United States Securities and Exchange Commission
Washington, D.C. 20549

FORM 40-F

(Check One:)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

þ **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

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

8.75% Senior Notes due August 15, 2012
6.00% Senior Notes due August 15, 2015

For annual reports, indicate by check mark the information filed with this Form:
þ Annual Information Form þ 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.

113,645,292 Common Shares were outstanding as of December 31, 2005

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 o 82 -o No þ

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 þ No o

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, 2005 and have determined that such disclosure controls and procedures are effective.

There have been no changes during the year ended December 31, 2005 to internal control over financial reporting 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 and is independent, as that term is defined by Nasdaq's corporate governance standards applicable to the Registrant. 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. No waivers from or material amendments to the provisions of the Code were made in 2005.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

KPMG LLP, Chartered Accountants, Vancouver, are the independent auditors of the Company and the holders of the Company's common shares have resolved to have the directors of the Company determine the auditor's remuneration.

Pre-approval policies and procedures

The Company's Audit Committee annually reviews and approves the terms and scope of the external auditors' engagement. The Audit Committee oversees the Audit and Non-Audit Pre-Approval Policy which sets forth the procedures and the conditions pursuant to which permissible services proposed to be performed by KPMG LLP, the Company's external auditors, are pre-approved. The Audit Committee has delegated to the Chairman of the Audit Committee pre-approval authority for any services not previously approved by the Audit Committee. All such services approved by the Chairman of the Audit Committee are subsequently reviewed by the Audit Committee.

All non-audit service engagements, regardless of the cost estimate, are required to be coordinated and approved by the Chief Financial Officer to further ensure that adherence to this policy is monitored.

Fees to KPMG LLP during the years ended December 31, 2005 and December 31, 2004 were as follows:

US$000's	2005	2004
Audit Fees	526	346
Audit-Related Fees	136	77
Tax Fees	158	168
All Other Fees	—	—
Total	**820**	**591**

The nature of each category of fees is described below.

Audit Fees:

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

Audit-Related Fees:

Audit-related fees were paid for professional services rendered by the auditors 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 consultations as to the accounting or disclosure treatment of other transactions.

Tax Fees:

Tax fees were paid for professional services rendered for tax compliance, tax advice and tax planning. These services consisted of: tax compliance including the review of tax returns; assistance in completing routine tax schedules and calculations; and tax planning and advisory services relating to common forms of domestic and international taxation.

OFF-BALANCE SHEET ARRANGEMENTS

Disclosure of off-balance sheet arrangements is made on page 41 of the Registrant's "Management's Discussion and Analysis" for the year ended December 31, 2005, filed as Exhibit No. 2 to this report.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Tabular disclosure of contractual obligations is made on page 40 of the Registrant's "Management's Discussion and Analysis" for the year ended December 31, 2005, 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), 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 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, and; with respect to the 6.0% Senior Notes due August 15, 2015 was filed with the Commission together with the Form F-9 of the Registrant on July 21, 2005.

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 27, 2006

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 22, 2006.
2.	Management's Discussion and Analysis for the Year Ended December 31, 2005.
3.	Audited Consolidated Financial Statements of the Registrant for the year ended December 31, 2005 and the Independent Auditor's Report thereon.
23.	Consent of KPMG LLP dated March 3, 2006 and Report of Independent Accountants.
31.1	Certification of President and 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 President and 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 22, 2006

TABLE OF CONTENTS

	Page
Reference Information	2
Caution Regarding Forward-Looking Statements	3
The Company	4
Business of the Company	4
Development of the Business and Corporate Strategy	5
Methanol Industry Information	7
Production	11
Marketing	12
Distribution and Logistics	13
Natural Gas Supply	13
Foreign Operations and Government Regulation	15
Environmental and Social Matters	16
Insurance	17
Competition	17
Employees	17
Risk Factors	17
Dividends	18
Capital Structure	18
Ratings	19
Market for Securities	20
Directors and Executive Officers	21
Interest of Management and Others in Material Transactions	24
Experts	24
Legal Proceedings	24
Audit Committee Information	24
Transfer Agent and Registrar	26
Controls and Procedures	26
Code of Ethics	27
Additional Information	27
Appendix “A” — Audit, Finance and Risk Committee Mandate	28

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 refers 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. Methanol’s chemical formula is CH_3OH and it is also known as methyl alcohol.

In this AIF, we incorporate by reference our 2005 Management’s Discussion and Analysis (“2005 MD&A”) which contains information required to be included in this AIF. The 2005 MD&A is publicly accessible and is filed on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

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

1 tonne of methanol = 332.6 US gallons

Historical price data and supply and demand statistics for methanol and certain other industry data 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., Jim Jordan & Associates and Tecnon (UK) Ltd. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein.

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. These statements include forward-looking statements both with respect to us and the chemicals industry. Statements that include the words "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "estimates," "anticipates," or the negative version of those words or other comparable terminology and similar statements of a future or forward-looking nature identify forward-looking statements. Methanex believes that it has a reasonable basis for making such forward-looking statements. Forward-looking statements are based on our experience, our perception of trends, current conditions and expected future developments as well as other factors. Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections which are included in these forward-looking statements.

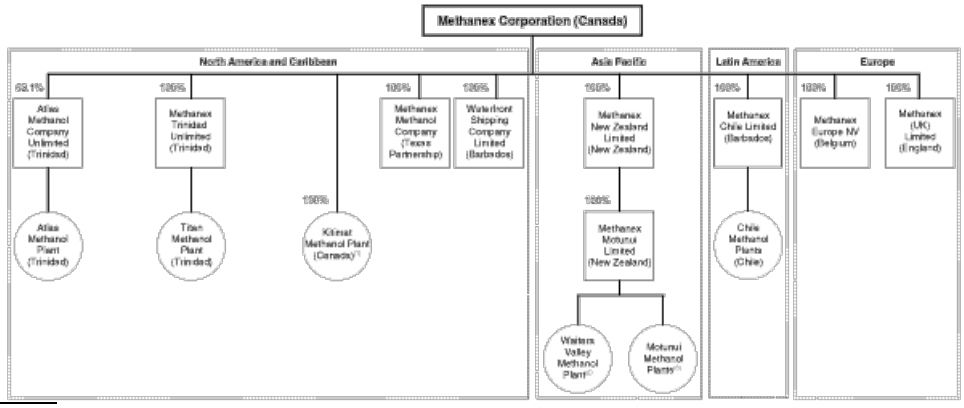
Important factors that can cause stated outcomes to differ materially from actual outcomes include but are not limited to worldwide economic conditions; conditions in the methanol and other industries, including the supply of methanol; demand for methanol and its derivatives; actions of competitors; changes in laws or regulations; the ability to implement business strategies, pursue business opportunities and maintain and enhance our competitive advantages; risks attendant with methanol production and marketing, including operational disruption; risks attendant with carrying out capital expenditure projects, including the ability to obtain financing and completing the projects on time and on budget; availability and price of natural gas feedstock; foreign exchange risks; raw material and other production costs; transportation costs; the ability to attract and retain qualified personnel; risks associated with investments and operations in multiple jurisdictions; and other risks discussed under the heading "Risk Factors and Risk Management" in our 2005 Management's Discussion and Analysis.

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

THE COMPANY

Methanex Corporation was incorporated under the laws of Alberta on March 11, 1968 and was continued under the *Canada Business Corporations Act* on March 5, 1992. Its registered and 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, 2005 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) We permanently closed the Kitimat facility on November 1, 2005.

(2) We idled the Waitara Valley facility on September 30, 2005. It was restarted in January 2006.

(3) The 1.9 million tonne per year Motunui facility was permanently closed in November 2004 as a result of natural gas supply constraints.

BUSINESS OF THE COMPANY

We are the world's largest producer and marketer of methanol and the largest supplier of methanol to the major international markets of North America, Asia Pacific and Europe as well as Latin America.

What is Methanol?

Methanol is a liquid chemical produced primarily from natural gas and is typically used as a chemical feedstock in the manufacture of other products. Estimated 2005 global methanol demand is approximately 35 million tonnes.

Approximately 80% of all methanol is used in the production of derivative chemicals such as formaldehyde, acetic acid and a variety of other chemicals that 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 to produce MTBE, a gasoline component. Methanol is also being used on a small scale as a direct fuel for motor vehicles. 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.

Our Operations

We own and operate methanol production facilities located in Chile, Trinidad and New Zealand. Our core low cost production hubs in Chile and Trinidad have an annual capacity of 5.8 million tonnes and these two hubs represent over 90% of our total production capacity. We also source additional methanol produced by others throughout the world either on the spot market or pursuant to contractual arrangements in order to meet customer needs and support our marketing efforts. We sell methanol through an extensive global marketing and distribution system. This has enabled us to become the largest supplier of methanol to 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 security of demand as a result of our excellent record of reliability, as well as marketing and transportation synergies and an improved customer mix.

Our operations consist of the production and sale of methanol, which constitutes a single operating segment. Revenue, sales volumes and production volumes for each of the last two years can be found on pages 32 and 33 of our 2005 MD&A.

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, we believe, a 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 is to create value by 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 are:

- Low Cost — striving to reduce all aspects of our cost structure;
- Global Leadership — maintaining our world leadership in methanol marketing, logistics and sales; and
- Operational Excellence — focusing on operational excellence in manufacturing and other key areas of our business including prudent financial management.

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

Natural gas is the primary feedstock at our methanol production facilities. An important element of our strategy is to ensure long-term security of low cost natural gas supply. 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.

We permanently closed our 500,000 tonne per year methanol plant located in Kitimat, British Columbia on November 1, 2005 and converted the site into a terminal for storing and distributing methanol as well as other products. The Kitimat site is ideally located to cost-effectively supply methanol from our low cost facilities to customers in the Pacific Northwest. We also entered into an agreement with EnCana for their use of the Kitimat site as a condensate terminal. With the permanent closure of the Kitimat methanol production facility, we have eliminated our exposure to high cost North American natural gas feedstock.

Over the last several years we have developed a production hub in Trinidad with convenient access to methanol markets in North America and Europe. The 850,000 tonne per year Titan facility in Trinidad commenced production in 2000 and in 2003 we acquired a 100% interest in Titan. Located next to the Titan plant is the 1.7 million tonne per year Atlas methanol plant, a joint venture between BP and us. Atlas commenced operations in 2004. We have a 63.1% interest in Atlas and market 100% of its production. Including our proportionate share of Atlas, our Trinidad production hub represents about two million tonnes of annual low cost production capacity.

In June 2005, we commenced operations at our 840,000 tonne per year expansion of our methanol production hub in Chile. This expansion is underpinned by a long-term low cost natural gas supply contract. With this expansion, our methanol production hub in Chile has annual production capacity of 3.8 million tonnes. In addition to having long-term low cost natural gas supply contracts, this strategic location allows us to distribute methanol on a cost-effective basis to North America, Europe, Asia Pacific and Latin America.

Our low cost production hubs in Chile and Trinidad have an annual production capacity of 5.8 million tonnes, which represents over 90% of our current total annual production capacity. These facilities are underpinned by long-term low cost take-or-pay natural gas purchase agreements with pricing terms that vary with methanol prices. This pricing relationship enables these facilities to be competitive throughout the methanol price cycle.

The cost to distribute methanol from our production facilities to customers is also a significant component of our operating costs. These include costs for ocean shipping, in-market storage facilities and in-market distribution. 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. We also 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 vessel contracts.

We are continuously investigating opportunities to further improve the efficiency and cost-effectiveness of distributing methanol from our production facilities to our customers. Our terminal in Korea allows us to efficiently and cost-effectively service our customer base in northeast Asia. In 2005, we expanded the methanol storage capacity at our Korean terminal to 155,000 tonnes and leased terminal capacity in Taicang, China to further improve customer service in China. We also look for opportunities to leverage our global asset position by entering into product exchanges with other methanol producers to reduce our distribution costs.

We believe our production of methanol from large hub facilities with 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.

Global leadership. We are the largest supplier of methanol to the major international markets of North America, Asia Pacific and Europe, as well as Latin America. Our expertise in the global distribution of methanol enables us to extract value by providing security of supply to our customers. Leadership has also allowed us to play a role in industry pricing through the establishment of published Methanex reference prices in each major market.

Over the past several years, we have played a role in the consolidation of the methanol industry and have positioned ourselves as the supplier of choice for global chemical producers as they face the decision of producing or purchasing their methanol requirements. Over the past few years, we have permanently shut down 2.2 million tonnes of our own higher cost capacity in North America. Other producers have also shut down plants, allowing us to gain new customers. For example, in 2002, we entered into an exclusive agreement with Lyondell Chemical Company to supply its 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 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. With the start-up of Atlas in 2004 and Chile IV in 2005, we advised both Lyondell and Terra in 2004 that we would no longer require production from these facilities. The facilities were subsequently shut down.

In 2003, the economically recoverable gas reserves from New Zealand's Maui gas field were redetermined and we lost most of our remaining contractual entitlements from the Maui field. The reduction in these gas entitlements forced the permanent shut down of our 1.9 million tonne per year Motunui site in 2004 and since then, we have been operating the 530,000 tonne per year Waitara Valley facility. In 2005, we produced about 350,000 tonnes of methanol at the Waitara Valley plant but we idled that plant at the end of September 2005. We restarted the Waitara Valley facility in January 2006 using our remaining natural gas entitlements. As well, in March 2006, we secured additional amounts of natural gas which, combined with our existing entitlements, is expected to enable the New Zealand plant to operate until the end of the second quarter of 2006 and produce approximately 230,000 tonnes of methanol. We continue to seek other supplies of economically priced natural gas 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.

The expansion of our Korean terminal discussed above improves the cost-effectiveness of distributing methanol from our production facilities in Chile to our customers in Asia through the utilization of larger vessels. To that end, we have re-positioned the Millennium Explorer, our 100,000 dwt ship, from the Atlantic to the Pacific in order to serve the Asian market. We have also relocated our Asia Pacific marketing and logistics office from Auckland, New Zealand to Hong Kong in order to enhance our customer service and industry leadership in this region and have added staff at our office in Shanghai.

We are actively investigating options for supplying the expanding Asia Pacific markets over the long term and are proposing to build a 1.3 million tonne per year methanol facility in Egypt. We have established a joint venture company with Egyptian Petrochemicals Holding Company, an Egyptian state-owned company responsible for developing the petrochemical industry in Egypt. Methanex would have a majority ownership of this project and would market the methanol produced by this facility. We have also agreed with the Egyptian Natural Gas Holding Company, the

Egyptian state-owned supplier of natural gas to the project, on the key commercial terms for gas supply. We expect to be in a position to make a final investment decision concerning this project in late 2006.

We continue to pursue opportunities that allow us to maintain our market leadership. For example, we publish regional non-discounted prices for each major methanol market. The majority of our customer contracts now use a Methanex published reference price as a basis for pricing. We publish our reference prices monthly for the US and Asian markets and quarterly for the European market. We believe that this pricing initiative has brought greater transparency to methanol market pricing.

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 have, among other things, investigated the potential for methanol to be used as a fuel in biodiesel applications and fuel cells and for removing harmful nitrites from wastewater.

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

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

In 2005, we also formally adopted a policy on Corporate Social Responsibility ("CSR"), as a natural extension of our Responsible Care ethic. Our CSR policy encompasses corporate governance, employee engagement and development, community involvement, social investment and many other activities that have long been practiced by us.

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

METHANOL INDUSTRY INFORMATION

General

Methanol is a clear colourless liquid that is typically used as a chemical feedstock in the manufacture of other products.

In 2005, approximately 80% of all methanol was 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 largely in the fuel sector, principally as a feedstock in the production of MTBE. MTBE is blended with gasoline and acts as a source of octane and as an oxygenate to reduce the amount of harmful exhaust emissions from motor vehicles. Methanol is also used in China as a direct fuel.

Methanol is a typical commodity chemical and the methanol industry 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 and risks. See "Risk Factors and Risk Management" in our 2005 MD&A for more

information. In 2005, the use of methanol to make chemical derivatives accounted 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.

Chemical Derivative Demand. In 2005, methanol for the production of formaldehyde represented approximately 39% of global methanol demand. 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.

In 2005, approximately 10% of all methanol produced annually was used in the production of acetic acid. Acetic acid is a chemical intermediate used 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.

The remaining chemical derivative demand for methanol is 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, aerosol products, de-icing fluid, 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 are generally influenced by levels of global industrial production 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.

MTBE and Fuel Demand. In 2005, methanol for the production of MTBE represented approximately 20% of global methanol demand. MTBE is used primarily as a source of octane and as an oxygenate for gasoline.

During the 1990s, environmental concerns and legislation in the US led to the introduction of a federal oxygenate standard for gasoline which resulted in increased demand for MTBE for use in gasoline in order to reduce automobile tailpipe emissions. Subsequently, concerns in the US were raised 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 from recreational watercraft. MTBE is more easily detectable in water than many other gasoline components. The presence of MTBE in some water supplies led to public concern about MTBE's potential to contaminate drinking water supplies. Several states including California, New York, New Jersey and Connecticut have banned the use of MTBE as a gasoline component and this has reduced demand for methanol in the US.

