equipment under development	**39,833**	—
Site restoration adjustment	**—**	(26,972)
Other	**13,158**	10,030
Cash flows from operating activities before undernoted changes	**330,410**	244,594
Changes in non-cash working capital (note 15)	**28,405**	(56,519)
Utilization of prepaid natural gas	**2,149**	2,034
	360,964	190,109
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on issue of limited recourse long-term debt	**46,547**	97,578
Proceeds on issue of unsecured notes	**—**	200,000
Repayment of long-term debt	**(40,731)**	(150,000)
Proceeds on issue of shares on exercise of stock options	**19,173**	10,684
Dividend payments	**(58,537)**	(12,507)
Payment for shares repurchased	**(88,648)**	(55,974)
Repayment of other long-term liabilities	**(10,335)**	(8,352)
Other	**(6,135)**	(11,772)
	(138,666)	69,657
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Titan Methanol Company, net of cash acquired (note 2)	**(74,130)**	—
Plant and equipment under construction or development	**(206,968)**	(142,245)
Property, plant and equipment	**(35,982)**	(17,913)
Accounts payable and accrued liabilities related to capital expenditures	**1,522**	(6,542)
Other assets	**(40,264)**	(3,808)
	(355,822)	(170,508)
Increase (decrease) in cash and cash equivalents	**(133,524)**	89,258
Cash and cash equivalents, beginning of year	**421,387**	332,129
Cash and cash equivalents, end of year	**$ 287,863**	$ 421,387
SUPPLEMENTARY CASH FLOW INFORMATION:		
Interest paid, net of capitalized interest	**$ 34,278**	$ 21,641
Income taxes paid, net of amounts refunded	**$ 33,716**	$ 3,147
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Long-term liability incurred on acquisition of property, plant and equipment	**$ 12,976**	$ —

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular dollar amounts are shown in thousands of U.S. dollars, except where noted)
Years ended December 31, 2003 and 2002

1. Significant accounting policies:

(a) Basis of presentation:

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

(b) Reporting currency:

The majority of the Company's business is transacted in U.S. dollars and, accordingly, the consolidated financial statements have been measured and expressed in that currency.

(c) Cash equivalents:

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

(d) Receivables:

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

(e) Inventories:

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

(f) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Financing costs incurred during construction are capitalized to the cost of the asset. Depreciation is provided on a straight-line basis, or, in the case of the New Zealand assets, on a unit-of-natural-gas consumption basis, from the commencement of commercial operations in order to amortize the cost of the assets over their estimated useful lives to estimated residual value.

The Company reviews the carrying value of property, plant and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, a write-down is recognized equal to the difference.

The Maui natural gas field was the primary gas supply source for the Company's New Zealand operations. In 2003, a final determination report of economically recoverable reserves of the Maui natural gas field in New Zealand was released by an independent expert, who was appointed by the parties to the Maui natural gas contract. Based on this report, the Company lost substantially all of its remaining contractual entitlements from the Maui field. As at December 31, 2003, the Company wrote down the New Zealand assets to estimated residual value.

Routine repairs and maintenance costs are expensed as incurred. At intervals of three or more years, 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 amortized over the period until the next planned turnaround.

The Company accrues obligations for future site restoration costs where a reasonably definitive estimate of the costs can be made. The Company reviews and updates the estimate of site restoration costs on a periodic basis.

1. Significant accounting policies (continued):

(g) Interest in Atlas joint venture:

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

(h) Other assets:

Marketing and production rights and deferred charges 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.

Natural gas prepayments are capitalized to other assets and are amortized to cost of sales and operating expenses on an appropriate basis to charge the cost of the assets against earnings as used.

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

Investments other than joint ventures and investments in which the Company exercises significant influence are accounted for using the cost method.

(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 arising from plan amendments, experience gains and losses and changes in assumptions are amortized 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 the year in which they occur.

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

(j) Net income per share:

The Company calculates basic net income per share by dividing net income for the period by the weighted average number of outstanding common shares and calculates diluted net income per 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 proceeds to be received on the exercise of dilutive stock options are applied to repurchase common shares at the average market price for the period. A stock option is dilutive only when the average market price of common shares during the period exceeds the exercise price of the stock option.

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

	2003	2002
Denominator for basic net income per share	**122,961,809**	126,610,754
Effect of dilutive stock options	**2,669,700**	2,191,220
Denominator for diluted net income per share	**125,631,509**	128,801,974

1. Significant accounting policies (continued):

(k) Stock option plan:

The Company has a stock option plan that is described in note 10. The Company recognizes no compensation expense for stock option grants to employees and directors that are not direct awards of stock, stock appreciation rights or otherwise call for settlement in cash or other assets. Any consideration received on the exercise of stock options is credited to share capital. The Company has provided pro forma disclosure in note 10(a) as if a fair value based method had been used to measure compensation expense for stock option grants to employees and directors. A fair value based method requires equity instruments awarded to employees and the cost of the service received as consideration to be measured and recognized based on an estimate of the fair value of the equity instruments issued. Compensation expense is recognized over the period of related employee service, usually the vesting period of the equity instrument awarded. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant.

(l) Deferred share units:

Directors and executive officers of the Company may elect to receive some elements of their compensation in the form of notional deferred share units. The number of deferred share units allotted is determined by the amount of compensation elected to be invested in the deferred share units divided by the market value of the Company's common shares at the time the compensation is earned. Holders of deferred share units are entitled to dividend equivalents in the form of additional deferred share units. Deferred share units are redeemable for cash, based on the market value of the Company's common shares. Changes in fair value of the deferred share units are recognized in earnings.