In 2005, the US federal government passed the Energy Policy Act ("EPACT") which contains provisions that we believe will further reduce demand for MTBE in the US. While EPACT does not provide for a federal ban on the use of MTBE in gasoline, it does waive the federal oxygenate standard for gasoline effective May 2006 and does not provide MTBE producers and blenders with defective product liability protection.

In 2005, the estimated demand for methanol to make MTBE for use in fuel blending in the United States was approximately two million tonnes. We expect that in 2006, US demand for methanol for MTBE will decline by about half. However, the pace of decline of US methanol demand for MTBE is uncertain and will be determined by various factors including the decision of US-based MTBE producers and blenders to continue to make or use MTBE in gasoline following expiry of the federal oxygenate standard, MTBE's relative blend value in gasoline and the ability of

the US gasoline pool to find sufficient quantities of alternative high-octane gasoline components so as to avoid the potential for gasoline shortages and price spikes. Certain large US refiners have already stated that they will stop the production and blending of MTBE for gasoline in April 2006. Additionally, we understand that the US EPA is preparing internal reports relating to the potential carcinogenicity of MTBE and this report is expected to be released in late 2006.

The European Union issued a final risk assessment report on MTBE in 2002 that permitted the continued use of MTBE although several risk reduction measures relating to storage and handling of MTBE-containing fuel were recommended. However, governmental efforts in some European Union countries to promote bio-fuels and alternative fuels through legislation and tax policy are putting competitive pressures on the use of MTBE in gasoline. Several European MTBE production facilities have commenced producing ethyl tertiary butyl ether (ETBE) to take advantage of such tax incentives to produce bio-fuels.

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

These recent developments lead us to believe that in 2006 and 2007, global demand for MTBE will decline due to the phasing-out of MTBE in the US and increasing incentives for biofuels in Europe. However, we expect that demand for MTBE in Asia, the Middle East and Latin America will continue to grow.

As we enter 2006, we are experiencing healthy global economic conditions and stronger demand for methanol. We believe that global chemical derivative demand growth for methanol will more than offset the expected loss of demand for methanol to produce MTBE. However, there can be no assurance that legislation banning or restricting the use of MTBE, or promoting alternatives to MTBE, will not be passed or that negative public perception of MTBE outside of the United States may not develop, either of which would lead to a further decrease in the global demand for MTBE.

Over the longer term, methanol has potential to be used to produce biodiesel and power fuel cells and is already being used to remove harmful nitrates from wastewater. We are working to promote methanol where there is long-term methanol growth potential.

Supply Factors

While a significant amount of new methanol capacity has come on stream over the past few years, a large number of higher cost North American and European producers have shut down plants. 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 three to five years to plan and construct a new world-scale methanol plant. As well, 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 de-bottlenecking existing plants to increase their production capacity.

In 2004, our 1.7 million tonne per year Atlas project commenced operation as did the 1 million tonne NPC 3 methanol facility in Iran and a 1 million tonne methanol facility in Saudi Arabia. In addition, a number of smaller-scale plants were added in China representing up to 2 million tonnes of annual capacity.

In 2005, the significant capacity additions were our own 840,000 tonne per year Chile IV facility, which commenced operations in June 2005 and the 1.8 million tonne M5 facility in Trinidad which started-up in late September. In addition, a number of smaller-scale plants were added in China representing between two and three million tonnes of annual capacity.

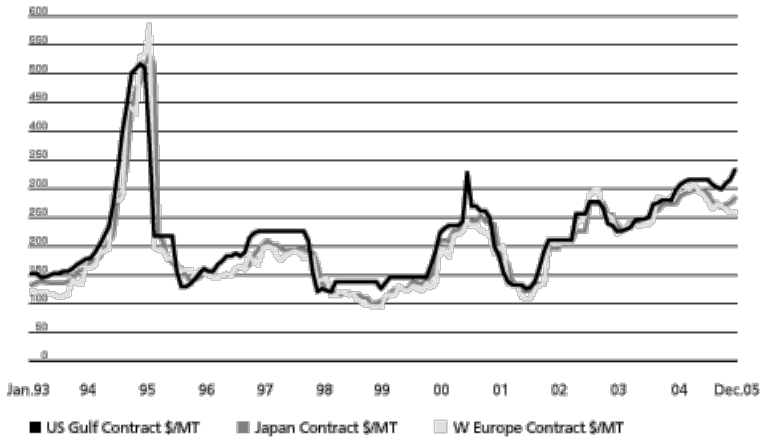
In 2006, a number of plant expansions and de-bottleneckings are expected to add about 750,000 tonnes of annual supply to the market and a 1.7 million tonne facility being built in Iran is anticipated to be completed in late 2006 or early 2007.

There are also higher cost small-scale methanol capacity additions expected in China. Currently the cost to produce and transport methanol from many plants in China to the coastal provinces where a large proportion of methanol in China is consumed is high. Demand for methanol in China continues to grow at very high levels and we believe that substantially all methanol production in China will be consumed within the Chinese market and that China will continue to require imports to satisfy demand.

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 about 20% 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 cyclical and have been sensitive to overall production capacity relative to demand, the price of natural gas feedstock and general economic conditions. The following chart shows published methanol contract prices (in US dollars per tonne) in the world's major methanol markets:



Source: Tecnon

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 globally 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, also occur.

We publish regional non-discounted prices for each major methanol market and these posted prices are reviewed and revised from time to time based on industry fundamentals and market conditions. The majority of our customer contracts now use published Methanex reference prices as a basis for pricing and customer discounts to these prices may apply based on various factors. We believe that this pricing initiative has brought greater transparency to methanol market pricing.

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 or syngas) 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 in order 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 six years, although there is flexibility to extend catalyst life if conditions warrant. 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)	2005 Production	2004 Production
		(tonnes/year)	(tonnes)	(tonnes)
Punta Arenas, Chile				
Chile I	1988	925,000	843,654	808,751
Chile II	1996	1,010,000	892,905	931,242
Chile III	1999	1,065,000	918,959	951,967
Chile IV(2)	2005	840,000	373,121	—
Trinidad				
Titan	2000	850,000	715,487	739,699
Atlas(3)	2004	1,073,000	894,808	421,312
Waitara Valley, New Zealand(4)	1983	530,000	343,215	498,103
Motunui, New Zealand(5)		1,900,000	—	589,706
Kitimat, Canada(6)		500,000	375,640	486,320
Total		7,853,000	5,357,789	5,427,100

(1) Actual operating rates can vary.

(2) The Chile IV plant commenced operations in June 2005.

(3) The Atlas plant commenced production in July 2004. Atlas is a joint venture between Methanex (63.1%) and BP (36.9%). The Operating Capacity and Production shown here are Methanex's proportionate share.

(4) The Waitara Valley facility was idled in September 2005. It was restarted in January 2006.

(5) The Motunui facilities were constructed between 1985 and 1995 and were permanently shut down in 2004.

(6) The Kitimat facilities were constructed in 1982 and were permanently shut down in November 2005.

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 (Hong Kong, Shanghai, Tokyo and Seoul) and Latin America (Santiago, Chile).

Our methanol marketing strategy is 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 global network of marketing offices, together with our storage and terminal facilities and worldwide shipping operations, 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 are the largest supplier to the major international methanol markets and we believe we are a preferred supplier to many large scale consumers in the methanol industry.

We augment our marketing operations by identifying surplus product from other producers and buying in the US, European and Asian 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 on the spot market also provides us the opportunity to build our sales base prior to bringing on our own new capacity. During 2005, we sold about 1.2 million tonnes of methanol purchased from third parties.

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 published Methanex reference prices at the time of shipment. In order to reduce the impact of cyclical pricing on our earnings, we have positioned ourselves with certain customers under long-term contracts where prices are either fixed or linked to our costs plus a margin and during 2005, sales under these contracts represented about 20% of our total sales volumes. We believe it is important to maintain financial flexibility throughout the methanol price cycle and these strategic contracts are a part of our balanced approach to the management of cash flow and liquidity.

Trade in methanol is subject to duty in a number of jurisdictions. See “Foreign Operations and Government Regulation” on page 15 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 production hub in Chile currently supplies customers primarily in Asia Pacific, Europe and Latin America. The Atlas and Titan plants in Trinidad supply customers primarily in the US and Europe. Our 530,000 tonne per year Waitara Valley plant is a flexible asset and supplies customers in Asia Pacific.

Methanol is pumped from our coastal plants by pipeline to adjacent deepwater ports for shipping. We manage a fleet of 20 ocean-going 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. An important part of our strategy is to ensure long term security of supply of low cost natural gas feedstock.

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

About 62% of the natural gas for our Chilean facilities is currently sourced from suppliers in Argentina that are affiliates of international oil and gas companies. The remainder is supplied by ENAP (Empresa Nacional del Petróleo), a Chilean state-owned company, from gas reserves in Chile.

Natural gas for the Chile I and IV plants is supplied under arrangements terminating in 2025 and natural gas export permits, valid until 2025, are in place for the gas being supplied from Argentina for those plants. Natural gas for the Chile II and III plants is supplied under contracts terminating in 2017 and 2019 and gas export permits, valid until those dates, are in place for gas being supplied from Argentina for those plants. Ten year extensions of these contracts until 2027 and 2029 have been agreed. Natural gas export permits in respect of the gas to be sourced from Argentina under these extensions have not yet been granted. Such permits are customarily only granted a few years prior to the contractual agreement becoming effective.

The purchase price of natural gas for our Chilean facilities is based on a minimum US dollar base price plus a variable component that is calculated based on methanol market prices. The variable price component of the natural gas agreements for our Chilean facilities is determined with reference to 12-month trailing average published industry methanol prices, except Chile I where, until mid-2009, the adjustment is related to our average realized methanol price for the current calendar year. Thereafter, the variable price component for Chile I will be calculated with reference to 12-month trailing average published industry methanol prices. The minimum US dollar price increases annually under the Chile IV contract and, commencing in mid-2009, will increase under the Chile I contract. 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.

In 2004 and 2005 our production facilities in Chile were impacted by curtailments of natural gas supply as a result of the Argentinian government ordering natural gas suppliers to inject additional gas into the local grid. From May to August (the winter period in the southern hemisphere) of 2004 we lost approximately 50,000 tonnes of methanol production due to these curtailments. During the same period in 2005 we lost about 100,000 tonnes of production. We have not had any further production losses due to such curtailments since August 2005. Our Argentinean natural gas suppliers have claimed contractual relief in connection with these curtailments and our legal response to these claims remains under consideration. See “Risk Factors and Risk Management” in our 2005 MD&A for additional related information.

In 2006 we expect to experience further curtailments of natural gas at our Chilean facilities as a result of further injection orders from the Argentinian government during the southern hemisphere winter. Taking into account current expectations with respect to demand for natural gas, pipeline capacity and natural gas supply in 2006, we currently believe that production losses due to these curtailments in 2006 should be similar to those experienced in 2005. However, given there are many variables beyond our control, including weather, that could affect this situation, production losses could be materially worse than our current expectation.

There is also renewed interest in natural gas exploration both in southern Argentina and Chile. As an example, our Chilean natural gas supplier, ENAP, is undertaking gas exploration and development programs in areas of Chile which are relatively close to our production facilities. In late 2005, we entered into an understanding with ENAP which, among other things, provides that if such programs are successful, ENAP would guarantee the natural gas delivery obligations of one of our Argentinean gas suppliers. If ENAP's exploration programs are successful, there is a possibility that we may be able to obtain some additional supply from new natural gas wells as early as 2007. However, there can be no assurance that ENAP will be successful.

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

Trinidad

Natural gas for the Titan and Atlas facilities is sourced from the major gas fields that are located off the coast of Trinidad. These fields are operated by major international oil and gas companies. The National Gas Company of Trinidad and Tobago Limited ("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 our 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 with an option to renew for a further 5 years subject to availability of gas and agreement on price. The price paid for gas by the Titan plant is based on a fixed escalation of a minimum US dollar base price plus a variable component that is determined with reference to average published industry methanol prices each quarter. 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 the Titan plant in any year may be received in subsequent years. The Atlas plant's gas contract with NGC expires in 2024 and the price formula and take-or-pay obligations are similar to those found in the Titan plant gas contract.

New Zealand

Prior to 2003, the natural gas for our New Zealand facilities was sourced primarily from the Maui field. As a result of the redetermination of the gas reserves of the Maui field in 2003 we lost most of our remaining contractual natural gas entitlements from the Maui field.

The reduction in these gas entitlements forced the permanent shut down of our 1.9 million tonne per year Motunui site in 2004 and since then, we have been operating our remaining 530,000 tonne per year Waitara Valley facility. In 2005, we produced about 343,000 tonnes of methanol at the Waitara Valley plant but we idled that plant at the end of September 2005. We restarted the Waitara Valley facility in January 2006 using our remaining natural gas entitlements. As well, in March 2006, we secured an additional six petajoules of natural gas. This gas, combined with our existing gas entitlements, is expected to enable the New Zealand plant to operate until the end of the second quarter of 2006 and produce approximately 230,000 tonnes of methanol.

We continue to seek other supplies of economically priced natural gas 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.

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 believe we have complied in all material respects with governmental requirements.

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 substantially all of its revenue 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 taxes), foreign currency exchange and capital repatriation laws and other relevant laws of a variety of foreign jurisdictions. While we believe that such assumptions are 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. For instance, methanol sold in China from any of our producing regions is subject to a duty of 5.5%. Methanol from Chile which is sold in Japan and Korea, the other major markets in Asia Pacific, is not subject to duty. 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. Currently, the costs we incur in respect of duties is not significant. However, there can be no assurance that we will in the future be able to mitigate the costs of such duties if they are levied through techniques such as physical swaps of methanol which we have used to minimize the impact of duties in the past.

Chile

Our wholly owned subsidiary, Methanex Chile Limited (“Methanex Chile”), owns the four plants comprising the Chilean production facilities. Chilean foreign investment regulations provide certain benefits and guarantees to companies that enter into a foreign investment contract (“DL 600 Contract”) with Chile. Methanex Chile has entered into four DL 600 Contracts, substantially identical in all matters material for Methanex Chile, one for each of the plants.

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%. In 2005, Methanex Chile made the irrevocable election under the DL 600 contracts for plants one, two and three to pay income tax at the general applicable rate.

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

Trinidad

Under the Fiscal Incentives Act of Trinidad, our subsidiary that owns the Titan plant was declared an approved enterprise in respect of the manufacture of methanol and was granted total relief from Trinidadian corporation income 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 plant was declared an approved enterprise and was granted, for a ten year period commencing 2004, total relief from corporation income tax for the first two years of operation, then at 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 corporation income tax rate without tax relief is currently 35%. There are no exchange control restrictions relating to the movement of funds into or out of Trinidad.

New Zealand

New Zealand has enacted legislation 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 AND SOCIAL MATTERS

The countries in which we operate all have laws and regulations governing the environment and the management of natural resources as well as the handling, storage, transportation and disposal of hazardous or waste materials. We are also subject to laws and regulations governing the import, export, use, discharge, storage, disposal and transportation of toxic substances. The products we use and produce are subject to regulation under various health, safety and environmental laws. Non-compliance with 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 currently believe that we materially comply 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 also expose us to liability for the conduct of, or conditions caused by, others, or for our own acts even if we 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, operating petrochemical manufacturing plants and distributing methanol entail risks in this area and there can be no assurance that material costs or liabilities will not be incurred.

We have accrued $20 million for asset retirement obligations for those sites where a reasonably definitive estimate of the fair value of the obligation can be made. During 2005, cash expenditures applied against the asset retirement obligations accrual were $5.0 million (2004 — $0.3 million).

Responsible Care and Corporate Social Responsibility

As a member of the Canadian Chemical Producers' Association in Canada ("CCPA"), 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. Responsible Care is the umbrella under which we manage issues related to health, safety, environment, community involvement, security and emergency preparedness at each of our facilities and locations. 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. Responsible Care also guides decision-making related to our corporate development objectives.

The application of Responsible Care at Methanex begins with our Board of Directors, where we have a Responsible Care Committee, and extends throughout our organization. Responsible Care is implemented through documented management systems. The effectiveness of many of these management systems is measured using an audit

process that we apply to our business operations. This process is designed to ensure ongoing compliance, identify opportunities for improvement and provide for the sharing of best practices. These audits often include third-party observers.

We believe that Responsible Care helps us achieve strong financial performance, effective and innovative minimization of environmental impacts and improved quality of life, particularly in communities where our employees reside.

Some of the countries in which we operate have different standards than those applied in North America. Our policy is to adopt the more stringent of either Responsible Care practices or local regulatory or association requirements at all of our facilities.

In 2005, we also formally adopted a policy on Corporate Social Responsibility (CSR), linking this ethic with our Responsible Care ethic. Our CSR policy encompasses governance, employee engagement and development, community involvement, social investment and many other activities that have long been practiced by us. We feel that adopting the tenets of CSR is a natural extension of our commitment to Responsible Care.

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 or oxygen, 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, subject to certain deductibles, 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. Our competitors include state-owned enterprises. 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, 2005, we had about 850 employees.

RISK FACTORS

The risks relating to our business are described under the heading “Risk Factors and Risk Management” in our 2005 MD&A which are incorporated in this AIF by reference. Any of those risks, as well as risks and uncertainties currently not known to us, could materially adversely affect our business, financial conditions or results of operations.