(m) Restricted share units:

Executive officers may elect to receive either 50% or 100% of the value of their annual long-term incentive award in the form of restricted share units, and directors are granted restricted share units as part of their compensation. Restricted share units are grants of notional shares that are non-dilutive to shareholders. Holders of restricted share units are entitled to dividend equivalents in the form of additional restricted share units. Upon vesting, restricted share units are redeemed for cash at a value based on the trading price of the Company's common shares. Compensation expense for restricted share units is measured at fair value, based on the market value of the Company's common shares at the date of grant, and is recognized, together with changes in fair value, over the period from the date of grant to the date of vesting.

(n) Revenue recognition:

Revenue is generally recognized as risk and title to the product transfers to the customer, which usually occurs at the time shipment is made.

(o) Foreign currency translation:

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 or losses are included in earnings.

(p) Financial instruments:

A substantial portion of the Company's business is transacted in its reporting currency, the U.S. dollar. At the Company's Canadian, New Zealand, Trinidad and Chilean production facilities, certain of the underlying operating costs and capital expenditures are incurred in currencies other than the U.S. dollar. In addition, certain revenues in Europe are realized in the Euro or the British pound. The Company uses derivative financial instruments to reduce its exposure to fluctuations in foreign exchange on certain committed and anticipated transactions to contribute to achieving cost structure and revenue targets. The Company does not utilize derivative financial instruments for trading or speculative purposes.

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

1. Significant accounting policies (continued):

(p) Financial instruments (continued):

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated or committed U.S. dollar denominated exposures are recognized as an adjustment to the related operating costs, revenue or capital expenditures when the hedged transaction is recorded.

Gains and losses on natural gas financial instruments used to hedge natural gas exposures are recognized as an adjustment to the related hedged transaction when realized.

Premiums paid or received with respect to derivative financial instruments are deferred and amortized to income over the effective period of the contracts.

(q) 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 the tax rates that are expected to be in effect when the underlying items of income and expense are expected to be realized. The effect of a change in tax rates 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 does not accrue for taxes that will be incurred upon distributions from its subsidiaries unless it is probable that the earnings will be repatriated.

2. Business combination:

Effective May 1, 2003, the Company acquired the remaining 90% interest in Titan Methanol Company (“Titan”). Titan’s principal asset is an 850,000 tonne per year methanol facility in Trinidad. The Company had acquired a 10% interest in Titan in 2000. The acquisition has been accounted for under the purchase method of accounting with its results of operations consolidated from the date of acquisition. The Company’s 100% interest in the net assets at fair values at the date of acquisition is as follows:

Net assets acquired:	
Cash	**$ 4,384**
Other current assets	**35,323**
Property, plant and equipment	**327,480**
Other assets – debt service reserve account	**9,874**
Current liabilities, excluding current portion of long-term debt	**(11,969)**
Other long-term liabilities – interest rate swap contract	**(10,055)**
Long-term debt, including current portion	**(222,959)**
Future income taxes	**(43,064)**
	$ 89,014
Consideration, including costs on acquisition:	
Cash	**$ 78,514**
Carrying value of original 10% investment in Titan (note 6)	**10,500**
	$ 89,014

3. Receivables:

	2003	2002
Trade	**$167,749**	$169,228
Income and other taxes receivable	**19,380**	10,366
Other	**33,742**	21,443
	$220,871	$201,037

4. Property, plant and equipment:

	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
December 31, 2003			
Plant and equipment	**$2,482,673**	**$ 1,563,032**	**$ 919,641**
Plant and equipment under construction	**377,840**	**—**	**377,840**
Other	**48,827**	**26,081**	**22,746**
	$2,909,340	**$ 1,589,113**	**$1,320,227**
December 31, 2002			
Plant and equipment	$2,111,575	$ 1,363,277	$ 748,298
Plant and equipment under construction or development	210,705	—	210,705
Other	41,548	20,616	20,932
	$2,363,828	$ 1,383,893	$ 979,935

During 2003, the Company recorded a write-off of plant and equipment under development in the amount of $39.8 million related to the decision to not proceed with the development of a methanol plant located in Western Australia.

5. Interest in Atlas joint venture:

The Company has a 63.1% joint venture interest in Atlas Methanol Company (“Atlas”). The joint venture is constructing a 1.7 million tonne per year methanol plant in Trinidad. Construction is expected to be completed in the second quarter of 2004.

These consolidated financial statements include the following amounts representing the Company’s proportionate interest in the Atlas joint venture:

	2003	2002
Consolidated Balance Sheets:		
Cash and cash equivalents	**$ 18,429**	$ 7,168
Other current assets	**2,443**	1,349
Property, plant and equipment	**235,718**	161,808
Other assets	**5,996**	5,996
Current liabilities	**4,486**	3,847
Limited recourse long-term debt (note 7)	**144,125**	97,578
Consolidated Statements of Cash Flows:		
Cash inflows from financing activities	**46,547**	91,582
Cash outflows from investing activities	**74,365**	102,520

To December 31, 2003, the joint venture had no revenue and all expenditures were capitalized.

6. Other assets:

	2003	2002
Marketing and production rights, net of accumulated amortization:		
North America	**$ 42,548**	$ 6,635
Caribbean	**17,418**	19,907
Europe	**7,087**	8,340
	67,053	34,882
Restricted cash for debt service reserve account (note 7)	**14,258**	—
Deferred financing costs, net of accumulated amortization	**13,560**	13,159
Deferred charges, net of accumulated amortization	**5,121**	5,762
Investment in Titan Methanol Company, at cost (note 2)	**—**	10,500
Natural gas prepayments	**—**	10,464
Other	**11,266**	10,981
	$111,258	$85,748

Amortization of marketing and production rights and deferred charges included in depreciation and amortization was $7.2 million (2002 — $7.7 million). Amortization of deferred financing costs included in interest expense was $1.3 million (2002 — $1.2 million).

7. Long-term debt:

Long-term debt includes unsecured notes of the Company, limited recourse long-term debt of Titan and the Company's proportionate share of limited recourse long-term debt of the Atlas joint venture. The debt of Titan and Atlas are described as limited recourse as they are secured only by the assets of the related subsidiary or joint venture.