DIVIDENDS

Dividends are payable to the holders of common shares of the Company if, as and when declared by our Board of Directors out of the assets of the Company properly applicable to the payment of dividends in such amounts and payable at such times and at such place or places in Canada as the Board of Directors may, from time to time, determine. The Company's current dividend policy is designed so that the Company maintains conservative financial management appropriate to the highly cyclical nature of the methanol industry in order to preserve financial flexibility and creditworthiness.

In July 2002, the Company initiated the payment of a quarterly dividend on its common shares. The first quarterly dividend of US$0.05 per share was paid on September 30, 2002. In 2003, the quarterly dividend was increased to US$0.06 per share effective September 30, 2003 and in 2004, the quarterly dividend was further increased to US$0.08 per share effective September 30, 2004. In 2005, the quarterly dividend was further increased to US$0.11 per share effective June 30, 2005.

Our Board periodically considers other forms of distributions when general business conditions, financial results, capital requirements and other relevant factors warrant and, in that context, a special dividend of US $0.25 per share was paid on February 14th, 2003.

The following table sets out the regular dividends, special dividends and total amount of dividends per share paid on the Company's common shares in each of the last three most recently completed financial years:

Financial Year Ended	Regular Dividend Paid Per Share	Special Dividend Paid Per Share	Total Dividends Paid Per Share
December 31, 2003	US $ 0.22	US $ 0.25	US $ 0.47
December 31, 2004	US $ 0.28	—	US $ 0.28
December 31, 2005	US $ 0.41	—	US $ 0.41

CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of common shares without nominal or par value and 25,000,000 preferred shares without nominal or par value.

Holders of common shares are entitled to: receive notice of and attend all annual and special meetings and to one vote in respect of each common share held; receive dividends if, as and when declared by our Board of Directors; and participate rateably in any distribution of the assets of the Company in the event of liquidation, dissolution or winding up.

Preferred shares may be issued in one or more series and the directors may fix the designation, rights, restrictions, conditions and limitations attaching to the shares of each such series. Currently, there are no preferred shares outstanding.

Our by-laws provide that at any meeting of our shareholders a quorum shall be two persons present in person or represented by proxy holding shares representing not less than 20% of the votes entitled to be cast at the meeting. Nasdaq's listing standards require a quorum for shareholder meetings to be not less than 33$^{1}/_{3}$% of a company's outstanding voting shares. As a foreign private issuer and because our quorum requirements are consistent with practices in Canada, our home country, under Nasdaq rules we are not subject to Nasdaq's quorum requirement.

We have a stock option plan under which options to purchase our common shares may be granted from time to time to our employees and directors and to employees and directors of our subsidiaries. In March 2005, we amended the plan to clarify that for purposes of the plan our subsidiaries may include subsidiaries that we do not wholly-own. Nasdaq's listing standards generally require shareholder approval when a stock option plan is to be materially amended. The rules and policies of the Toronto Stock Exchange, our home country marketplace, require shareholder approval for certain types of amendments to stock option plans, but we were advised by the Toronto Stock Exchange that it did not require approval by our shareholders for this amendment to our plan, and it would not be consistent with practices in our home country for us to seek shareholder approval where such approval is not required. Consequently, under Nasdaq's rules we are not subject to Nasdaq's shareholder approval requirements in respect of this amendment.

RATINGS

The following table sets forth the ratings assigned to the Company's unsecured debt and bank facility by Standard & Poor's Rating Services ("S&P"), Moody's Investor Services, Inc. ("Moody's") and Fitch Ratings ("Fitch").

Security	S&P[1]	Moody's[2]	Fitch[3]
Unsecured Notes	BBB- (negative)	Ba1 (stable)	BBB (stable)

(1) S&P's credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. A rating of BBB by S&P is the fourth highest of eleven categories. According to the S&P rating system, debt securities rated BBB have adequate capacity to pay interest and repay principal. While an obligor rated BBB normally exhibits adequate protection parameters, adverse economic conditions, or changing circumstances are more likely to weaken capacity to meet its financial commitments. The addition of a plus (+) or minus (-) designation after a rating indicates the relative standing within a particular rating category.

(2) Moody's credit ratings are on a long-term debt rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. A rating of Ba is the fifth highest of nine categories and denotes obligations judged to have speculative elements and its future cannot be considered as well-assured. The addition of a 1, 2 or 3 modifier after a rating indicates the relative standing within a particular rating category. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

(3) Fitch credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. A rating of BBB by Fitch is the fourth highest of twelve categories and is assigned to debt securities considered to be good credit quality and low expectation of credit risk. The addition of a plus (+) or minus (-) designation after a rating indicates the relative standing within a particular rating category. The plus/minus grades are not added for the "AAA" category, or categories below "CCC".

Credit ratings are intended to provide investors with an independent measure of the quality of an issue of securities. The foregoing ratings should not be construed as a recommendation to buy, sell or hold the securities, in as much as such ratings do not comment as to 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 if in its judgment circumstances so warrant, and if any such rating is so revised or withdrawn, we are under no obligation to update this Annual Information Form.

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). The following table sets out the market price ranges and trading volumes of our common shares on the Toronto Stock Exchange as well as for the Nasdaq National Market for each month of our most recently completed financial year (January 1, 2005 through December 31, 2005).

	2005 Trading Volumes					
	The Toronto Stock Exchange Ticker: MX			Nasdaq National Market Ticker: MEOH		
	High (Cdn. dollars)	Low (Cdn. dollars)	Volume (millions)	High (US dollars)	Low (US dollars)	Volume (millions)
January	21.91	19.00	10.38	18.60	15.40	6.82
February	22.36	19.75	10.75	18.05	15.89	5.05
March	24.58	21.85	15.89	20.21	17.62	10.90
April	23.56	20.70	6.96	19.50	16.48	8.24
May	23.40	20.75	15.69	18.62	16.47	8.42
June	24.49	19.08	18.96	19.57	15.44	14.25
July	20.90	19.56	9.30	17.14	15.82	7.45
August	19.98	17.41	12.72	16.48	14.55	7.18
September	18.36	16.56	11.16	15.52	14.17	9.23
October	19.10	16.46	9.31	16.11	13.89	5.88
November	20.52	18.76	8.88	17.59	15.85	4.61
December	22.51	20.36	6.93	19.18	17.39	8.05

On May 17, 2005, the Company commenced a normal course issuer bid under which we could repurchase up to 5,917,629 common shares. The bid was amended in January 2006 to provide for the repurchase of up to 11,790,217 common shares. The bid will terminate on the earlier of May 16, 2006 and the date when we have acquired the maximum number of common shares allowed under the bid or otherwise decided not to make further purchases.

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
AITKEN, BRUCE Vancouver, British Columbia Canada	Director and President & Chief Executive Officer	President and Chief Executive Officer of the Company since May 2004; prior thereto President and Chief Operating Officer of the Company since September 2003; prior thereto Senior Vice President, Asia Pacific of the Company since September 1999.	July 2004
BALLOCH, HOWARD(2)(3)(4) Beijing China	Director	President of The Balloch Group(6) since July 2001; prior thereto Canadian Ambassador to the People's Republic of China since February 1996.	December 2004
CHOQUETTE, PIERRE Vancouver, British Columbia Canada	Chairman of the Board and Director	Corporate Director. Chairman of the Board and Chief Executive Officer of the Company from September 2003 to May 2004; 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 Canada	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 Canada	Director	Corporate Director. Prior to July 1995 was Chairman of Barbican Properties Inc.	July 1994
POOLE, A. TERENCE(1)(4) Calgary, Alberta Canada	Director	Executive Vice President, Corporate Strategy and Development of NOVA Chemicals Corporation(7) since May 2000.	September 2003, and from February 1994 to June 2003
REID, JOHN M.(1)(2) Vancouver, British Columbia Canada	Director	Corporate Director. Prior to December 1, 2005, was President and Chief Executive Officer of Terasen Inc.(8)	September 2003

Name and Municipality of Residence	Office	Principal Occupations and Positions During Last Five Years	Director Since
SLOAN, MONICA E.(3)(5) Calgary, Alberta Canada	Director	Chief Executive Officer of Intervera Ltd.(9) since January, 2004; prior thereto an Independent Consultant for ME Sloan Associates since October 1999.	September 2003
SWEENEY, GRAHAM D.(1)(4)(5) Sarnia, Ontario Canada	Director	Corporate Director. Prior to October 1995 was President and Chief Executive Officer of Dow Chemical Canada Inc.	July 1994
Wexler, Anne L.(2)(3)(4) Washington, D.C. USA	Director	Chairman of the Executive Committee of Wexler & Walker Public Policy Associates (10) (formerly The Wexler Group) since January 2000.	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) The Balloch Group is a private consultancy firm specializing in Chinese and other Asian markets.

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

(8) Terasen Inc. is an energy distribution and transportation company which also provides utility and energy products and services.

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

(10) 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
CAMERON, IAN P. Vancouver, British Columbia Canada	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.
FLOREN, JOHN Vancouver, British Columbia Canada	Senior Vice President, Global Marketing and Logistics	Senior Vice President, Global Marketing and Logistics of the Company since June 2005; prior thereto Director, Marketing & Logistics North America of the Company since May 2002; prior thereto Director, E-Commerce of the Company since June 2000.
GORDON, JOHN K. Vancouver, British Columbia Canada	Senior Vice President, Corporate Resources	Senior Vice President, Corporate Resources of the Company since September 1999.

Name and Municipality of Residence	Office	Principal Occupations and Positions During Last Five Years
KRAUSE, RODOLFO L. Santiago Chile	Senior Vice President	Senior Vice President of the Company since January 1st, 2006; prior thereto, Senior Vice President, Latin America and Global Manufacturing of the Company since September 1999.
MACDONALD, MICHAEL G. Vancouver, British Columbia Canada	Senior Vice President, Corporate Development	Senior Vice President, 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.
MILNER, RANDY M. Vancouver, British Columbia Canada	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.
WEAKE, HARVEY Auckland New Zealand	Senior Vice President, Asia Pacific	Senior Vice President, Asia Pacific of the Company since December, 2005; prior thereto Vice President, Global Manufacturing/ Managing Director of Methanex New Zealand since July 2005; prior thereto Vice President, Manufacturing/ Managing Director of Methanex New Zealand since December, 2003; prior thereto Director, Manufacturing, Asia Pacific of the Company since April 2000.
YANEZ, JORGE Port of Spain Trinidad	Senior Vice President, Caribbean & Global Manufacturing	Senior Vice President, Caribbean & Global Manufacturing of the Company since October 2005; prior thereto Vice President, Project Management of Methanex Management Inc. since December 2004; prior thereto Director, Project Development of Methanex Management Inc. since January 2001.
SCHIODTZ, PAUL Santiago Chile	Senior Vice President, Latin America	Senior Vice President, Latin America of the Company since January 1, 2006; prior thereto Director, Finance Latin America of Methanex Chile Ltd. since May 1999.

As at December 31, 2005, the directors and executive officers of the Company owned, directly or indirectly, or exercised control of or direction over 320,471 common shares representing approximately 0.28% of the outstanding common shares as at December 31, 2005.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Since the commencement of our most recently completed financial year, no director or executive officer of the Company, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the Company's voting securities or any associate or affiliate of such persons, has had any material interest in any transaction involving the Company.

In a transaction which occurred in 2003, NOVA Chemicals Corporation indirectly disposed of 37,946,876 of our common shares by way of secondary offering and the Company repurchased the remaining 9,000,000 common shares indirectly owned by NOVA (the "Repurchase Transaction"). As an officer of NOVA, Mr. A. Terence Poole had a material interest in the Repurchase Transaction. Mr. Poole was, at the time of the Repurchase Transaction, and is now a director of the Company.

EXPERTS

KPMG LLP, Chartered Accountants, Vancouver, were the auditors of the Company for the year ended December 31, 2005 and prepared and executed the audit report accompanying the annual financial statements.

LEGAL PROCEEDINGS

We are not a party to and our property is not the subject of any material legal proceedings which are currently in place or which we know to be contemplated.

AUDIT COMMITTEE INFORMATION

The Audit Committee Charter

The Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibility relating to: the integrity of the Corporation's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the professional qualifications and independence of the external auditor; the performance of the external auditors; risk management processes; financing plans; pension plans; and compliance by the Corporation with ethics policies and legal and regulatory requirements.

The Committee's Mandate sets out its responsibilities and duties. A copy of the Committee's Mandate is attached hereto as Appendix "A".

Composition of the Audit Committee

The Committee is comprised of four directors: Brian Gregson (Chair), A. Terence Poole, John Reid and Graham Sweeney. Each Committee member is independent and financially literate. Mr. Poole is designated as the "audit committee financial expert". The US Securities and Exchange 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 Committee and Board who do not carry this designation or affect the duties, obligations or liability of any other member of the Committee.

Relevant Education and Experience

The following is a brief summary of the education and experience of each member of the Committee that is relevant to the performance of his or her responsibilities as a member of the Committee, including any education or experience that has provided the member with an understanding of the accounting principles used by the Company to prepare its annual and interim financial statement.

Mr. Brian Gregson

Mr. Gregson has acquired significant experience and exposure to accounting and financial reporting issues in various capacities during his 42 year career with the Royal Bank of Canada. Prior to his retirement in 1991 Mr. Gregson held senior positions with the Royal Bank including Senior Executive Vice President and Senior Credit Officer, Executive Vice President, Special Loans and Executive Vice President, Finance and Investment. After leaving the Royal Bank, Mr. Gregson was Chairman of Barbican Properties Inc., a real estate company. Mr. Gregson has

studied at the Banff School of Advanced Management, the Tuck Business School at Dartmouth University and has attended various American Management Association courses.

Mr. Gregson has chaired the Committee since October 1994.

Mr. A. Terence Poole

Mr. Poole is Executive Vice President, Corporate Strategy and Development of NOVA Chemicals Corporation ("NOVA"), a commodity chemical company with international operations. Prior to his current position Mr. Poole held the position of Executive Vice President, Finance and Strategy of NOVA from 1998 to 2000, Senior Vice President and Chief Financial Officer of NOVA Corporation from 1994 to 1998. and other senior financial positions with NOVA Corporation from 1988. He has worked at other large public companies in various financial and business management capacities since 1971.

Mr. Poole is a Chartered Accountant and holds a Bachelor of Commerce from Dalhousie University. Mr. Poole is a Member of the Canadian, Quebec and Ontario Institutes of Chartered Accountants and is also a Member of the Financial Executives Institute.

Mr. Poole also serves on the board of Pengrowth Corporation.

Mr. Poole has served on the Committee since September 2003 as well as from February 1994 to June 2003.

Mr. John Reid

Mr. Reid is a corporate director. He held the position of President and Chief Executive Officer of Terasen Inc., an energy distribution and transportation company from November 1997 to November 30, 2005 and prior to that was Executive Vice President and Chief Financial Officer of Terasen Inc. Prior to joining Terasen, Mr. Reid was the President and Chief Executive Officer of Scott Paper. He also held various other senior positions at Scott Paper including Corporate Vice President, Finance and Controller.

Mr. Reid is a Chartered Accountant and holds an Economics Degree from the University of Newcastle upon Tyne in the United Kingdom and is a Fellow of the British Columbia, England and Wales Institutes of Chartered Accountants.

Mr. Reid also serves on the Board of Governors of the University of British Columbia.

Mr. Reid has served on the Committee since September 2003.

Mr. Graham Sweeney

Mr. Sweeney, is a corporate director. During his career at Dow Chemical Company, Mr. Sweeney held the position of President and Chief Executive Officer of Dow Chemical Canada Inc., for three years and prior to that held Vice President and senior executive positions with the Dow Chemical Company in Asia from 1981 to 1987 and with global responsibilities from 1988 to 1992. In so doing, he acquired significant experience and exposure to accounting and financial reporting issues.

Mr. Sweeney holds a Bachelor of Science (Chemical Engineering) from the University of Natal, South Africa. Mr. Sweeney has served on the Committee since May 1996.

Pre-approval policies and procedures

The Committee annually reviews and approves the terms and scope of the external auditors' engagement. The Committee oversees the Audit and Non-Audit Pre-Approval Policy which sets forth the procedures and the conditions pursuant to which permissible services proposed to be performed by KPMG LLP, the Company's external auditors, are pre-approved. The Committee has delegated to the Chair of the Committee pre-approval authority for any services not previously approved by the Committee. All such services approved by the Chair of the Committee are subsequently reviewed by the Committee.

All non-audit service engagements, regardless of the cost estimate, are required to be coordinated and approved by the Chief Financial Officer to further ensure that adherence to this policy is monitored.

Audit and Non-Audit Fees Paid to the Independent Auditors

KPMG LLP, Chartered Accountants, Vancouver, are the independent auditors of the Company and the holders of the Company's common shares have resolved to have the directors of the Company determine the auditor's remuneration. Fees to KPMG LLP during the years ended December 31, 2005 and December 31, 2004 were as follows:

US$000's	2005	2004
Audit Fees	526	346
Audit-Related Fees	136	77
Tax Fees	158	168
All Other Fees		—
Total	**820**	**591**

The nature of each category of fees is described below.

Audit Fees:

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

Audit-Related Fees:

Audit-related fees were paid for professional services rendered by the auditors 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 consultations as to the accounting or disclosure treatment of other transactions.

Tax Fees:

Tax fees were paid for professional services rendered for tax compliance, tax advice and tax planning. These services consisted of: tax compliance including the review of tax returns; assistance in completing routine tax schedules and calculations; and tax planning and advisory services relating to common forms of domestic and international taxation.

TRANSFER AGENT AND REGISTRAR

The transfer agent for our common shares is CIBC Mellon Trust Company at its principal offices in Vancouver, British Columbia.

CONTROLS AND PROCEDURES

Disclosure controls and procedures are those controls and procedures that are designed to ensure that information required to be disclosed in the Company's filings under applicable securities regulations is recorded, processed, summarized and reported within the time periods specified. Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of December 31, 2005 and have determined that our disclosure controls and procedures are effective.

There have been no changes during the year ended December 31, 2005 to internal control over financial reporting 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.

CODE OF ETHICS

We have adopted a code of ethics that applies to our directors, officers and employees including its principal executive officer, principal financial officer and principal accounting officer. A copy of our code, entitled “Code of Business Conduct”, can be found on our website at www.methanex.com.

ADDITIONAL INFORMATION

We will provide to any person or company, upon request to the Corporate Secretary of the Company at the address set forth below:

(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 the Information Circular of the Company dated March 3, 2006 for the Annual General Meeting of the Company to be held on May 9, 2006;

  (ii) 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;

  (iii) one copy of the comparative financial statements of the Company for the year ended December 31, 2005 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, 2005;

  (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), (iii) and (iv) 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 relating to the Company, including directors’ and officers’ remuneration and indebtedness, principal holders of the Company’s securities and securities authorized for issuance under equity compensation plans, is contained in the Company’s Information Circular dated March 3, 2006 relating to the Annual General Meeting of the Company to be held on May 9, 2006.

Additional financial information about the Company is provided in Methanex’s financial statements and Management’s Discussion and Analysis for the year ended December 31, 2005.

Copies of the documents referred to above are available on the SEDAR website at www.sedar.com and may also 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

Additional information relating to the Company may be found on the SEDAR website at www.sedar.com and on the United States Securities and Exchange Commission website at www.sec.gov.

APPENDIX "A"

METHANEX CORPORATION

AUDIT, FINANCE AND RISK COMMITTEE MANDATE

1. Creation

A committee of the directors to be known as the "Audit, Finance and Risk Committee" (hereinafter referred to as the "Committee") is hereby established.

2. Purpose and Responsibility

The Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibility relating to: the integrity of the Corporation's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the professional qualifications and independence of the external auditor's; the performance of the external auditors; risk management processes; financing plans; pension plans; and compliance by the Corporation with ethics policies and legal and regulatory requirements.

The Committee's role is one of oversight. It is the responsibility of the Corporation's management to plan audits and to prepare consolidated financial statements in accordance with generally accepted accounting principles, and it is the responsibility of the Corporation's external auditor to audit these financial statements. Therefore, each member of the Committee, in exercising his or her business judgment, shall be entitled to rely on the integrity of those persons and organizations within and outside the Corporation from whom he or she receives information, and on the accuracy of the financial and other information provided to the Committee by such persons or organizations. The Committee does not provide any expert or other special assurances as to the Corporation's financial statements or any expert or professional certification as to the work of the Corporation's external auditor. In addition, all members of the Committee are equally responsible for discharging the responsibilities of the Committee and the designation of one member as an "audit committee financial expert" pursuant to the Applicable Rules (as defined below) is not a statement of intention by the Corporation to impose upon such designee duties, obligations or liability greater than those imposed on such a director in the absence of such designation.

3. Committee Membership

Composition of the Committee	a) The Committee must be composed of a minimum of three directors.
Appointment and Term of Members	b) The members of the Committee must be appointed or reappointed at the organizational meeting of the Board concurrent with each Annual Meeting of the shareholders of the Corporation. Each member of the Committee continues to be a Committee member until a successor is appointed, unless he or she resigns or is removed by the Board or ceases to be a director of the Corporation. Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board and shall be filled by the Board if the membership of the Committee is less than three directors as a result of the vacancy.

Financial Literacy and Independence

c) Each member of the Committee shall meet the independence and experience requirements, and at least one member of the Committee shall qualify as an "audit committee financial expert". These requirements shall be in accordance with the applicable rules and regulations (the "Applicable Rules") of the Canadian Securities Administrators, the U.S. Securities and Exchange Commission, the Toronto Stock Exchange and the Nasdaq Stock Market.

Appointment of Chairman and Secretary

d) The Board or, if it does not do so, the members of the Committee, must appoint one of their members as Chairman. If the Chairman of the Committee is not present at any meeting of the Committee, the Chairman of the meeting must be chosen by the Committee from the Committee members present. The Chairman presiding at any meeting of the Committee has a deciding vote in case of deadlock. The Committee must also appoint a Secretary who need not be a director.

Use of Outside Experts

e) Where Committee members believe that, to properly discharge their fiduciary obligations to the Corporation, it is necessary to obtain the advice of independent legal, accounting, or other experts, the Chairman shall, at the request of the Committee, engage the necessary experts at the Corporation's expense. The Board must be kept apprised of both the selection of the experts and the experts' findings through the Committee's regular reports to the Board.

4. Meetings

Time, Place and Procedure of Meetings

a) The time and place of Committee meetings, and the procedures for the conduct of such meetings, shall be determined from time to time by Committee members, provided that:

Quorum

i) a quorum for meetings must be three members, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to communicate with each other;

Quarterly Meetings

ii) the Committee must meet at least quarterly;

Notice of Meetings

iii) notice of the time and place of every meeting must be given in writing or by facsimile to each member of the Committee and the external auditors of the Corporation at least 24 hours prior to the Committee meeting;

Waiver of Notice	iv) a member may waive notice of a meeting, and attendance at the meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called;
Attendance of External Auditors	v) the external auditors are entitled to attend each meeting at the Corporation's expense;
Meeting with Financial Management	vi) the Committee will, at least annually, meet with senior financial management, including the Chief Financial Officer and the Corporate Controller, without other members of management present;
Meeting without Management	vii) each regular meeting of the Committee will conclude with a session without any management personnel present;
Calling a Meeting	viii) a meeting of the Committee may be called by the Secretary of the Committee on the direction of the Chairman or Chief Executive Officer of the Corporation, by any member of the Committee or the external auditors; and
Committee Determines Attendees	ix) notwithstanding the provisions of this paragraph, the Committee has the right to request any officer or employee of the Corporation or the Corporation's outside counsel or external auditor to be present or not present at any part of the Committee meeting;
Reports to the Board	b) The Committee shall make regular reports to the Board.

5. Duties and Responsibilities of the Committee

1) Financial Statements and Disclosure

Annual Report and Disclosures*	a) Review and discuss with management and the external auditor, and recommend for approval by the Board, the Corporation's annual report, Annual Information Form, audited Annual Consolidated Financial Statements, annual Management's Discussion and Analysis, Management Information Circular and all financial statements in prospectuses or other disclosure documents.
Prospectuses*	b) Review and recommend for approval by the Board all prospectuses and documents which may be incorporated by reference into a prospectus, including without limitation, material change reports and proxy circulars.

Quarterly Interim Reports and Disclosures	c) Review, discuss with management and the external auditor and approve the Corporation's interim reports, including the quarterly financial statements, interim Management's Discussion and Analysis and press releases on quarterly and year end financial results, prior to public release.
Accounting Policies and Estimates	d) Review and approve all accounting policies and estimates that would have a significant effect on the Corporation's financial statements, and any changes to such policies. This review will include a discussion with management and the external auditor concerning: i) any areas of management judgment and estimates that may have a critical effect on the financial statements; ii) the effect of using alternative accounting treatments which are acceptable under Canadian and US GAAP; iii) the appropriateness, acceptability, and quality of the Corporation's accounting policies; and iv) any material written communication between the external auditor and management, such as the annual management letter and the schedule of unadjusted differences.
Non-GAAP Financial Information	e) Discuss with management the use of "pro forma" or "non-GAAP information" in the Corporation's continuous disclosure documents.
Regulatory and Accounting Initiatives	f) Discuss with management and the external auditor the effect of regulatory and accounting initiatives as well as the use of off-balance sheet structures on the Corporation's financial statements.
Litigation	g) Discuss with the Corporation's General Counsel, and with external legal counsel if necessary, any litigation, claim or other contingency (including tax assessments), that could have a material effect on the financial position or operating results of the Corporation, and the manner in which these matters have been disclosed in the financial statements.
Financing Plans	h) Review the financing plans and objectives of the Corporation, as received from and discussed with management.
2) Risk Management and Internal Control	
Risk Management Policies*	a) Review and recommend for approval by the Board changes considered advisable, after consultation with management, to the Corporation's policies relating to: ii) financial risks including foreign exchange, interest rate and investment of cash;

overall risk management strategies and the financing of risks
iii) including insurance coverage in the context of competitive and operational considerations;
iv) the risk retention philosophy and the resulting uninsured exposure of the Corporation; and
v) shipping risk.

Risk Management Processes

b) Review with management at least annually the Corporation's processes to identify, monitor, evaluate, and address important enterprise-wide business risks.

Adequacy of Internal Controls

c) Review at least quarterly, the results of management's evaluation of the adequacy and effectiveness of internal controls within the Corporation in connection with the certifications signed by the CEO and CFO. Management's evaluation will include a review of:

i) policies and procedures to ensure completeness and accuracy of information disclosed in the quarterly and annual reports, prevent earnings management and detect material financial statement misstatements due to fraud and error; and
ii) internal control recommendations of the external auditors and arising from the results of the internal audit procedures; including any special steps taken to address material control deficiencies and any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal controls.

Financial Risk Management

d) Review with management activity related to management of financial risks to the Corporation, including hedging programs.

3) External Auditors

Appointment and Remuneration

a) Review and recommend to the Board:

i) the selection, evaluation, reappointment or, where appropriate, replacement of external auditors; and
ii) the nomination and remuneration of external auditors to be appointed at each Annual Meeting of Shareholders.

Resolving Disagreements

b) Resolve any disagreements between management and the external auditor regarding financial reporting.

Direct Reporting to Committee

c) The external auditors shall report directly to the Committee and the Committee has the authority to communicate directly with the external auditors.

Quality Control and Independence

d) Review a formal written statement requested at least annually from the external auditor describing:

i) the firm's internal quality control procedures;
ii) any material issues raised by the most recent internal quality control review, peer review of the firm; or any investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits of the Corporation carried out by the firm;
iii) any steps taken to deal with any such issues; and
iv) all relationships between the external auditors and the Corporation.

The Committee will actively engage in a dialogue with the external auditor with respect to whether the firm's quality controls are adequate, and whether any of the disclosed relationships or non-audit services may impact the objectivity and independence of the external auditor based on the independence requirements of the Applicable Rules. The Committee shall present its conclusion with respect to the independence of the external auditor to the Board.

External Audit Plan

e) Review and approve the external audit plan and enquire as to the extent the planned audit scope can be relied upon to detect weaknesses in internal control or fraud or other illegal acts. Any significant recommendations made by the auditors for the strengthening of internal controls will be reviewed.

Rotation of Senior Audit Partner

f) Ensure the rotation of senior audit personnel who have primary responsibility for the audit work, as required by law.

Remuneration of External Auditors

g) Review and approve (in advance) the scope and related fees for all auditing services and non-audit services permitted by regulation which are to be provided by the external auditor in accordance with the Corporation's Audit and Non-Audit Services Pre-Approval Policy which is to be annually reviewed and approved by the Committee.

Restrictions on Hiring Employees of External Auditor

h) Ensure the establishment of policies relating to Corporation's hiring of employees of or former employees of the external auditor, if such individuals have participated in the audit of the Corporation, as required by law.

Report from the External Auditors

i) Prior to filing of the Quarterly Consolidated Financial Statements and the Annual Consolidated Financial Statements, the Committee should receive a report from the external auditors on the results of their review or their audit.

Meeting with Auditors and Management	j) The Committee should meet with the external auditors without management present and discuss any issues related to performance of the audit work, any restrictions, and any significant disagreement with management. The Committee should also meet separately with Management to discuss the same matters as those discussed with the external auditors.

4) Internal Audit

Internal Audit Plans	a) Review and approve the annual Internal Audit Plan and objectives.
Audit Findings and Recommendations	b) Review the significant control issues identified in internal audit reports issued to management and the responses and actions taken by management to address weaknesses in controls.
Meeting with Auditors	c) The Committee will meet, without management present, with representatives of the accounting firm and/or the Corporation's Internal Auditor that executed the annual Internal Audit Plan.

5) Pension Plans

With respect to all investing and funding aspects of all defined benefit corporate sponsored pension plans of the Corporation and its wholly-owned subsidiaries that have estimated actuarial liabilities in excess of US$ 5 million (collectively the "Retirement Plans"):

Constitute Pension Committees	a) Annually constitute Committees (the "Pension Committees") with responsibility for the investment activities of the Retirement Plans' trust funds;
Statements of Pension Investment Policy and Procedures	b) Review the Corporation's Statement of Pension Investment Policy for the Retirement Plans' trust funds at least annually but in any event whenever a major change is apparent or necessary;
Amendments to Retirement Plans and Material Agreements	c) Review and recommend to the Board any amendments to the Retirement Plans' trust agreements and any material document written or entered into pursuant to the Retirement Plans' trust agreements;
Appointment of Auditors, Actuaries, and Investment Managers	d) Approve the recommendations of the officers of the Corporation regarding the reappointment or appointment of auditors and recommendations of the Pension Committees regarding appointment of investment managers and actuaries of the Retirement Plans;
Retirement Plan Financial Statements	e) Review and approve the annual financial statements of the Retirement Plans, and related trust funds, and the auditors' reports thereon;
Retirement Plan Report*	f) Review and recommend for approval by the Board, the annual report on the operation and administration of the Retirement Plans and related trust funds;

Terms of Reference of the Pension Committees	g) Review and recommend to the Board for approval the Terms of Reference of the Pension Committees (to be approved jointly with the Human Resources Committee of the Board) and any amendments thereto.
Delegation to the Pension Committees	h) Approve the delegation of certain responsibilities to members of the Pension Committees;
Actuarial Reports and Funding Assumptions	i) Review the actuarial reports on the Retirement Plan as required by applicable regulations, any special actuarial reports, and the funding assumptions to be used in preparing the reports; and

With respect to all investing and funding aspects of all defined contribution pension plans and defined benefit pension plans that have estimated actuarial liabilities of less than US$ 5 million of the wholly-owned subsidiaries of the Corporation ("other Retirement Plans"):

Other Retirement Plans Report	j) Receive from management and review with the Board, at least annually, a report on the operation and administration of other Retirement Plans' trust funds, including investment performance; and
Delegation of Authority	k) Administer and delegate to sub-committees as considered advisable all other matters related to other Retirement Plans' trust funds to which the Committee has been delegated authority.