		2003	2002
Unsecured notes:			
i)	**7.75% due August 15, 2005 (effective yield 7.83%)**	**$249,783**	$249,646
ii)	**8.75% due August 15, 2012 (effective yield 8.75%)**	**200,000**	200,000
		449,783	449,646
Atlas Methanol Company – limited recourse facilities:			
i)	**Senior commercial bank loan facility to a maximum amount of $72 million with interest rates based on LIBOR plus a spread ranging from 2.25% to 2.75%. Principal will be paid in twelve semi-annual payments commencing six months after the earlier of completion of construction and December 31, 2004.**	**64,203**	43,513
ii)	**Senior secured notes to a maximum amount of $63 million bearing an interest rate based on the yield to maturity on a ten-year U.S. treasury security plus 3.85% with semi-annual interest payments. Principal will be paid in twelve semi-annual payments commencing six years after the earlier of completion of construction and December 31, 2004.**	**56,229**	38,432
iii)	**Senior fixed rate bonds to a maximum amount of approximately $15 million bearing an interest rate of 8.25% with semi-annual interest payments. Principal will be paid in four semi-annual payments commencing eleven years after the earlier of completion of construction and December 31, 2004.**	**15,144**	9,825
iv)	**Subordinated loans to a maximum amount of $9 million with an interest rate based on LIBOR plus a spread ranging from 2.25% to 2.75%. Principal will be paid in twenty semi-annual payments commencing six years after the earlier of completion of construction and December 31, 2004.**	**8,549**	5,808
		144,125	97,578

7. Long-term debt (continued):

		2003	2002
Titan Methanol Company – limited recourse facilities:			
i)	**Senior loans with an average fixed interest rate of 7.4%. Principal and interest is repayable by semi-annual payments. The loans mature in April 2010.**	**50,810**	—
ii)	**Senior commercial bank loan facility and senior loans with interest rates based on LIBOR plus a spread ranging from 0.75% to 2.25%. Principal and interest is repayable by semi-annual payments. The loan matures in April 2010.**	**62,556**	—
iii)	**Senior revolving working capital facilities to a maximum amount of $35 million with interest payable semi-annually and interest rates based on LIBOR plus a spread of 3%. The facilities expire in 2010.**	**25,000**	—
iv)	**Senior liquidity support facility, to a maximum amount of $22 million, with interest payable semi-annually and interest rates based on LIBOR plus a spread of 3%. Principal is repayable over time from available cash flows of Titan in accordance with the terms of the agreement. The facility expires in 2008.**	**15,367**	—
v)	**Subordinated loans with current interest rates based on LIBOR plus 4%. Principal and interest is scheduled to be repaid semi-annually over the period to 2010. To date, payments have not been made. Principal and interest is payable from the available cash flows of Titan following full repayment of the senior liquidity support facility.**	**29,905**	—
		183,638	—
		777,546	547,224
Less current maturities		**(21,361)**	—
		$756,185	$547,224

The aggregate amount of minimum principal payments required in each of the next five years for long-term debt is as follows:

2004	2005	2006	2007	2008
$21,361	$278,540	$35,596	$35,596	$32,846

The Company has available an unsecured revolving bank facility of $250 million that expires in December 2006. This facility ranks pari passu with the unsecured notes.

Under the terms of the senior limited recourse debt facilities, Titan is required to maintain a debt service reserve account (note 6). The debt service reserve account requirements are based on six months principal and interest for the senior limited recourse debt facilities. The debt service reserve account is fully funded at December 31, 2003.

8. Other long-term liabilities:

	2003	2002
Site restoration	**$ 27,980**	$28,879
Consideration payable for acquisition of assets	**13,533**	—
Interest rate swap contract	**8,275**	—
Fortier asset restructuring	**5,648**	10,230
Restricted and deferred share units	**5,565**	3,010
Other	**20,041**	16,940
	81,042	59,059
Less current maturities	**(11,665)**	(6,079)
	$ 69,377	$52,980

8. Other long-term liabilities (continued):

The Company has accrued $28.0 million (2002 — $28.9 million) for obligations for future site restoration costs for those sites where a reasonably definitive estimate of the costs can be made. During 2002, after completing a comprehensive review and analysis to update the previous estimate, the Company recorded a $27 million reduction in the accrual for site restoration for the New Zealand facility. Cash expenditures in 2003 relating to site restoration costs were $0.9 million (2002 — nil) and were applied against the site restoration accrual. Cash expenditures expected for 2004 are approximately $1.5 million. Because of uncertainties related to estimating future site restoration activities, future costs related to the currently identified sites could differ from the amounts estimated.

Consideration payable for acquisition of the ammonia production assets located adjacent to the Company's methanol production assets in Kitimat, British Columbia is payable over the period to December 31, 2005.

9. Capital stock:

(a) Authorized share capital:

25,000,000 preferred shares without nominal or par value; and

Unlimited number of common shares without nominal or par value.

(b) Restricted dividend and shareholder distributions covenant:

Under a covenant set out in the indenture to the 7.75% notes due August 15, 2005, as amended, the Company can pay cash dividends or make other shareholder distributions to the extent that Consolidated Net Worth (as defined in the indenture), which approximates shareholders' equity plus $200 million, is equal to or greater than $850 million. At December 31, 2003, Consolidated Net Worth was approximately $985 million. If Consolidated Net Worth is less than $850 million, then the Company is limited to declaring and paying a maximum of $30 million of dividends in any twelve-month period.

(c) Issued and outstanding capital stock:

Changes in the capital stock of the Company during the period January 1, 2002 to December 31, 2003 were as follows:

	NUMBER OF COMMON SHARES	CONSIDERATION
Balance, December 31, 2001	131,167,942	$ 538,151
Issued on exercise of stock options	2,191,697	10,684
Shares repurchased	(7,708,000)	(31,625)
Balance, December 31, 2002	125,651,639	$ 517,210
Issued on exercise of stock options	3,356,128	19,173
Shares repurchased	(9,000,000)	(37,125)
Balance, December 31, 2003	**120,007,767**	**$ 499,258**

During 2002 and 2003, the Company repurchased for cancellation, common shares at prices in excess of their assigned value. The cost to acquire the shares in the amount of $88.6 million (2002 — $56.0 million) was allocated $37.1 million (2002 — $31.6 million) to capital stock and $51.5 million (2002 — $24.4 million) to retained earnings.

10. Stock based compensation:

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

(a) Stock options:

There are two types of options granted under the stock option plan: incentive stock options and performance stock options. At December 31, 2003, the Company had 0.9 million common shares reserved for future stock option grants to its directors and employees 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. An option's maximum term is ten years; one-half of the options vest one year after the date of the grant, with a further vesting of one-quarter of the options per year over the subsequent two years.

Common shares reserved for outstanding incentive stock options at December 31, 2003 and 2002 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, 2001	8,690,750	$ 10.09	—	$ —
Granted	—	—	2,474,000	6.47
Exercised	(1,728,897)	8.37	—	—
Cancelled	(113,525)	9.85	(42,000)	6.45
Outstanding at December 31, 2002	6,848,328	$ 10.53	2,432,000	$ 6.47
Granted	—	—	1,194,000	9.23
Exercised	(2,121,178)	8.89	(447,950)	6.47
Cancelled	(44,375)	10.35	(72,500)	7.56
Outstanding at December 31, 2003	**4,682,775**	**$ 11.27**	**3,105,550**	**$ 7.51**

	STOCK OPTIONS OUTSTANDING AT DECEMBER 31, 2003			STOCK OPTIONS EXERCISABLE AT DECEMBER 31, 2003	
RANGE OF EXERCISE PRICES	NUMBER OF STOCK OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF STOCK OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
Options denominated in CAD $					
$ 3.29 to 5.85	**349,100**	**5.8**	**$ 4.23**	**349,100**	**$ 4.23**
9.56 to 11.60	**3,033,325**	**5.3**	**10.26**	**2,320,194**	**10.47**
13.65 to 14.63	**1,100,350**	**2.4**	**14.04**	**1,100,350**	**14.04**
23.75	**200,000**	**0.8**	**23.75**	**200,000**	**23.75**
	4,682,775	**4.5**	**$ 11.27**	**3,969,644**	**$ 11.58**
Options denominated in US $					
$ 6.45	**1,918,550**	**8.2**	**$ 6.45**	**736,800**	**$ 6.45**
8.79 to 9.23	**1,187,000**	**9.2**	**9.22**	**9,500**	**8.81**
	3,105,550	**8.6**	**$ 7.51**	**746,300**	**$ 6.48**

10. Stock based compensation (continued):

ii) Performance stock options:

Common shares reserved for outstanding performance stock options at December 31, 2003 and 2002 are as follows:

	NUMBER OF STOCK OPTIONS	AVERAGE EXERCISE PRICE (CAD $)
Outstanding at December 31, 2001	2,125,000	$ 4.47
Exercised	(462,800)	4.47
Outstanding at December 31, 2002	1,662,200	$ 4.47
Exercised	(787,000)	4.47
Outstanding at December 31, 2003	**875,200**	**$ 4.47**

The vesting of the performance stock options is tied to the market value of the Company's common shares subsequent to the date of grant. The performance stock options expire September 9, 2009. As at December 31, 2003, 210,200 outstanding performance stock options have vested and are exercisable. The remaining 665,000 options will vest if the Company's shares trade at or above CAD$20 per share.

iii) Fair value disclosures:

If the fair value based method, as described in note 1(k), had been used to measure and recognize stock based compensation, the Company's net income and net income per share for the years ended December 31, 2003 and 2002 would have been as follows:

	2003	2002
Net income — as reported	**$ 7,508**	$26,414
Stock compensation expense	**(3,790)**	(3,444)
Net income — pro forma	**$ 3,718**	$22,970
Basic and diluted net income per share — as reported	**$ 0.06**	$ 0.21
Basic and diluted net income per share — pro forma	**$ 0.03**	$ 0.18

The pro forma amounts exclude the effect of stock options granted prior to January 1, 2002.

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:

	2003	2002
Risk-free interest rate	**5%**	5%
Expected dividend yield	**2%**	—
Expected life of option	**5 years**	5 years
Expected volatility	**35%**	35%
Weighted average fair value of options granted ($US/share)	**$2.59**	$2.46

10. Stock based compensation (continued):

(b) Deferred and restricted share units:

Deferred and restricted share units outstanding at December 31, 2003 and 2002 are as follows:

	NUMBER OF DEFERRED SHARE UNITS	NUMBER OF RESTRICTED SHARE UNITS
Outstanding at December 31, 2002	309,659	—
Granted	40,684	534,000
Dividend equivalents	16,046	10,882
Redeemed	—	(44,242)
Outstanding at December 31, 2003	**366,389**	**500,640**

At the date of grant the fair value of the restricted share units, based on the market value of the Company's common shares, was $4.7 million. During 2003, we recorded $1.6 million of compensation expense related to the restricted share units. Restricted share units vest approximately three years after the date of grant. Under certain circumstances, such as retirement, vesting occurs at an earlier date. Restricted share units outstanding at December 31, 2003 vest on December 1, 2005.

11. Interest expense:

	2003	2002
Interest expense before capitalized interest	**$ 58,991**	$38,314
Less capitalized interest	**(20,176)**	(9,342)
	$ 38,815	$28,972

12. Asset restructuring charges:

	2003	2002
Non-cash settlements:		
Asset impairment charges	**$129,565**	$108,704
Other	**—**	6,683
	129,565	115,387
Cash settlements:		
Employee and contract termination costs	**8,129**	—
Other	**1,658**	—
	9,787	—
	$139,352	$115,387

During the fourth quarter of 2003, the Company recorded a non-cash asset impairment charge totaling $129.6 million relating to the carrying value of property, plant and equipment and related assets in New Zealand and Medicine Hat, Alberta. The Company also incurred costs and made payments of $9.8 million primarily for employee termination benefits to reduce the workforce at the Company's New Zealand operations by 82 employees and for costs to re-mothball the Medicine Hat facility.