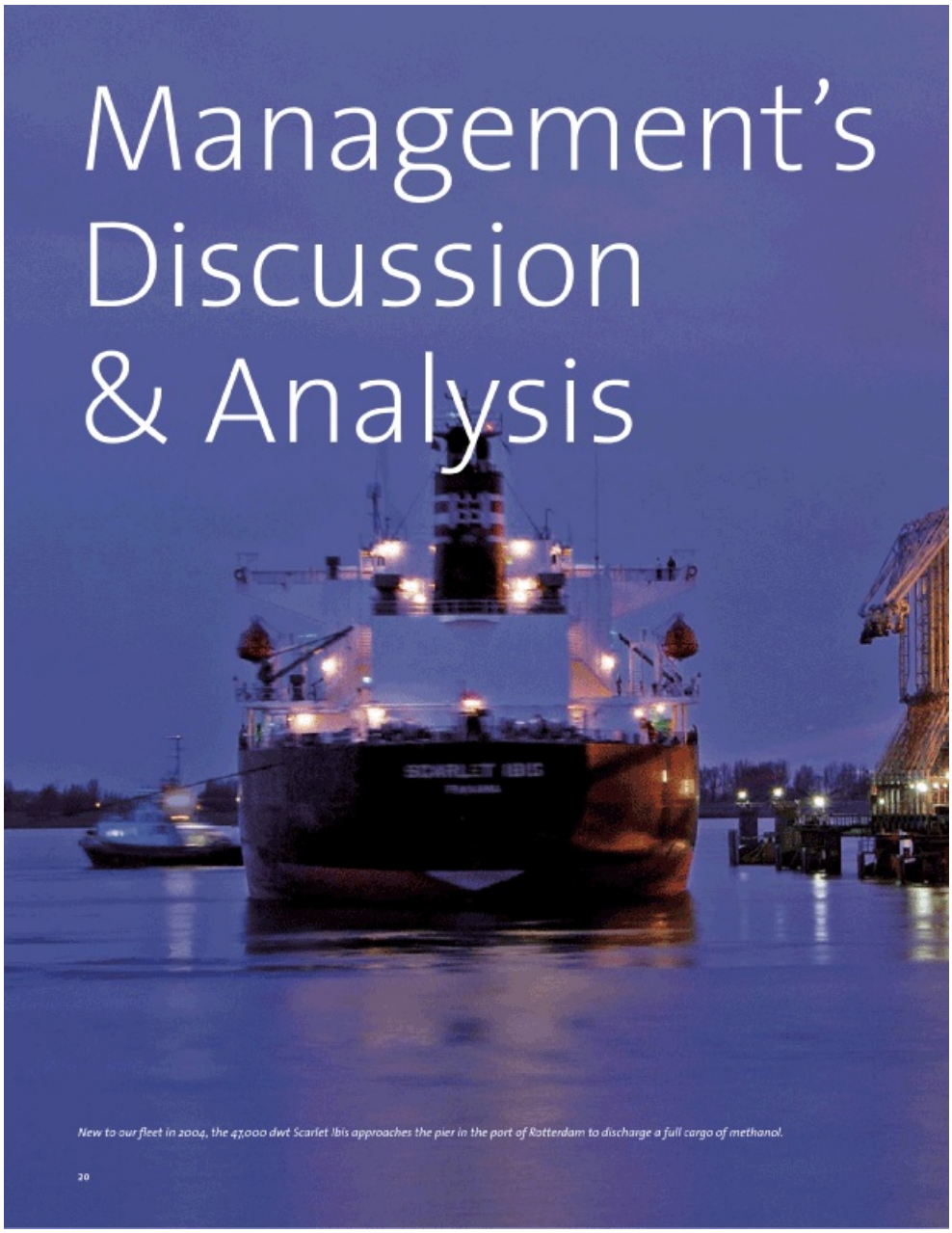
6) General Duties

Code of Business Conduct Compliance	a) Obtain a report at least annually from the Senior Vice President, General Counsel & Corporate Secretary on the Corporation's and its subsidiary/foreign affiliated entities' conformity with applicable legal and ethical compliance programs (e.g., the Corporation's Code of Business Conduct).
Code of Ethics	b) Review and recommend to the Board for approval a code of ethics for senior financial officers.
Compliance Reporting Process	c) Ensure that a process and procedure has been established by the Corporation for receipt, retention, and treatment of complaints regarding non-compliance with the Corporation's Code of Business Conduct, violations of laws or regulations, or concerns regarding accounting, internal accounting controls or auditing matters. The Committee must ensure that procedures for receipt of complaints allow for confidential, anonymous submission of complaints from employees.
Regulatory Matters	d) Discuss with management and the external auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Corporation's compliance policies.

Disclosure Policy*	e) Review annually and recommend to the Board for approval, the Corporation's Disclosure policies. In particular, the Committee will review annually the Corporation's procedures for public disclosure of financial information extracted or derived from the Corporation's financial statements.
Related Party Transactions	f) Review and approve all related party transactions.
Mandate Review*	g) Review and recommend for approval changes considered advisable based on the Committee's assessment of the adequacy of this Mandate. Such review will occur on an annual basis and the recommendations, if any, will be made to the Board for approval.
Annual Evaluation	h) The Committee will conduct an annual evaluation to ensure that it has satisfied its responsibilities in the prior year in compliance with this mandate.

* Board approval required

Management's Discussion & Analysis



New to our fleet in 2004, the 47,000 dwt Scarlet Ibis approaches the pier in the port of Rotterdam to discharge a full cargo of methanol.

22 Overview
24 Our Strategy
31 How We Analyze Our Business
32 Financial Highlights
33 Production Summary
34 Results of Operations
38 Liquidity & Capital Resources
42 Risk Factors & Risk Management
48 Outlook
49 Critical Accounting Estimates
50 New Canadian Accounting Standards Adopted in 2005
50 Anticipated Changes to Canadian Generally Accepted Accounting Principles
50 Supplemental Non-GAAP Measures
52 Quarterly Financial Data (Unaudited)
52 Selected Annual Information
52 Controls and Procedures
53 Forward-Looking Statements

This Management's Discussion and Analysis is dated March 7, 2006 and should be read in conjunction with our consolidated financial statements and the accompanying notes for the year ended December 31, 2005. Our consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). We use the United States dollar as our reporting currency. Except where otherwise noted, all dollar amounts are stated in United States dollars.

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

At March 7, 2006 we had 111,482,003 common shares issued and outstanding and stock options exercisable for 1,077,314 additional common shares.

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



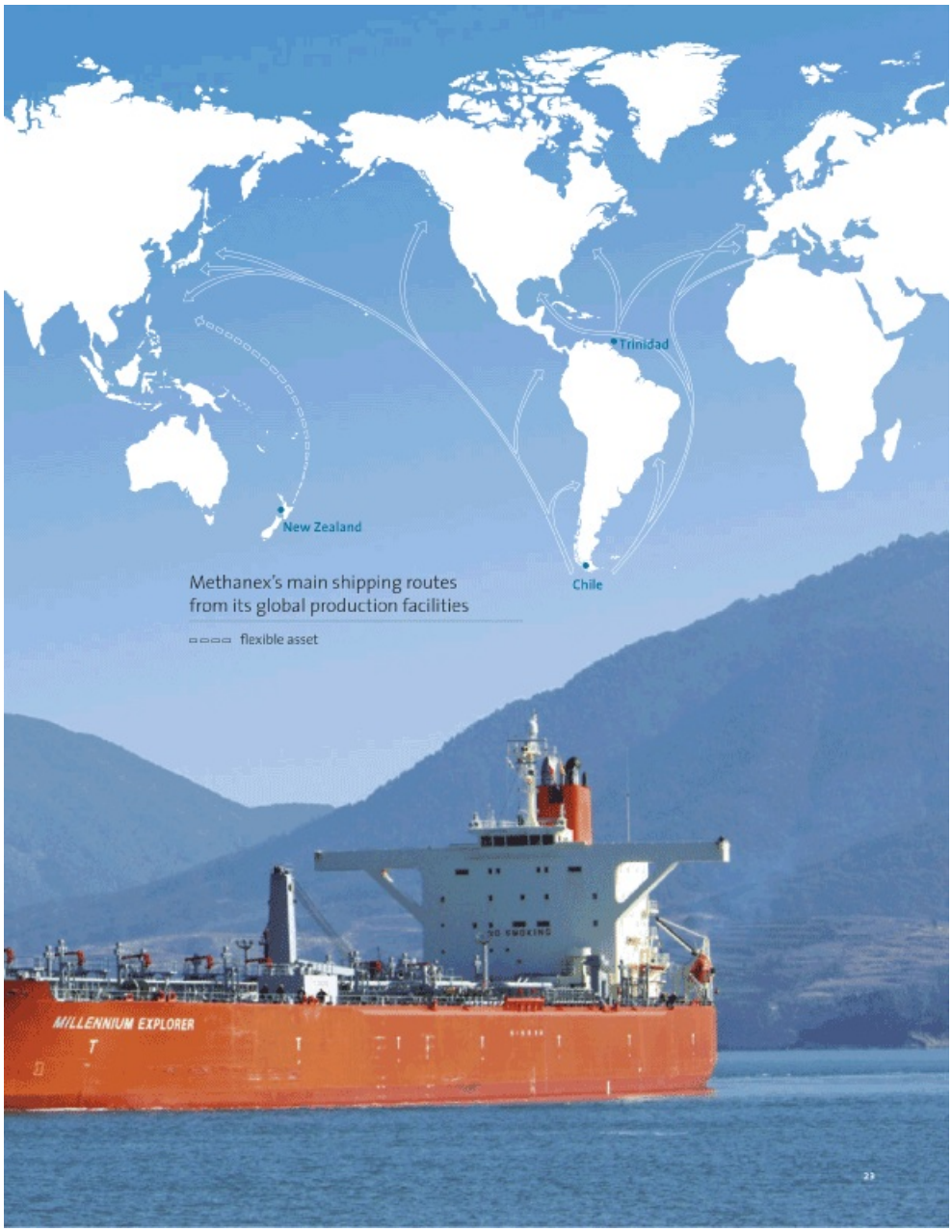
Overview

Methanex is the world's largest producer and marketer of methanol. Our low cost production hubs in Chile and Trinidad have an annual production capacity of 5.8 million tonnes and represent over 90% of our current annual production capacity. In addition to the methanol we produce, we currently source under contract approximately one million tonnes annually of methanol produced by others and we purchase methanol on the spot market when needed to meet customer requirements and support our marketing efforts. Our total sales volumes in 2005 were 7.1 million tonnes representing approximately 20% of estimated global demand for methanol. We believe our global positioning, including our extensive network of storage terminals and expertise in the global distribution of methanol, is a competitive advantage.

Methanol is a chemical produced primarily from natural gas. Approximately 80% of all methanol is used in the production of formaldehyde, acetic acid and a variety of other chemicals for which demand is influenced by levels of global economic activity. These derivatives are used to manufacture a wide range of products including building materials, foams, resins and plastics. The remainder of methanol demand comes from the fuel sector, principally to produce the gasoline component MTBE, for which demand is driven by demand for high-octane clean-burning gasoline components and levels of gasoline demand. Due to the diversity of the end-products in which methanol is used, demand for methanol is influenced by a broad range of economic, industrial and environmental factors. The global demand for methanol in 2005 is estimated at approximately 35 million tonnes.



Our largest methanol tanker, the 100,000 dwt Millennium Explorer, proceeding to the berth to discharge its methanol cargo at our storage terminal in the port of Yeosu, Korea.


Trinidad
New Zealand
Chile
Methanex's main shipping routes
from its global production facilities
flexible asset
MILLENNIUM EXPLORER

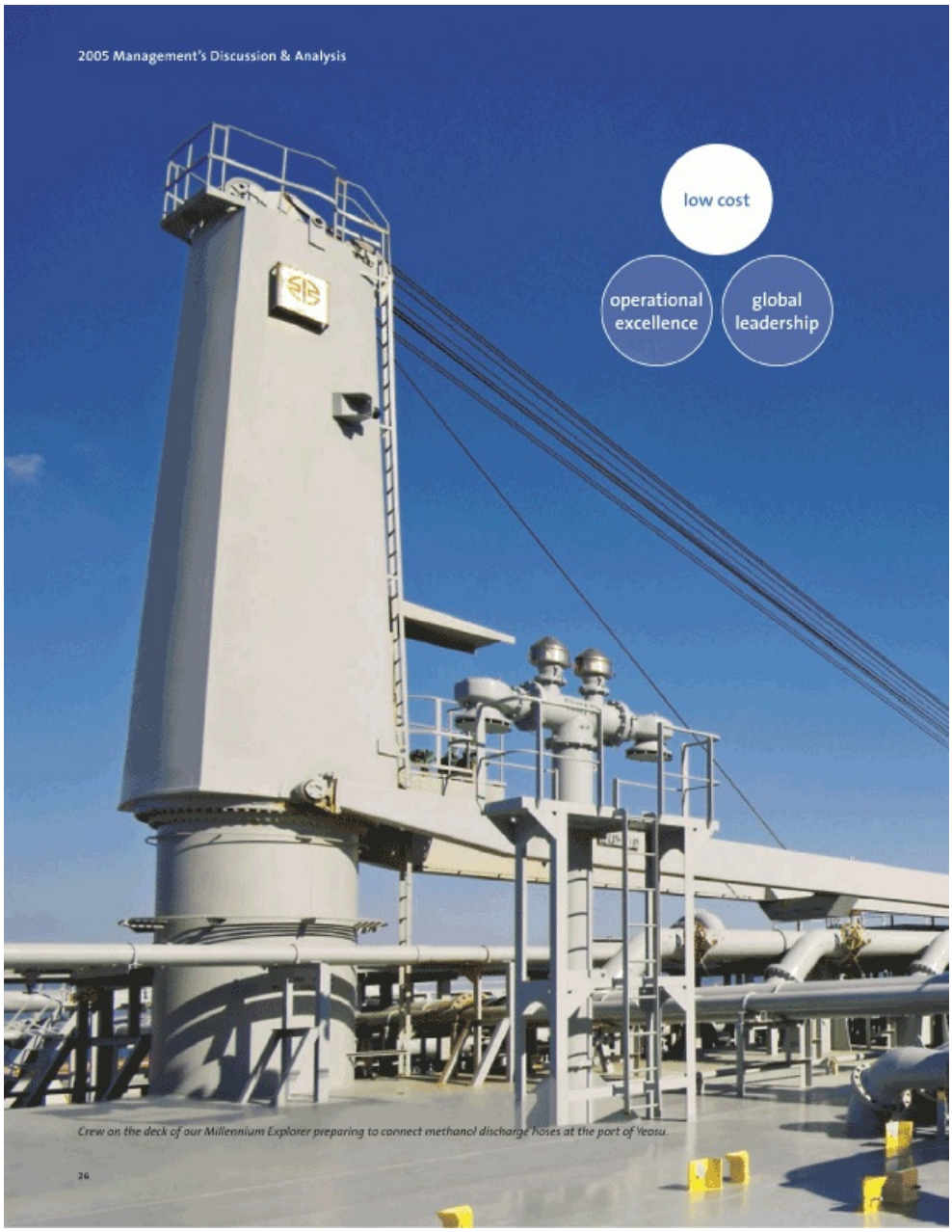
Our Strategy

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



Loading equipment at the port of Yeosu, Korea, including methanol discharge hoses (in the foreground).


안전⊕제일



Crew on the deck of our Millennium Explorer preparing to connect methanol discharge hoses at the port of Yeosu.

Low Cost

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

Natural gas is the primary feedstock at our methanol production facilities. An important element of our strategy is to ensure long-term security of low cost natural gas supply. 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 the permanent closure of our Kitimat facility in 2005, we have eliminated our exposure to high cost North American natural gas feedstock.

Our low cost production hubs in Chile and Trinidad have an annual production capacity of 5.8 million tonnes and represent over 90% of our current annual production capacity. These facilities are underpinned by long-term low cost take-or-pay natural gas purchase agreements with pricing terms that vary with methanol prices. This pricing relationship enables these facilities to be competitive throughout the methanol price cycle.

During 2005, we completed the construction of Chile IV, an 840,000 tonne per year expansion to our production hub in Chile. The start-up of Chile IV increases our total annual production capacity in Chile to 3.8 million tonnes. The strategic location of our Chile production hub allows us to deliver methanol cost-effectively to Asia Pacific, Europe, North America and Latin America.

Over the last three years we have developed a production hub in Trinidad with convenient access to methanol markets in North America and Europe. In 2003, we acquired a 100% interest in the 850,000 tonne per year Titan methanol facility. In 2004, the 1.7 million tonne per year Atlas methanol facility commenced production. We have a 63.1% joint venture interest in Atlas and market 100% of its production. Including our proportionate share of Atlas, our Trinidad production hub represents about two million tonnes of annual low cost production capacity.

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



Global Leadership

We are the largest supplier of methanol to the major international markets of North America, Asia Pacific and Europe, as well as Latin America. Our expertise in the global distribution of methanol enables us to enhance value by providing security of supply to our customers. Leadership has also allowed us to play a role in industry pricing by establishing published Methanex reference prices in each major market.

During 2005, we made several enhancements to our extensive global marketing and distribution system in Asia. We increased our in-market storage capacity by expanding our Korean terminal to 155,000 tonnes and we leased additional terminal capacity in China to further improve our distribution network in this region. The expansion of our Korean terminal improves the cost-effectiveness of distributing methanol from our production facilities in Chile to our customers in Asia through the use of larger vessels. We relocated our Asia Pacific marketing and logistics office from Auckland, New Zealand to Hong Kong and we have added staff to our office in Shanghai to enhance our customer service and industry leadership in this region.

We also made key strategic decisions during 2005 in North America. To eliminate our exposure to high cost North American natural gas feedstock, we permanently closed our Kitimat production facility and converted the site into a terminal for storing and transporting methanol as well as other products. The Kitimat site is ideally located to cost-effectively supply methanol from our low cost facilities to customers in the Pacific Northwest. We also entered into an agreement with EnCana for their use of the Kitimat site as a condensate terminal operation.

We are actively investigating options for supplying the expanding Asia Pacific markets over the long term and are proposing to build a 1.3 million tonne per year methanol facility in Egypt. We have established a joint venture company with Egyptian Petrochemicals Holding Company, an Egyptian state-owned company responsible for developing the petrochemical industry in Egypt. Methanex would have a majority ownership and would market the methanol produced by this facility. We have also agreed with the Egyptian Natural Gas Holding Company, the Egyptian state-owned supplier of natural gas to the project, on the key commercial terms for gas supply. We expect to be in a position to make a final investment decision concerning this project in late 2006.



Methanol is discharged from our Millennium Explorer through large flexible hoses. The Millennium Explorer requires approximately 34 hours to discharge a full cargo of methanol into our storage tanks at the port of Yeasu, Korea.


low cost
operational excellence
global leadership

Operational Excellence

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

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

In 2005, we formally adopted a policy on Corporate Social Responsibility (CSR) as a natural extension of our Responsible Care ethic. Our CSR policy encompasses corporate governance, employee engagement and development, community involvement, social investment and many other activities that have long been a part of our culture.

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



A view of the port of Yeosu, Korea, from the bridge wing of our Millennium Explorer.

HOW WE ANALYZE OUR BUSINESS

We review our results of operations by analyzing changes in the components of our Adjusted EBITDA (refer to Supplemental Non-GAAP Measures on page 50 for a reconciliation to the most comparable GAAP measure), depreciation and amortization, interest expense, interest and other income, unusual items and income taxes. In addition to the methanol that we produce at our facilities, we also purchase and re-sell methanol produced by others. We analyze the results of produced methanol sales separately from purchased methanol sales as the margin characteristics of each are very different.

Produced Methanol

The key drivers of changes in our Adjusted EBITDA for produced methanol are average realized price, sales volume and cash costs. We provide separate discussion of the changes in Adjusted EBITDA related to our core Chile and Trinidad production hubs and the changes in Adjusted EBITDA related to our Kitimat and New Zealand facilities.

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

Our facilities in Kitimat and New Zealand incur higher production costs and their operating results represent a smaller proportion of our Adjusted EBITDA. To eliminate our exposure to high cost North American natural gas feedstock, we permanently closed our Kitimat production facility on November 1, 2005. Our 530,000 tonne per year Waitara Valley facility in New Zealand has been positioned as a flexible production asset. The impact of changes in average realized price, sales volume and cash costs on the Adjusted EBITDA for our Kitimat and New Zealand facilities has been combined and presented as the change in cash margin.

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

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

CASH COST — The change in our Adjusted EBITDA as a result of changes in cash costs is calculated as the difference from period-to-period in cash costs per tonne multiplied by the sales volume of produced methanol in the current period plus the change in unabsorbed fixed cash costs. The change in selling, general and administrative expenses and fixed storage and handling costs are included in the analysis of methanol produced at our Chile and Trinidad facilities.

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

Purchased Methanol

The analysis of purchased methanol and its impact on our Adjusted EBITDA is 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.

FINANCIAL HIGHLIGHTS

($ MILLIONS, EXCEPT AS NOTED)	2005	2004
Sales volumes (thousands of tonnes)		
Company produced		
Chile and Trinidad	**4,553**	3,777
Kitimat and New Zealand	**788**	1,521
	5,341	5,298
Purchased methanol	**1,174**	1,960
Commission sales[1]	**537**	169
	7,052	7,427
Average realized price ($ per tonne)[2]	**254**	237
Methanex average non-discounted published reference price ($ per tonne)[3]	**301**	266
Consolidated statements of income		
Revenue	**1,658**	1,719
Cost of sales and operating expenses	**1,206**	1,285
Adjusted EBITDA[4]	**452**	434
Depreciation and amortization	**91**	79
Kitimat closure costs	**41**	—
Operating income	**320**	355
Interest expense	**(42)**	(31)
Interest and other income	**10**	7
Income taxes	**(122)**	(95)
Net income	**166**	236
Income before unusual items (after-tax)[5]	**224**	236
Basic net income per share	**1.41**	1.95
Diluted net income per share	**1.40**	1.92
Diluted income before unusual items (after-tax) per share[5]	**1.89**	1.92
Cash flows from operating activities[6]	**325**	372
Common share information (millions of shares):		
Weighted average number of common shares outstanding	**118**	122
Diluted weighted average number of common shares outstanding	**118**	123
Number of common shares outstanding, end of period	**114**	120

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

2 *In 2005, we modified our definition of average realized price to be consistent with our financial statement presentation of revenue. Previously, in-market distribution costs (included in cost of sales and operating expenses) were deducted from revenue when calculating average realized price. Average realized price is now calculated as revenue, net of commissions earned, divided by the total sales volumes of produced and purchased methanol. The average realized price for 2004 has been restated.*

3 *Represents the average of our non-discounted published reference prices in North America, Europe and Asia Pacific weighted by sales volume. Current and historical pricing information is available on our website (www.methanex.com).*

4 *Adjusted EBITDA differs from the most comparable GAAP measure, cash flows from operating activities, primarily because it does not include changes in non-cash working capital, other cash payments related to operating activities, cash flows related to interest, income taxes, and unusual items. For a reconciliation of cash flows from operating activities to Adjusted EBITDA, refer to Supplemental Non-GAAP Measures on page 50.*

5 *Income before unusual items (after-tax) and diluted income before unusual items (after-tax) per share differ from the most comparable GAAP measures, net income and diluted net income per share, because certain costs that are considered by management to be non-operational and/or non-recurring have been excluded. For a reconciliation of net income to income before unusual items (after-tax) and the basis for the calculation of diluted income before unusual items (after-tax) per share, refer to Supplemental Non-GAAP Measures on page 50.*

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

PRODUCTION SUMMARY

The following table details the annual operating capacity and production for our facilities that operated in 2005 or 2004:

(THOUSANDS OF TONNES)	ANNUAL OPERATING CAPACITY	2005	2004
Chile and Trinidad			
Chile I, II, III and IV (Chile) [1]	**3,840**	**3,029**	2,692
Atlas (Trinidad) (63.1% interest) [2]	**1,073**	**895**	421
Titan (Trinidad)	**850**	**715**	740
	5,763	**4,639**	3,853
Waitara Valley (New Zealand) [3]	**530**	**343**	498
Motunui (New Zealand) [4]	**—**	**—**	590
Kitimat (Canada) [5]	**500**	**376**	486
	6,793	**5,358**	5,427

1 *Annual operating capacity for our facilities in Chile includes the 840,000 tonne Chile IV facility that commenced operations in June 2005. The total operating capacity for our facilities in Chile in 2005, including Chile IV from the date of start-up, was approximately 3.5 million tonnes.*

2 *The Atlas facility commenced operations in July 2004.*

3 *We idled the Waitara Valley facility on September 30, 2005.*

4 *The 1.9 million tonne per year Motunui facility was permanently closed in November 2004 as a result of natural gas supply constraints.*

5 *We permanently closed the Kitimat methanol facility on November 1, 2005.*

Chile

We produced 3.0 million tonnes during 2005 at our production hub in Chile compared with 2.7 million tonnes during 2004. The completion of the 840,000 tonne per year Chile IV methanol facility in 2005 increased our annual low cost production capacity in Chile to 3.8 million tonnes from 3.0 million tonnes.

Approximately 62% of the natural gas for our facilities in Chile is currently sourced from suppliers in Argentina that are affiliates of international oil and gas companies. The remainder is supplied from gas reserves in Chile by Empresa Nacional del Petroleo (ENAP), a Chilean state-owned company.

In 2004 and 2005 our production facilities in Chile were impacted by curtailments of natural gas supply from suppliers in Argentina as a result of the Argentinean government ordering natural gas suppliers to inject additional gas into the local grid during the winter period in the southern hemisphere (May through August). In 2005 we lost approximately 100,000 tonnes of methanol production as a result of these curtailments and in 2004 we lost approximately 50,000 tonnes. We have not had any further production losses due to these curtailments since August 2005. For additional information refer to Risk Factors and Risk Management — Security of Natural Gas Supply and Price on page 45.

In 2005, we completed planned turnarounds for two of our facilities in Chile and this reduced production by approximately 140,000 tonnes. In addition, the gradual start-up of Chile IV during 2005 reduced production for this facility below operating capacity. Excluding the impact of natural gas curtailments, planned turnarounds and reduced production during the Chile IV start-up, our facilities in Chile operated at 98% of capacity during 2005.

Trinidad

We produced a total of 1.6 million tonnes during 2005 at our facilities in Trinidad compared with 1.2 million tonnes in 2004. The Atlas facility commenced operations in July 2004 and the increase in production from our Trinidad facilities in 2005 is primarily the result of having a full year of operations from this facility. We completed planned turnaround activities at Titan and Atlas during 2005 and this reduced production from these facilities by approximately 90,000 tonnes. We also experienced unplanned shutdowns at these facilities in 2004 and 2005 that reduced production below capacity. Excluding the impact of planned turnarounds, the Trinidad facilities operated at 84% of capacity in 2005 compared with 85% in 2004.

New Zealand and Kitimat

We have positioned the 530,000 tonne per year Waitara Valley plant in New Zealand to be a flexible production asset. During 2005, this facility produced 343,000 tonnes prior to being temporarily idled on September 30, 2005. We restarted this facility in early 2006 and have sufficient contracted natural gas to produce approximately 230,000 tonnes during 2006.

We produced 376,000 tonnes at our Kitimat facility during 2005 before permanently closing this plant on November 1, 2005.

RESULTS OF OPERATIONS

For the year ended December 31, 2005, net income was $166 million compared with $236 million for 2004. Included in 2005 earnings are Kitimat closure costs (before and after-tax) of $41 million and a $17 million charge to future income tax expense related to a retroactive change in tax legislation. Excluding the impact of these unusual items, our income before unusual items (after-tax) in 2005 was $224 million.

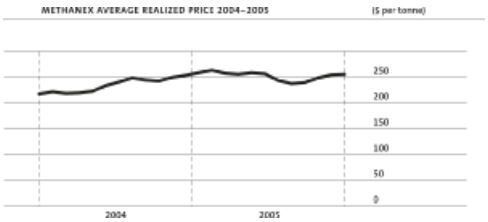
Adjusted EBITDA

Our 2005 Adjusted EBITDA was $451.7 million compared with $434.4 million in 2004. The increase in Adjusted EBITDA of $17 million resulted from:

2005 VS. 2004	($ MILLIONS)
Chile and Trinidad	
Higher average realized price	**79**
Higher sales volume of produced methanol	**99**
Higher cash costs[1]	**(58)**
	120
Lower margin on the sale of purchased methanol	**(15)**
Lower margin earned from Kitimat and New Zealand facilities	**(88)**
Increase in Adjusted EBITDA	**17**

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

Average Realized Price



Tight market conditions as a result of high global energy prices, industry supply constraints and healthy demand have resulted in favourable market conditions and above average methanol prices in 2004 and 2005. Our average realized price for 2005 was $254 per tonne compared with $237 per tonne in 2004. The higher average realized price of produced methanol increased Adjusted EBITDA by $79 million.

We estimate that demand for methanol in 2005 increased by approximately 3% over 2004 to a total of 35 million tonnes. The only world-scale methanol plant capacity additions in 2005 were our 840,000 tonne per year Chile IV facility and the 1.8 million tonne per year MHTL facility in Trinidad. The impact of this new supply was more than offset by supply rationalization during 2005 primarily caused by high global energy prices. As a result, methanol industry fundamentals were positive throughout 2005 and methanol pricing was strong.

The methanol industry is highly competitive and prices are affected by supply and demand fundamentals. We publish non-discounted reference prices for each major methanol market and offer discounts to customers based on various factors. Our average non-discounted published reference price for 2005 was $301 per tonne compared with $266 per tonne in 2004. Our average realized price in 2005 was approximately 15% lower than our average non-discounted published reference price compared with approximately 11% lower for 2004.

To reduce the impact of cyclical pricing on our earnings, we have entered into long-term contracts for a portion of our production volume with certain global customers where prices are either fixed or linked to our costs plus a margin. In 2005, sales under these contracts represented approximately 20% of our total sales volumes. The increase in the discount from our average non-discounted published reference price in 2005 compared with 2004 is primarily the result of higher sales volumes under these long-term contracts in 2005 and higher published reference prices. The discount from our non-discounted published reference prices is expected to narrow during periods of lower pricing. We believe it is important to maintain financial flexibility throughout the methanol price cycle and these strategic contracts are a part of our balanced approach to managing cash flow and liquidity.

Sales Volume of Produced Methanol

With the addition of Atlas and Chile IV, we have increased our annual low cost production capacity by 1.9 million tonnes since July 2004. As a result, sales volumes of methanol produced at our Chile and Trinidad production facilities in 2005 were higher than 2004 by 776,000 tonnes, increasing Adjusted EBITDA by $99 million.

Cash Costs

Our cash costs were higher in 2005 compared with 2004 and this decreased Adjusted EBITDA by $58 million. The primary changes in cash costs were as follows:

2005 VS. 2004	($ MILLIONS)
Higher natural gas costs linked to higher methanol prices	**(40)**
Higher ocean shipping costs	**(14)**
Higher unabsorbed fixed and maintenance costs	**(8)**
Other, net	**4**
	(58)

Higher Natural Gas Costs Linked to Higher Methanol Prices

Natural gas supply contracts for our low cost strategic assets in Chile and Trinidad include base and variable price components to reduce our commodity price risk exposure. The variable price component of each gas contract is adjusted by a formula related to methanol prices above a certain level. We believe this pricing relationship enables these facilities to be competitive throughout the methanol price cycle. Higher average methanol prices in 2005 increased our natural gas costs and decreased Adjusted EBITDA by approximately $40 million compared with 2004. For additional information regarding our natural gas agreements refer to Summary of Contractual Obligations and Commercial Commitments — Purchase Obligations on page 40.

Higher Ocean Shipping Costs

The cost to distribute methanol from our production facilities to customers is a significant component of our operating costs. Ocean shipping costs are the most significant component of our distribution costs and we have a dedicated fleet of oceangoing vessels under long-term time charter that contribute to our objective of cost-effectively delivering methanol to our customers. Our ocean shipping costs increased in 2005, primarily due to increased fuel costs resulting from higher global energy prices and an increase in average voyage days due to higher volumes shipped from Chile to Asia. Higher ocean shipping costs in 2005 decreased Adjusted EBITDA by $14 million compared with 2004.

Higher Unabsorbed Fixed and Maintenance Costs

We experienced planned and unplanned outages at our Chile and Trinidad facilities during 2004 and 2005. Higher unabsorbed fixed and maintenance costs in 2005 decreased Adjusted EBITDA by $8 million compared with 2004.

Margin on the Sale of Purchased Methanol

We purchase additional methanol produced by others through long-term offtake contracts or on the spot market to meet customer needs and support our marketing efforts. Consequently, we realize holding gains or losses on the resale of this product depending on the methanol price at the time of resale. In 2005, we realized a cash margin of $1 million on the resale of 1.2 million tonnes of purchased methanol compared with a cash margin of $16 million on the resale of 2.0 million tonnes in 2004. Methanol prices were increasing during 2004 and as a result we realized holding gains on the resale of purchased methanol. In contrast, methanol prices remained relatively stable during 2005.

Margin Earned from Kitimat and New Zealand Facilities

We idled our Waitara Valley, New Zealand facility on September 30, 2005 due to unfavourable economics and we permanently closed our Kitimat facility on November 1, 2005 to eliminate our exposure to high cost North American natural gas feedstock.

Lower cash margins on the sale of methanol produced at our Kitimat and New Zealand facilities decreased Adjusted EBITDA by $88 million for 2005 compared with 2004. Approximately $70 million of this decrease relates to our New Zealand facilities. As a result of natural gas supply constraints in New Zealand we shut down our 1.9 million tonne per year Motunui facility in 2004 and this resulted in lower sales volumes of New Zealand production in 2005. Also, our costs in New Zealand were lower in 2004, primarily as a result of favourable New Zealand dollar foreign currency forward contracts that expired during the third quarter of 2004. The remaining decrease in cash margin relates primarily to higher costs at our Kitimat methanol production facility during 2005.

Depreciation and Amortization

Our depreciation and amortization expense in 2005 was $91 million compared with $79 million in 2004. The increase in depreciation and amortization of $12 million is primarily related to the depreciation of the Atlas methanol facility as a result of a full year of operations at this facility in 2005, and depreciation expense recorded for the Chile IV methanol facility, which began operations during the second quarter of 2005.

Kitimat Closure Costs

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

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

Interest Expense

($ MILLIONS)	2005	2004
Interest expense before capitalized interest	**49**	55
Less capitalized interest	**(8)**	(24)
	41	31

Our interest expense before capitalized interest in 2005 was $49 million compared with $55 million in 2004. The decrease in interest expense before capitalized interest relates primarily to lower levels of debt during 2005. Interest costs during the construction of Atlas and Chile IV were capitalized to property, plant and equipment. Capitalized interest was $8 million in 2005 compared with $24 million in 2004.

Interest and Other Income

Our interest and other income was $10 million in 2005 compared with $7 million in 2004. The increase in interest and other income relates primarily to a gain of $3 million on the disposition of certain assets in New Zealand.

Income Taxes

Our effective income tax rate was 42% in 2005 compared with 29% in 2004.

During 2005, the Government of Trinidad introduced new tax legislation retroactive to January 1, 2004. As a result, we recorded a $17 million charge to increase future income tax expense to reflect the retroactive impact for the period January 1, 2004 to December 31, 2004. Subsequent to December 31, 2005, the Trinidad government passed an amendment to this legislation that changes the retroactive date to January 1, 2005. As a result, we will record a future income tax recovery of $17 million during the first quarter of 2006.

Excluding the Kitimat closure costs and the Trinidad tax adjustment, our effective income tax rate for 2005 was 32% compared with 29% in 2004. Refer to note 12 to our consolidated financial statements for additional information regarding income taxes.