During the fourth quarter of 2002, the Company recorded an asset restructuring charge of $115.4 million related to the write-off of the Fortier, Louisiana methanol facility, which had been idle since 1999.

13. Segmented information:

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

Revenues attributed to geographic regions, based on location of customers, are as follows:

	CANADA	UNITED STATES	JAPAN	OTHER ASIA	EUROPE	LATIN AMERICA	TOTAL
Revenue:							
2003	**$57,354**	**$424,757**	**$182,260**	**$306,541**	**$320,211**	**$103,327**	**$1,394,450**
2002	39,580	300,203	127,107	240,423	225,072	76,407	1,008,792

Net book value of property, plant and equipment by country is as follows:

	CANADA	NEW ZEALAND	CHILE	TRINIDAD	OTHER	TOTAL
Property, plant and equipment:						
2003	**$37,349**	**$15,054**	**$702,732**	**$555,277**	**$ 9,815**	**$1,320,227**
2002	72,237	98,833	612,575	161,808	34,482	979,935

14. 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 taxes. These differences are as follows:

	2003	2002
Canadian statutory tax rate	**36%**	40%
Computed 'expected' tax expense	**$ 33,240**	$ 20,530
Increase (decrease) in tax resulting from:		
Income taxed in foreign jurisdictions	**(36,223)**	(34,254)
Losses not tax-effected	**103,618**	76,502
Previously unrecognized loss carryforwards and temporary differences	**(1,854)**	(18,800)
Non-taxable income and non-deductible expenses	**(9,348)**	(15,491)
Other	**(4,608)**	(3,576)
Total income tax expense	**$ 84,825**	$ 24,911

14. Income and other taxes (continued):

(b) Net future income tax liability:

The tax effect of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	2003	2002
Future income tax liabilities:		
Property, plant and equipment	**$ 198,240**	$ 163,427
Other	**98,310**	37,989
	296,550	201,416
Future income tax assets:		
Non-capital loss carryforwards	**232,012**	156,355
Property, plant and equipment	**54,974**	29,776
Other	**29,846**	22,106
	316,832	208,237
Future tax asset valuation allowance	**(281,500)**	(179,736)
	35,332	28,501
Net future income tax liability	**$ 261,218**	$ 172,915

At December 31, 2003, the Company had non-capital loss carryforwards available for tax purposes of $571 million in Canada and the United States, $27 million in New Zealand and $49 million in Australia. In Canada and the United States these loss carryforwards expire between 2006 and 2023. In New Zealand and Australia the loss carryforwards do not have an expiry date.

15. Changes in non-cash working capital:

Changes in non-cash working capital related to operating activities for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
Receivables	**$ 1,732**	$(65,818)
Inventories	**552**	(19,603)
Prepaid expenses	**(2,773)**	(3,394)
Accounts payable and accrued liabilities	**28,894**	32,296
Decrease (increase) in non-cash working capital	**$28,405**	$(56,519)

For the year ended December 31, 2003, the changes in non-cash working capital exclude the non-cash working capital acquired on the purchase of Titan.

16. Derivative financial instruments:

The Company's forward exchange contracts in Euros (EUR), British pounds (GBP), New Zealand dollars (NZD) and Chilean pesos (CLP) at December 31, 2003 are as follows:

		NOTIONAL AMOUNT	AVERAGE EXCHANGE RATE	MATURITY
Purchase contracts:				
Forward exchange contracts	**NZD**	**180 million**	**$ 0.4928**	**2004**
Forward exchange contracts	**EUR**	**31 million**	**$ 0.9943**	**2004-2005**
Forward exchange contracts	**CLP**	**8 billion**	**$ 0.0016**	**2004**
Sales contracts:				
Forward exchange contracts	**EUR**	**9 million**	**$ 1.1652**	**2004**
Forward exchange contracts	**GBP**	**7 million**	**$ 1.7052**	**2004**
Forward exchange contracts	**CLP**	**12 billion**	**$ 0.0015**	**2004**

The Company has an interest rate swap contract with a notional principal amount of $65 million at December 31, 2003. The interest rate swap contract was acquired on purchase of Titan, effective May 1, 2003, and was recognized at its fair value of negative $10.1 million. Under the contract, the Company receives floating-rate LIBOR amounts in exchange for payments based on a fixed interest rate of 6.6%. The contract matures over the period to 2010.

17. Fair value disclosures:

The carrying values and fair values of the Company's financial instruments are as follows:

	2003		2002	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Long-term debt	**$(777,546)**	**$(816,000)**	$(547,224)	$(566,000)
Derivative financial instruments:				
Forward exchange contracts	**$ —**	**$ 31,226**	$ —	$ 1,632
Interest rate swap contract	**$ (8,275)**	**$ (7,920)**	$ —	$ —

Included in the fair value of the derivative financial instruments referred to in the table above were unrealized gains of $23.3 million (2002 — losses of $2.8 million) related to forward exchange contracts that hedge anticipated New Zealand, Chilean and European operating costs or revenues for which there is not a contractual agreement in place.

17. Fair value disclosures (continued):

The fair value of the Company's long-term debt and limited recourse long-term debt is estimated by reference to current market prices for other debt securities with similar terms and characteristics. The fair values of the Company's forward exchange contracts and interest rate swap contract are determined based on quoted market prices received from counterparties. Until settled, the fair value of the derivative financial instruments will fluctuate based on changes in foreign exchange rates and interest rates. The unrealized gains and losses on these derivative financial instruments will be included in the measurement of the related hedged transaction when realized.

The carrying values of cash and cash equivalents, receivables, other assets, accounts payable and accrued liabilities and other long-term liabilities meeting the definition of a financial instrument approximate their fair values.

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 failed completely to perform under the contracts was $34.9 million at December 31, 2003 (2002 — $3.4 million).

18. Retirement plans:

(a) Defined benefit pension plans:

The Company has non-contributory defined benefit pension plans covering certain employees. At December 31, 2003, the estimated present value of accrued pension benefits was $27.4 million (2002 — $19.2 million) and the market value of the plan's assets was $26.2 million (2002 — $17.3 million).

Actuarial reports for the Company's defined benefit pension plans are prepared regularly by independent actuaries for accounting and funding purposes. The actuarial assumptions used in accounting for the defined benefit pension plans as at December 31, 2003 and 2002 are as follows:

	2003	2002
Actuarial assumptions as at December 31:		
Discount rate	**6.25%**	6.50%
Expected long-term rate of return on plan assets	**7.50%**	8.00%
Rate of increase in future compensation	**4.00%**	4.00%

(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.

(c) Pension expense:

Total net pension expense for the defined benefit and defined contribution pension plans charged to operations during the year was $6.4 million (2002 — $5.9 million).

19. Commitments:

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

The Company has commitments under take-or-pay contracts to purchase annual quantities of feedstock supplies and to pay for transportation capacity related to these supplies to 2029. The minimum estimated commitment under these contracts is as follows:

2004	2005	2006	2007	2008	THEREAFTER
$210,860	$179,530	$182,950	$183,140	$193,230	$ 3,027,050

(b) Operating leases:

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

2004	2005	2006	2007	2008	THEREAFTER
$105,360	$104,500	$111,170	$103,820	$91,440	$ 555,310

(c) Commitments for capital expenditures:

The Company estimates that its remaining share of capital expenditures to complete the construction of the Atlas methanol facility in Trinidad and fund a debt service reserve account will be approximately $56 million. The Company expects that these expenditures will be funded from cash generated from operations, cash and cash equivalents and the proceeds from the limited recourse debt facilities. At December 31, 2003, the Company estimates its future cash equity contribution to complete the construction of Atlas and fund the debt service reserve account will be approximately $44 million.

The Company is currently expanding its methanol production facilities in Chile. The Company estimates that the remaining capital expenditures for this project, including capitalized interest, will be approximately $133 million and will be incurred primarily in 2004. The Company expects that these expenditures will be funded from cash generated from operations and cash and cash equivalents.

Exhibit 4

METHANEX CORPORATION
Supplemental Information, Page 1
Reconciliation With United States Generally Accepted Accounting Principles

(Tabular amounts are in thousands of U.S. dollars, except per share amounts)

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

(a) Income tax accounting:

The income tax differences identified in note (i) include the income tax effect of other differences between Canadian GAAP and U.S. GAAP described below.

(b) Business combination:

Effective January 1, 1993, the Company combined its business with a methanol business located in New Zealand and Chile. Under Canadian GAAP, the business combination was accounted for using the pooling-of-interest method. Under U.S. GAAP, the business combination would have been accounted for as a purchase with the Company identified as the acquirer.

For U.S. GAAP purposes the following adjustments would be required for the year ended December 31, 2003:

(i) Asset restructuring charge would increase by $31.2 million. The Company recorded an asset restructuring charge during the year ended December 31, 2003, which included the write-down of property, plant and equipment and related assets in New Zealand. This adjustment relates to the write-off of the net book value of the U.S. GAAP adjustment previously recorded for the New Zealand assets to reflect the business combination described above as a purchase.

(ii) Depreciation expense, for U.S. GAAP purposes, would increase by $12.4 million (2002 — $24.5 million).

For U.S. GAAP purposes, property, plant and equipment at December 31, 2003 would increase by $42.0 million (2002 — $85.6 million), which represents the adjustments, net of depreciation and the write-down of property, plant and equipment, to record the business combination described above as a purchase.

(c) Interest in joint venture:

U.S. GAAP requires interests in joint ventures to be accounted for using the equity method, whereas Canadian GAAP requires proportionate consolidation of interests in joint ventures. The impact of applying the equity method of accounting does not result in any change to net income or shareholders' equity and as such the Company has not made an adjustment in this reconciliation for this difference in accounting principles. This departure from U.S. GAAP is acceptable for foreign private issuers under the practices prescribed by the United States Securities and Exchange Commission. A summary balance sheet and cash flow statement for the Company's interest in the Atlas joint venture is provided in note 5 to the Company's consolidated financial statements.

(Tabular amounts are in thousands of U.S. dollars, except per share amounts)

(d) Derivative instruments and hedging activities:

Under Canadian GAAP, unrealized gains or losses on foreign currency contracts are recognized in earnings when the related hedged transaction is realized.

Under U.S. GAAP, the fair values of all derivative instruments are recognized as assets or liabilities at the balance sheet date. Changes in the fair value of these instruments are reported in net income or other comprehensive income, depending on the use of the derivative and whether it qualifies for hedge accounting treatment. The Company designates each derivative instrument as either a cash flow hedge or a fair value hedge. Cash flow hedges are hedges of the variability of cash flows relating to forecasted transactions and fair value hedges are hedges of changes in fair value of a recognized asset or liability or of an unrecognized firm commitment. For cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction occurs. For fair value hedges, at each balance sheet date the effective portion of the gain or loss on the derivative instrument is recognized in net income together with the corresponding loss or gain on the hedged item attributable to the risk being hedged. Any amounts excluded from the assessment of hedge effectiveness as well as any ineffective portion of a derivative's change in fair value are immediately recognized in net income.

For the year ended December 31, 2003, the Company recorded a net adjustment to increase income before taxes by $8.3 million (2002 — $18.8 million), which represents the difference between Canadian and U.S. GAAP for accounting for derivative instruments.