LIQUIDITY & CAPITAL RESOURCES

Cash Flow Highlights

($ MILLIONS)	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from operating activities [1]	**325**	372
Changes in non-cash working capital	**38**	(39)
	363	333
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	**(258)**	(183)
Proceeds on issue of long-term debt	**148**	15
Payment for shares repurchased	**(131)**	(86)
Regular dividend payments	**(48)**	(33)
Proceeds on exercise of stock options	**11**	45
Other, net	**(18)**	(7)
	(296)	(249)
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant and equipment construction costs	**(24)**	(134)
Turnarounds, catalyst and other capital expenditures	**(64)**	(23)
Changes in non-cash working capital related to investing activities	**(29)**	2
Other, net	**(1)**	(7)
	(118)	(162)
Decrease in cash and cash equivalents	**(51)**	(78)
Cash and cash equivalents, end of year	**159**	210

1 Before changes in non-cash working capital.

Cash Flows from Operating Activities

Our cash flows from operating activities before changes in non-cash working capital were $325 million in 2005 compared with $372 million in 2004. During 2005, we made cash payments of $5 million related to the settlement of asset retirement obligations and $11 million related to the redemption of restricted and deferred share units. The remaining changes in cash flows from operating activities before changes in non-cash working capital are the result of changes in the level of earnings.

Our non-cash working capital at December 31, 2005 decreased by $38 million compared with December 31, 2004. The decrease in non-cash working capital relates primarily to the change in accounts payable and accrued liabilities related to the permanent closure of our Kitimat facility. Approximately $6 million of the total Kitimat closure costs were paid during 2005 and the remainder will be paid during the first half of 2006.

Cash Flows from Financing Activities

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

Over the past two years we have returned $217 million of cash to shareholders through share repurchases and $81 million through regular quarterly dividend payments.

In 2004, we commenced a normal course issuer bid that expired on May 16, 2005. On May 17, 2005, we commenced a new bid that expires on May 16, 2006. During 2005, we repurchased a total of 7.7 million common shares under these bids at an average price of US$16.97 per share, totaling $131 million. At December 31, 2005, we had repurchased a total of 4.7 million common shares under the current bid. On January 25, 2006, the Board of Directors approved an increase in the maximum allowable number of shares we are able to repurchase from 5.9 million common shares to up to 11.8 million common shares.

We increased our regular quarterly dividend by 38% to US$0.11 per share per quarter, beginning with the dividend payable on June 30, 2005. Total dividend payments in 2005 were $48 million compared with $33 million in 2004.

We received proceeds of $11 million and issued 1.3 million common shares on exercise of stock options during 2005, compared with proceeds of $45 million on the issuance of 6.2 million shares in 2004.

Cash Flows from Investing Activities

Plant and equipment construction costs include expenditures on the following projects:

($ MILLIONS)	2005	2004
Chile IV (Chile)	**54**	80
Chile IV incentive tax credits	**(30)**	—
Atlas (Trinidad)	**—**	54
	24	134

During 2005, we completed the construction of Chile IV, an 840,000 tonne per year expansion of our Chilean facilities. The total capital expenditures to complete the construction of Chile IV were $277 million, including $28 million of capitalized interest. During 2005, we recorded $30 million of incentive tax credits related to the construction of Chile IV and this decreased the total capital expenditures related to Chile IV to $247 million. The tax credits were recorded as a reduction to property, plant and equipment and we expect to collect this amount in late 2006. The benefit of these tax credits will be recognized in earnings through lower depreciation in future periods.

The construction of the Atlas methanol facility was completed during 2004. Our proportionate share of capital expenditures and capitalized interest during 2004 was $54 million.

Turnarounds, catalyst and other capital expenditures for 2005 were $64 million compared with $23 million in 2004. The increase in 2005 primarily relates to the completion of major turnarounds at our Titan and Atlas facilities in Trinidad and two of our plants in Chile, as well as the expansion of our storage terminal in Korea.

Summary of Contractual Obligations and Commercial Commitments

A summary of the amount and estimated timing of cash flows related to our contractual obligations and commercial commitments as at December 31, 2005 is as follows:

($ MILLIONS)	2006	2007-2008	2009-2010	AFTER 2010	TOTAL
Long-term debt repayments	14	28	29	430	501
Long-term debt interest obligations	38	72	68	90	268
Repayment of other long-term liabilities	7	27	3	20	57
Capital lease obligations	9	18	18	17	62
Purchase obligations	175	365	369	2,894	3,803
Operating lease commitments	122	198	160	465	945
	365	708	647	3,916	5,636

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

Long-Term Debt Repayments and Interest Obligations

We have $200 million of unsecured notes that mature in 2012 and $150 million of unsecured notes that mature in 2015. The remaining debt repayments are for the expected scheduled principal repayments relating to our proportionate share of the Atlas limited recourse long-term debt facilities. Interest obligations related to variable interest rate long-term debt has been estimated using current interest rates in effect at December 31, 2005. For additional information, refer to note 6 to our 2005 consolidated financial statements.

Repayments of Other Long-Term Liabilities

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

Capital Lease Obligations

We have entered into a capital lease agreement for an oceangoing vessel. The above table includes the future minimum lease payments related to this capital lease. For additional information, refer to note 7 to our 2005 consolidated financial statements.

Purchase Obligations

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

Natural gas supply contracts for our low cost strategic assets in Chile and Trinidad are denominated in United States dollars and include base and variable price components to reduce our commodity price risk exposure. The variable price component of each gas contract is adjusted by a formula related to methanol prices above a certain level. We believe this pricing relationship enables these facilities to be competitive throughout the methanol price cycle. The amounts disclosed in the table represent only the base price component.

In Chile, we purchase all of our natural gas through favourably priced long-term take-or-pay supply agreements. Approximately 62% of the natural gas for our Chilean facilities is purchased from suppliers in Argentina with the remainder supplied from gas reserves in Chile by Empresa Nacional del Petroleo (ENAP), the Chilean state-owned energy company. Natural gas for the Chile I and IV plants is supplied under contracts terminating in 2025 and natural gas export permits, valid until 2025, are in place for the gas being supplied from Argentina for those plants. Natural gas for the Chile II and III plants is supplied under contracts terminating in 2017 and 2019 and gas export permits, valid until those dates, are in place for gas being supplied from Argentina for those plants. Agreements for ten-year extensions of these contracts, until 2027 and 2029 are in place. Natural gas export permits for the gas to be sourced from Argentina under these extensions have not yet been granted. Such permits are customarily only granted a few years before the contractual agreement becomes effective.

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

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

Operating Lease Commitments

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

Financial Instruments

From time to time we enter into forward exchange contracts to limit our exposure to foreign exchange volatility and to contribute towards achieving cost structure and revenue targets. At December 31, 2005, the fair value of our forward exchange contracts approximate their carrying value of negative $3 million. Until settled, the fair value of the forward exchange contracts will fluctuate based on changes in foreign exchange rates. These contracts are not subject to rating triggers or margin calls and rank equally with all our unsecured indebtedness.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined by applicable securities regulators in Canada and the United States, at December 31, 2005 that have, or are reasonably likely to have, a current or future material effect on our results of operations or financial condition.

Liquidity and Capitalization

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

($ MILLIONS)	2005	2004
LIQUIDITY		
Cash and cash equivalents	**159**	210
Undrawn credit facilities	**250**	250
	409	460
CAPITALIZATION		
Unsecured notes	**350**	450
Limited recourse debt facilities, including current portion	**151**	159
Total debt	**501**	609
Shareholders' equity	**950**	949
Total capitalization	**1,451**	1,558
Total debt to capitalization[1]	**35%**	39%
Net debt to capitalization[2]	**26%**	30%

1 Defined as total debt divided by total capitalization.

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

Our planned capital maintenance expenditures directed towards major maintenance, turnarounds and catalyst changes are estimated to be approximately $90 million for the period to the end of 2008.

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

Our cash balance at December 31, 2005 was $159 million and we have an undrawn $250 million credit facility that expires in 2010. We believe we have the financial capacity to complete our capital maintenance spending program, pursue new opportunities to enhance our strategic position in the methanol industry and continue to deliver on our commitment to maintain a prudent balance sheet and return cash to shareholders.

The credit ratings for our unsecured notes at December 31, 2005 were as follows:

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

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

RISK FACTORS & RISK MANAGEMENT

We believe our strategy of creating value by maintaining and enhancing our leadership in the production, marketing and delivery of methanol to our customers provides us with strategic advantages. However, as with any business, we are subject to risks that require prudent risk management. We believe the following risks, in addition to those described under Critical Accounting Estimates on page 49, to be among the most important for understanding the issues that face our business and our approach to risk management.

Commodity Price Cyclicality

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

Changes in environmental, health and safety requirements could also lead to a decrease in methanol demand. We understand that the United States Environmental Protection Agency (EPA) is preparing internal reports relating to the carcinogenicity of methanol and a report is expected to be released in late 2006. Currently, the EPA does not classify methanol with respect to carcinogenicity. We are unable to determine at this time whether the EPA or any other body will reclassify methanol. Any reclassification could reduce future methanol demand which could have an adverse effect on our results of operations and financial condition.

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

Demand for Methanol in the Production of MTBE

Methanol for the production of MTBE represents approximately 20% of global methanol demand. MTBE is used primarily as a source of octane and as an oxygenate for gasoline. During the 1990s, environmental concerns and legislation in the United States led to the imposition of a federal oxygenate standard for gasoline that resulted in increased demand for MTBE for use in gasoline to reduce automobile tailpipe emissions.

More recently, however, concerns were 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 from recreational watercraft. MTBE is more easily detectable in water than many other gasoline components. The presence of MTBE in some water supplies led to public concern about MTBE's potential to contaminate drinking water supplies. Several states including California, New York, New Jersey and Connecticut banned the use of MTBE as a gasoline component and this has reduced demand for methanol in the United States.

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

About two million tonnes of methanol used in the production of MTBE was consumed in the United States in 2005, representing about 6% of estimated total global methanol demand. We expect that in 2006, United States demand for methanol for MTBE will decline by about 50%. However, the pace of decline in United States methanol demand for use in MTBE is uncertain and will be determined by various factors including the decision of United States-based MTBE producers and blenders to continue to make or use MTBE in gasoline following expiry of the federal oxygenate standard, MTBE's relative blend value in gasoline and the ability of the United States gasoline pool to find sufficient quantities of alternative high-octane gasoline components to avoid the potential for gasoline shortages and price spikes. Some large United States refiners have already stated that they will stop producing and blending MTBE for gasoline in April 2006. Additionally, we understand that the United States EPA is preparing internal reports relating to the potential carcinogenicity of MTBE and a report is expected to be released in late 2006.

The European Union issued a final risk assessment report on MTBE in 2002 that permitted the continued use of MTBE, although several risk reduction measures relating to storage and handling of MTBE-containing fuel were recommended. However, governmental efforts in some European Union countries to promote bio-fuels and alternative fuels through legislation and tax policy are putting competitive pressures on the use of MTBE in gasoline. Several European MTBE production facilities have commenced production of ethyl tertiary butyl ether (ETBE) to take advantage of these tax incentives to produce bio-fuels.

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

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

Demand for Methanol in the Production of Formaldehyde

Approximately 39% of global methanol demand is used to produce formaldehyde. In early 2004, the United States National Cancer Institute (NCI) published the results of a study that concluded there is a "possible causal association" between formaldehyde exposure and nasopharyngeal cancer. The NCI is conducting an analysis of this study due to concerns relating to its methodology. This analysis is expected to be completed in the summer of 2006.

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

Also in 2004, the United States EPA began the process of preparing an internal study that could lead to a reclassification of formaldehyde in its Integrated Risk Information System (IRIS), the EPA's database on human health effects that may result from exposure to various chemicals in the environment. IRIS is also influential as it is used by other countries for setting their national chemical exposure limits. It is expected that the EPA will await the findings from the updated NCI study before finalizing its review. Currently, the EPA classifies formaldehyde as "a probable human carcinogen."

In 2005, the United States Department of Health and Human Services announced that formaldehyde has been nominated for reconsideration in the National Toxicology Program's (NTP) 12th Report on Carcinogens. The NTP is an interagency program that evaluates agents of public health concern and currently lists formaldehyde as "reasonably anticipated to be a human carcinogen."

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

Security of Natural Gas Supply and Price

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

Chile

In 2004 and 2005 our production facilities in Chile were impacted by curtailments of natural gas supply from suppliers in Argentina as a result of the Argentinean government ordering natural gas suppliers to inject additional gas into the local grid during the winter period in the southern hemisphere. In 2005, we lost approximately 100,000 tonnes of methanol production as a result of these curtailments, and in 2004 we lost approximately 50,000 tonnes. We have not had any further production losses from these curtailments since August 2005.

Argentina is experiencing an energy crisis caused primarily by the price regulation of domestic natural gas and the significant devaluation of the Argentinean peso against the United States dollar that took place in 2002. As a result, natural gas became a relatively inexpensive energy source. This caused domestic demand for natural gas to increase significantly and discouraged new supply. To avoid energy shortages, the Argentinean government passed regulations that required Argentinean gas suppliers to give priority to supplying the domestic market. This resulted in curtailments of gas supply to Chile. In 2005, overall gas exports from Argentina to Chile were reduced by 9% from the amount exported in 2004 as a result of the Argentinean government ordering natural gas suppliers to inject additional gas into the local grid.

Our Chilean operations have been, and continue to be, somewhat isolated from this issue because of the location of our plants in the southernmost region of Chile and the limited pipeline transportation capacity to the population centers in northern Argentina. There is only one major pipeline that runs from the south to the north of Argentina. In the second half of 2005 the capacity of this pipeline was increased by approximately 13%. This expansion was completed in stages over the course of the Argentinean winter with final completion in August. The Argentinean government has proposed further pipeline expansion projects over the next two to three years. To date, we are not aware of any such projects receiving final approval. Some additional investment in infrastructure was made by our Argentinean gas suppliers in 2005 which increased the supply of natural gas in the southern region where we source our gas.

In 2006, we expect to experience further curtailments of natural gas at our Chilean facilities. Taking into account current expectations with respect to demand for natural gas, pipeline capacity and natural gas supply, we currently believe that production losses due to these curtailments in 2006 will be similar to those experienced in 2005. However, given that there are many variables beyond our control, including weather, that could affect this situation, production losses could be materially worse than our current expectation.

There is also renewed interest in natural gas exploration in the southern regions of Chile and Argentina. As an example, our Chilean natural gas supplier, ENAP, is undertaking gas exploration and development programs in areas of Chile that are relatively close to our production facilities. If these exploration and development programs are successful we believe that additional gas could be available from ENAP as early as 2007. In late 2005, we also entered into an understanding with ENAP which, among other things, provides that if such programs are successful, ENAP would guarantee the natural gas delivery obligations of its Argentinean subsidiary that is one of our gas suppliers. However, there can be no assurance that ENAP will be successful or that we would obtain any additional natural gas.

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

Trinidad

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

New Zealand

We have restructured our New Zealand operations over the past two years due to natural gas supply constraints in New Zealand. In November 2004, we permanently closed the 1.9 million tonne per year Motunui facility. The 530,000 tonne per year Waitara Valley plant has been positioned as a flexible production asset. We restarted this facility in early 2006 and have sufficient contracted natural gas to produce approximately 230,000 tonnes during 2006. We continue to seek other supplies of natural gas to supplement this production and to extend the life of our New Zealand operations; however, there can be no assurance that we will be able to secure additional gas on commercially acceptable terms.

Operational Risks

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

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

Foreign Operations

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

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

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

New Capital Projects

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

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

We expect to make a final decision to proceed with our proposed project in Egypt in late 2006, and we could incur significant development costs for this project but ultimately determine not to proceed, which would result in a write-off of these costs.

Competition

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

Environmental Regulation

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

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

OUTLOOK

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

We estimate that demand for methanol in 2005 increased by approximately 3% over 2004 to a total of 35 million tonnes. The only world-scale methanol plant capacity additions in 2005 were our 840,000 tonne per year Chile IV facility and the 1.8 million tonne per year MHTL facility in Trinidad. A number of smaller-scale plants were also completed in China during 2005. The impact of this new supply was offset by supply rationalization during 2005, caused primarily by high global energy prices and demand growth. As a result of these factors, methanol industry fundamentals were positive throughout 2005 and methanol pricing was strong.

Over the two-year period to the end of 2007, the only increment of new industry capacity outside of China is expected to be the 1.7 million tonne per year NPC facility in Iran in late 2006 or early 2007. Over this period, we also expect expansions to existing capacity of approximately 0.8 million tonnes. We also expect additional plants to be constructed in China during 2006. Currently, the cost to produce and transport methanol from many plants in China to the coastal provinces, where a large proportion of methanol in China is consumed, is high. Demand for methanol in China continues to grow at very high levels and we believe that substantially all methanol production in China will be consumed within the Chinese market and that China will continue to require imports to satisfy demand.

Typical of most cyclical commodity chemicals, periods of high methanol prices encourage construction of new plants and expansion projects leading to the possibility of oversupply in the market. Several new projects have been announced beyond 2007. However, historically, not all announced capacity additions result in the completion of new plants. The construction of world-scale methanol facilities requires considerable capital over a long lead time as well as a geographic location with access to significant natural gas reserves with appropriate pricing and an ability to cost-effectively ship methanol to customers.

Entering 2006, industry fundamentals continue to be very favourable and methanol prices have strengthened. The next increment of world-scale industry capacity is expected to be the NPC facility in Iran in late 2006 or early 2007. We believe that the impact of lower demand for methanol for MTBE in the United States in 2006 will be more than offset by increases in demand for methanol for MTBE elsewhere in the world and demand growth related to other derivatives. We also expect further supply rationalization to occur as a result of high global energy prices. The methanol price will ultimately depend on industry operating rates, the rate of industry restructuring and the strength of global demand. We believe that our excellent financial position and financial flexibility, outstanding global supply network and low cost position will provide the sound basis for Methanex continuing to be the leader in the methanol industry.