(e) Stock compensation:

For U.S. GAAP purposes, the Company has elected under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" to continue to apply the provisions of Accounting Principles Board Opinion 25 to its accounting for stock compensation to employees. Under APB 25, compensation is measured based on the intrinsic value method. Under the intrinsic value method, compensation expense is recorded for the excess on the measurement date of the market price of the stock over the exercise price of the stock option. Compensation expense is recognized ratably over the vesting period. The measurement date is the first date on which both the number of shares the employee is entitled to receive and the exercise price are known. If the measurement date is later than the date of grant then the plan is termed a variable plan.

For U.S. GAAP purposes the following adjustments to income before taxes have been made:

(i) Incentive stock options — The Company grants incentive stock options which have exercise prices based on the market price at the date of grant and, accordingly, no stock compensation expense is required to be recorded. The Company granted 946,000 stock options in 2001 that are accounted for under U.S. GAAP as variable plan options 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. The final measurement date for these options is the exercise date or if forfeited or expired, the forfeiture or 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, 2003, the Company recorded $0.6 million (2002 — $1.9 million) in compensation expense related to these variable plan options.

(ii) Performance stock options — The Company has also granted performance stock options for which the measurement date is not known until certain performance criteria are achieved and therefore prior to the measurement date no compensation expense is recorded. During the year ended December 31, 2003, 761,000 performance stock options vested and became exercisable. The compensation expense related to the performance stock options for the year ended December 31, 2003 was $5.9 million (2002 — $0.6 million).

(Tabular amounts are in thousands of U.S. dollars, except per share amounts)

(f) Shipping and handling costs:

Certain shipping and handling costs are netted against revenue for the Company's Canadian GAAP consolidated financial statements. U.S. GAAP requires the presentation of revenue without deductions for shipping and handling costs. For U.S. GAAP purposes, revenue and cost of sales would increase by $25.1 million for the year ended December 31, 2003 (2002 — $33.0 million).

(g) Asset retirement obligations:

Under Canadian GAAP, the Company accrues obligations for future site restoration costs for those sites where a reasonably definitive estimate can be made.

For U.S. GAAP purposes, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" on January 1, 2003. FAS 143 requires that obligations associated with the retirement of tangible long-lived assets and associated retirement costs be initially recorded at estimated fair value in the period in which the obligation is incurred with a corresponding increase in the carrying amount of the related property, plant and equipment. The initial liability, which is based on a discounted value of the expected costs to be paid when the assets are retired, is increased each period by an amount equal to the carrying amount of the liability multiplied by the applicable discount rate. The resulting expense, referred to as accretion expense, is included in cost of sales and operating expenses. The initial increase in the carrying amount of property, plant and equipment is depreciated over the estimated remaining useful life of the related asset. An asset retirement obligation is not recognized with respect to long-lived assets with indefinite or indeterminate lives as the fair value of the asset retirement obligations can not be reasonably estimated.

For U.S. GAAP purposes, the cumulative effect of the accounting change recorded on January 1, 2003 would be to decrease other long-term liabilities by $3.3 million, increase property, plant and equipment by $1.0 million and increase net income by $4.3 million. During the year ended December 31, 2003, the Company would have also recorded accretion expense, which is included in cost of sales and operating expenses, of $1.3 million and depreciation and amortization of $1.0 million.

(h) Impact of recently issued U.S. accounting pronouncements:

(i) Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" — FAS 146 relates to the recognition of a liability for a cost associated with an exit or disposal activity and requires that a liability be recognized for those costs only when the liability is incurred. FAS 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. The adoption of FAS 146 on January 1, 2003 did not have a material effect on the Company's financial results.

(ii) Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities — FAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under FAS 133. FAS 149 is to be applied prospectively for certain contracts entered into or modified after June 30, 2003. The adoption of FAS 149 had no material effect on the Company's financial results.

(iii) Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" — FAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The statement is effective for financial instruments entered into or modified after May 31, 2003. The adoption of FAS 150 had no material effect on the Company's financial results.

(Tabular amounts are in thousands of U.S. dollars, except per share amounts)

(h) Impact of recently issued U.S. accounting pronouncements (continued):

(iv) The FASB has also issued interpretations with wide applicability:

- Financial Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Discounting Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" which addresses disclosure and initial recognition and measurement provisions related to guarantees. The disclosure provisions became effective for periods ending after December 15, 2002. The initial recognition and measurement provisions apply to guarantees issued after December 31, 2002. The adoption of FIN 45 had no material effect on the Company's financial results.

- Financial Interpretation No. 46, as amended, (FIN 46 R), "Consolidation of Variable Interest Entities" which addresses the requirements to consolidate related entities if a company is determined to be the primary beneficiary as a result of variable economic interests. The Interpretation is currently effective for variable interest entities created after January 31, 2003 and becomes effective for any other variable interests of the Company for the period ending December 31, 2004. However, as the Company currently has no interest in variable interest entities, no impact on the Company's financial results is expected.

(Tabular amounts are in thousands of U.S. dollars, except per share amounts)

(i) Impact of U.S. GAAP differences:

(i) Condensed consolidated balance sheets:

As at December 31	2003			2002
	Canadian GAAP	Adjustments	U.S. GAAP	U.S. GAAP
Assets				
Current assets (d)	$ 650,315	$ 31,756	$ 682,071	$ 753,628
Property, plant and equipment (b)(d)(g)	1,320,227	34,343	1,354,570	1,065,533
Other assets (d)	111,258	3,440	114,698	92,799
	$2,081,800	$ 69,539	$2,151,339	$1,911,960
Liabilities and Shareholders' Equity				
Current liabilities (d)	$ 211,446	$ 936	$ 212,382	$ 142,114
Long-term debt	756,185	—	756,185	547,224
Other long-term liabilities (g)	69,377	(1,956)	67,421	62,746
Future income taxes (a)	261,218	14,926	276,144	188,662
Shareholders' equity:				
Capital stock (b)	499,258	393,950	893,208	911,158
Additional paid-in capital (e)	—	10,971	10,971	4,424
Retained earnings	284,316	(378,586)	(94,270)	47,297
Accumulated other comprehensive income (d)	—	29,298	29,298	8,335
	783,574	55,633	839,207	971,214
	$2,081,800	$ 69,539	$2,151,339	$1,911,960

(Tabular amounts are in thousands of U.S. dollars, except per share amounts)

(i) Impact of U.S. GAAP differences (continued):

(ii) Condensed consolidated statements of income and retained earnings:

For the years ended December 31	2003			2002
	Canadian GAAP	Adjustments	U.S. GAAP	U.S. GAAP
Revenue (d)(f)	$1,394,450	$ 25,092	$1,419,542	$1,041,794
Cost of sales and operating expenses (d)(e)(f)	1,002,853	24,674	1,027,527	755,859
Depreciation and amortization (b)(g)	95,107	13,335	108,442	136,069
Operating income before undernoted items	296,490	(12,917)	283,573	149,866
Interest expense	(38,815)	—	(38,815)	(28,972)
Interest and other income	13,843	—	13,843	10,365
Asset restructuring charges (b)	(139,352)	(31,187)	(170,539)	(115,387)
Write-off of plant and equipment under development	(39,833)	—	(39,833)	—
Site restoration adjustment	—	—	—	26,972
Income before income taxes and undernoted items	92,333	(44,104)	48,229	42,844
Income tax expense (a)	(84,825)	830	(83,995)	(22,092)
Net income before undernoted item	7,508	(43,274)	(35,766)	20,752
Cumulative effect of accounting change (g)	—	4,259	4,259	—
Net income	7,508	(39,015)	(31,507)	20,752
Retained earnings, beginning of year	386,868	(339,571)	47,297	63,401
Excess of purchase price over assigned value of common shares	(51,523)	—	(51,523)	(24,349)
Dividend payments	(58,537)	—	(58,537)	(12,507)
Retained earnings (deficit), end of year	$ 284,316	$(378,586)	$ (94,270)	$ 47,297
Basic net income per share before cumulative effect of accounting change	$ 0.06	$ (0.35)	$ (0.29)	$ 0.16
Diluted net income per share before cumulative effect of accounting change	$ 0.06	$ (0.34)	$ (0.28)	$ 0.16
Basic net income per share	$ 0.06	$ (0.32)	$ (0.26)	$ 0.16
Diluted net income per share	$ 0.06	$ (0.31)	$ (0.25)	$ 0.16

(Tabular amounts are in thousands of U.S. dollars, except per share amounts)

(i) Impact of U.S. GAAP differences (continued):

(iii) Statement of comprehensive income and accumulated other comprehensive income (loss):

For the years ended December 31	2003	2002
	U.S. GAAP	U.S. GAAP
Net income (loss)	$(31,507)	$ 20,752
Other comprehensive income, net of income tax:		
Change in fair value of cash flow hedging instruments (d)	20,963	21,233
Comprehensive income (loss)	$(10,544)	$ 41,985
Accumulated other comprehensive income (loss), beginning of year	$ 8,335	$(12,888)
Other comprehensive income	20,963	21,223
Accumulated other comprehensive income, end of year	$ 29,298	$ 8,335

Exhibit 23

KPMG LLP
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CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the use of the following reports in this annual report on Form 40-F (the "Form 40-F") of Methanex Corporation (the "Company") to be filed with the United States Securities and Exchange Commission.

1. Auditors' Report to the Shareholders of Methanex Corporation dated March 5, 2004 included in the Annual Report of the Company and incorporated by reference in the Form 40-F; and

2. Auditors' Report to the Board of Directors and Shareholders of Methanex Corporation dated March 5, 2004 included herein.

We also consent to the incorporation by reference of such reports in the Registration Statement (No. 333-112624) on Form S-8 of the Company.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada
March 5, 2004

KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International, a Swiss cooperating association.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Methanex Corporation

Under date of March 5, 2004, we reported on the consolidated balance sheets of Methanex Corporation (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of income and retained earnings and cash flows for the years then ended, which are included in the Annual Report of the Company dated March 5, 2004. These consolidated financial statements and our report thereon are incorporated by reference in the Annual Report on Form 40-F for the year 2003. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related supplemental information entitled "Reconciliation With United States Generally Accepted Accounting Principles". This supplemental information is the responsibility of the Company's management. Our responsibility is to express an opinion on this supplementary information based on our audits.

In our opinion, such supplemental information, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada
March 5, 2004

KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International, a Swiss cooperating association.

Exhibit 31.1

CERTIFICATION

I, Pierre Choquette, certify that:

1. I have reviewed this annual report on Form 40-F of Methanex Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by this report (the "Evaluation Date");

   c) presented in this report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; and

   d) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of issuer's board of directors (and persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 26, 2004

/s/PIERRE CHOQUETTE
Pierre Choquette
Chairman of the Board of Directors &
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Ian Cameron, certify that:

1. I have reviewed this annual report on Form 40-F of Methanex Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by this report (the "Evaluation Date");

   c) presented in this report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; and

   d) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of issuer's board of directors (and persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 26, 2004

/s/IAN CAMERON
Ian Cameron
Senior Vice President, Finance
and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Methanex Corporation (the "Company") on Form 40-F for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Pierre Choquette, Chairman of the Board of Directors and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/PIERRE CHOQUETTE

Pierre Choquette
Chairman of the Board of Directors and
Chief Executive Officer
March 26, 2004

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Methanex Corporation (the "Company") on Form 40-F for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ian Cameron, Senior Vice President, Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/IAN CAMERON

Ian Cameron
Senior Vice President, Finance and Chief Financial Officer
March 26, 2004