CRITICAL ACCOUNTING ESTIMATES

We believe the following selected accounting policies and issues are critical to understanding the estimates, assumptions and uncertainties that affect the amounts reported and disclosed in our consolidated financial statements and related notes. See note 1 to our 2005 consolidated financial statements for our significant accounting policies.

Property, Plant and Equipment

Our business is capital intensive and has required, and will continue to require, significant investments in property, plant and equipment. At December 31, 2005, the net book value of our property, plant and equipment was $1,396 million. We estimate the useful lives of property, plant and equipment and this is used as the basis for recording depreciation and amortization. Recoverability of property, plant and equipment is measured by comparing the net book value of an asset to the undiscounted future net cash flows expected to be generated from the asset over its estimated useful life. An impairment charge is recognized in cases where the undiscounted expected future cash flows from an asset are less than the net book value of the asset. The impairment charge is equal to the amount by which the net book value of the asset exceeds its fair value. Fair value is based on quoted market values, if available, or alternatively using discounted expected future cash flows.

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

Asset Retirement Obligations

We record asset retirement obligations at fair value when incurred for those sites where a reasonable estimate of the fair value can be determined. At December 31, 2005, we had accrued $20 million for asset retirement obligations. Inherent uncertainties exist because the restoration activities will take place in the future and there may be changes in governmental and environmental regulations and changes in removal technology and costs. It is difficult to estimate the true costs of these activities as our estimate of fair value is based on today's regulations and technology. Because of uncertainties related to estimating the cost and timing of future site restoration activities, future costs could differ materially from the amounts estimated.

Income Taxes

Future income tax assets and liabilities are determined using enacted tax rates for the effects of net operating losses and temporary differences between the book and tax bases of assets and liabilities. We record a valuation allowance on future tax assets, when appropriate, to reflect the uncertainty of realization of future tax benefits. In determining the appropriate valuation allowance, certain judgments are made relating to the level of expected future taxable income and to available tax planning strategies and their impact on the use of existing loss carryforwards and other income tax deductions. In making this analysis, we consider historical profitability and volatility to assess whether we believe it to be more likely than not that the existing loss carryforwards and other income tax deductions will be used to offset future taxable income otherwise calculated. Our management routinely reviews these judgments. At December 31, 2005, we had future income tax assets of $392 million that are substantially offset by a valuation allowance of $326 million.

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

NEW CANADIAN ACCOUNTING STANDARDS ADOPTED IN 2005

There were no new Canadian accounting standards adopted during 2005 that had a material impact on our consolidated financial statements.

ANTICIPATED CHANGES TO CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Financial Instruments — Recognition and Measurement, Hedges and Comprehensive Income

The Canadian Institute of Chartered Accountants has issued three new accounting standards for financial instruments that will address when an entity should recognize a financial instrument on its balance sheet and how it should measure the financial instrument once recognized. A new standard on applying hedge accounting is optional and provides alternative treatments for entities that choose to designate qualifying transactions as hedges for accounting purposes. Comprehensive income is also introduced as a concept in Canadian accounting with a new requirement to present certain unrealized gains and losses outside net income. We will be required to adopt these new standards on January 1, 2007.

SUPPLEMENTAL NON — GAAP MEASURES

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

Income before Unusual Items (after-tax) and Diluted Income before Unusual Items (after-tax) per Share

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

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

($ MILLIONS, EXCEPT NUMBER OF SHARES AND PER SHARE AMOUNTS)	2005	2004
Net income	**166**	236
Add unusual items:		
Kitimat closure costs	**41**	—
Future income tax adjustment related to retroactive change in tax legislation	**17**	—
Income before unusual items (after-tax)	**224**	236
Diluted weighted average number of common shares outstanding (millions of shares)	**118**	123
Diluted income before unusual items (after-tax) per share	**1.89**	1.92

Adjusted EBITDA

This supplemental non-GAAP measure is provided to assist readers in determining our ability to generate cash from operations. Our management believes this measure is useful in assessing performance and highlighting trends on an overall basis. Management also believes Adjusted EBITDA is frequently used by securities analysts and investors when comparing our results with those of other companies. Adjusted EBITDA differs from the most comparable GAAP measure, cash flows from operating activities, primarily because it does not include changes in non-cash working capital and cash flows related to interest expense, interest and other income, other cash payments related to operating activities, income taxes and unusual items, including the Kitimat closure costs.

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

($ MILLIONS)	2005	2004
Cash flows from operating activities	**363**	333
Add (deduct):		
Changes in non-cash working capital	**(38)**	39
Other cash payments	**16**	3
Stock-based compensation	**(16)**	(15)
Other non-cash items	**(2)**	2
Kitimat closure costs	**41**	—
Interest expense	**41**	31
Interest and other income	**(10)**	(7)
Income taxes — current	**57**	48
Adjusted EBITDA	**452**	434

QUARTERLY FINANCIAL DATA (UNAUDITED)

($ MILLIONS, EXCEPT PER SHARE AMOUNTS)	THREE MONTHS ENDED DEC. 31	SEP. 30	JUN. 30	MAR. 31
2005				
Revenue	**459.6**	**349.3**	**410.9**	**438.3**
Net income (loss)	**48.6**	**(21.8)**	**62.9**	**76.0**
Basic net income (loss) per share	**0.42**	**(0.19)**	**0.53**	**0.63**
Diluted net income (loss) per share	**0.42**	**(0.19)**	**0.53**	**0.63**
2004				
Revenue	485.4	428.8	412.3	393.0
Net income	66.1	71.2	52.4	46.8
Basic net income per share	0.55	0.59	0.43	0.39
Diluted net income per share	0.54	0.58	0.42	0.38

Our quarterly revenues are not materially impacted by seasonality. However, during the period May to August (the winter season in the southern hemisphere) in each of 2004 and 2005, our Chilean production facilities suffered production losses of 50,000 tonnes and 100,000 tonnes, respectively, as a result of curtailments of natural gas resulting from the Argentinean government ordering natural gas suppliers to inject additional gas into the local grid. There can be no assurance that natural gas supply to our facilities will not be impacted in the future. See Production Summary on page 33 for further details.

SELECTED ANNUAL INFORMATION

($ MILLIONS, EXCEPT PER SHARE AMOUNTS)	2005	2004	2003
Revenue	**1,658**	1,719	1,420
Net income	**166**	236	1
Basic net income per share	**1.41**	1.95	0.01
Diluted net income per share	**1.40**	1.92	0.01
Cash dividends declared per share	**0.41**	0.28	0.47
Total assets	**2,097**	2,125	2,082
Total long-term financial liabilities	**566**	411	824

CONTROLS AND PROCEDURES

Disclosure controls and procedures are those controls and procedures that are designed to ensure that the information required to be disclosed in the filings under applicable securities regulations is recorded, processed, summarized and reported within the time periods specified. Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of December 31, 2005 and have determined that our disclosure controls and procedures are effective.

There have been no changes during the year ended December 31, 2005 to internal control over financial reporting that have materially affected, or are 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.

FORWARD — LOOKING STATEMENTS

Information contained in this document contains forward-looking statements. Certain material factors or assumptions were applied in drawing the conclusions or making the estimates or projections that are included in these forward-looking statements. Methanex believes that it has a reasonable basis for making such forward-looking statements.

However, forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. The risks and uncertainties include those attendant with producing and marketing methanol and successfully carrying out major capital expenditure projects in various jurisdictions, the ability to successfully carry out corporate initiatives and strategies, conditions in the methanol and other industries (including the supply and demand balance for methanol), actions of competitors, worldwide economic conditions and other risks described in this Management's Discussion and Analysis dated March 7, 2006.

Undue reliance should not be placed on forward-looking statements. They are not a substitute for the exercise of one's own due diligence and judgment. The outcomes anticipated in forward-looking statements may not occur and we do not undertake to update forward-looking statements.

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

The Committee meets regularly with management and the Company's auditors, KPMG LLP, Chartered Accountants, to discuss internal controls and significant accounting and financial reporting issues. KPMG have full and unrestricted access to the Committee. KPMG 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

Chairman of the Audit, Finance and Risk Committee



Bruce Aitken

President and Chief Executive Officer



Ian P. Cameron

Senior Vice President, Finance and Chief Financial Officer

March 3, 2006

AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of Methanex Corporation as at December 31, 2005 and 2004 and the consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Vancouver, Canada
March 3, 2006

Consolidated Balance Sheets

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

AS AT DECEMBER 31	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 158,755**	$ 210,049
Receivables (note 2)	**296,522**	293,207
Inventories	**140,104**	142,164
Prepaid expenses	**13,555**	16,480
	608,936	661,900
Property, plant and equipment (note 3)	**1,396,126**	1,366,787
Other assets (note 5)	**91,970**	96,194
	$2,097,032	$2,124,881
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 226,412**	$ 230,758
Current maturities on long-term debt (note 6)	**14,032**	258,064
Current maturities on other long-term liabilities (note 7)	**9,663**	10,239
	250,107	499,061
Long-term debt (note 6)	**486,916**	350,868
Other long-term liabilities (note 7)	**79,421**	60,170
Future income tax liabilities (note 12)	**331,074**	265,538
Shareholders' equity:		
Capital stock:		
25,000,000 authorized preferred shares without nominal or par value		
Unlimited authorization of common shares without nominal or par value		
Issued and outstanding common shares at December 31, 2005 was 113,645,292 (2004 — 120,022,417)	**502,879**	523,255
Contributed surplus	**4,143**	3,454
Retained earnings	**442,492**	422,535
	949,514	949,244
	$2,097,032	$2,124,881

Subsequent events (notes 8 and 12)

See accompanying notes to consolidated financial statements.

Approved by the Board:



Brian D. Gregson

Director



Bruce Aitken

Director

Consolidated Statements of Income

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

FOR THE YEARS ENDED DECEMBER 31	2005	2004
Revenue	**$ 1,658,120**	$ 1,719,484
Cost of sales and operating expenses	**1,206,425**	1,285,097
Depreciation and amortization	**91,225**	78,701
Kitimat closure costs (note 9)	**41,126**	—
Operating income	**319,344**	355,686
Interest expense (note 10)	**(41,489)**	(30,641)
Interest and other income	**10,344**	6,627
Income before income taxes	**288,199**	331,672
Income taxes (note 12):		
Current	**(56,911)**	(48,572)
Future	**(48,657)**	(46,656)
Future income tax adjustment related to retroactive change in tax legislation (note 12)	**(16,879)**	—
	(122,447)	(95,228)
Net income	**$ 165,752**	$ 236,444
Basic net income per common share	**$ 1.41**	$ 1.95
Diluted net income per common share	**$ 1.40**	$ 1.92
Weighted average number of common shares outstanding	**117,766,436**	121,515,689
Diluted weighted average number of common shares outstanding	**118,362,665**	122,955,016

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

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

	NUMBER OF COMMON SHARES	CAPITAL STOCK	CONTRIBUTED SURPLUS	RETAINED EARNINGS	TOTAL SHARE-HOLDERS' EQUITY
Balance, December 31, 2003	**120,007,767**	**$499,258**	**$ 7,234**	**$ 279,039**	**$ 785,531**
Net income	—	—	—	236,444	236,444
Compensation expense recorded for stock options	—	—	1,738	—	1,738
Issue of shares on exercise of stock options	6,158,250	44,654	—	—	44,654
Reclassification of grant date fair value on exercise of stock options	—	5,518	(5,518)	—	—
Payment for shares repurchased	(6,143,600)	(26,175)	—	(59,545)	(85,720)
Dividend payments	—	—	—	(33,403)	(33,403)
Balance, December 31, 2004	**120,022,417**	**523,255**	**3,454**	**422,535**	**949,244**
Net income	—	—	—	165,752	165,752
Compensation expense recorded for stock options	—	—	2,849	—	2,849
Issue of shares on exercise of stock options	1,338,475	10,621	—	—	10,621
Reclassification of grant date fair value on exercise of stock options	—	2,160	(2,160)	—	—
Payment for shares repurchased	(7,715,600)	(33,157)	—	(97,806)	(130,963)
Dividend payments	—	—	—	(47,989)	(47,989)
Balance, December 31, 2005	**113,645,292**	**$502,879**	**$ 4,143**	**$ 442,492**	**$ 949,514**

See accompanying notes to consolidated financial statements.

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

FOR THE YEARS ENDED DECEMBER 31	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 165,752	$ 236,444
Add (deduct) non-cash items:		
Depreciation and amortization	91,225	78,701
Future income taxes	65,536	46,656
Stock-based compensation	15,793	14,504
Other	2,034	(629)
Other cash payments (note 13)	(15,622)	(3,281)
Cash flows from operating activities before undernoted changes	324,718	372,395
Changes in non-cash working capital (note 13)	38,330	(39,077)
	363,048	333,318
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(258,064)	(182,758)
Proceeds on issue of long-term debt	148,090	14,887
Changes in debt service reserve accounts	(6,001)	5,198
Proceeds on issue of shares on exercise of stock options	10,621	44,654
Payment for shares repurchased	(130,963)	(85,720)
Dividend payments	(47,989)	(33,403)
Repayment of other long-term liabilities	(11,643)	(12,287)
	(295,949)	(249,429)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant and equipment	(63,854)	(22,539)
Plant and equipment construction costs	(54,387)	(134,184)
Incentive tax credits related to plant and equipment construction costs	30,100	—
Changes in non-cash working capital related to investing activities	(28,994)	1,886
Other assets	(1,258)	(6,866)
	(118,393)	(161,703)
Decrease in cash and cash equivalents	(51,294)	(77,814)
Cash and cash equivalents, beginning of year	210,049	287,863
Cash and cash equivalents, end of year	$ 158,755	$ 210,049
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	$ 40,031	$ 31,277
Income taxes paid, net of amounts refunded	$ 66,295	$ 49,628
NON-CASH FINANCING AND INVESTING ACTIVITIES		
Capital lease obligation	$ 32,990	$ —

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular dollar amounts are shown in thousands of U.S. dollars, except where noted)

Years ended December 31, 2005 and 2004

1. Significant accounting policies:

(a) Basis of presentation:

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

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

(b) Reporting currency and foreign currency translation:

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

(c) Cash and cash equivalents:

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

(d) Receivables:

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

(e) Inventories:

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

(f) Property, plant and equipment:

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

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

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

(g) Interest in joint ventures:

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

1. Significant accounting policies (continued):

(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.

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

(i) Asset retirement obligations:

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

(j) Employee future benefits:

Accrued pension benefit obligations and related expenses for defined benefit pension plans are determined using current market bond yields to measure the accrued pension benefit obligation. Adjustments that exceed 10% of the greater of the accrued benefit obligation and the fair value of the plan assets which arise 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.

(k) Net income per common share:

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

A reconciliation of the weighted average number of common shares outstanding for the years ended December 31, 2005 and 2004 is as follows:

FOR THE YEARS ENDED DECEMBER 31	2005	2004
Denominator for basic net income per common share	**117,766,436**	121,515,689
Effect of dilutive stock options	**596,229**	1,439,327
Denominator for diluted net income per common share	**118,362,665**	122,955,016

1. Significant accounting policies (continued):

(l) Stock-based compensation:

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

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

Deferred and restricted share units are grants of notional common shares that are redeemable for cash based on the market value of the Company's common shares and are non-dilutive to shareholders. Compensation expense for deferred and restricted share units is initially measured at fair value based on the market value of the Company's common shares and is recognized over the related service period. Changes in fair value are recognized in earnings for the proportion of the service that has been rendered at each reporting date.

(m) Revenue recognition:

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

(n) Financial instruments:

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

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

The change in fair value of derivative financial instruments used to hedge anticipated or committed transactions are recognized as an adjustment to the related revenues, operating costs or capital expenditures when the hedged transaction is recorded. Derivative financial instruments not designated as hedges are recorded at fair value with changes in fair value recognized in earnings at each reporting date.

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

1. Significant accounting policies (continued):

(o) Income taxes:

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

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

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

2. Receivables:

AS AT DECEMBER 31	2005	2004
Trade	**$234,870**	$244,217
Incentive tax credits receivable	**30,100**	—
Value-added and other taxes	**21,900**	14,650
Other	**9,652**	34,340
	$296,522	$293,207

The Company is eligible for incentive tax credits related to the construction of an 840,000 tonne per year expansion to the methanol production facilities in Chile (Chile IV). The incentive tax credits were recorded as a reduction to property, plant and equipment as described in note 3.

3. Property, plant and equipment:

AS AT DECEMBER 31	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
2005			
Plant and equipment	**$2,711,775**	**$ 1,383,105**	**$1,328,670**
Other	**101,718**	**34,262**	**67,456**
	$2,813,493	**$ 1,417,367**	**$1,396,126**
2004			
Plant and equipment	$2,644,591	$ 1,302,701	$1,341,890
Other	53,976	29,079	24,897
	$2,698,567	$ 1,331,780	$1,366,787

The Company completed the construction of Chile IV during the year ended December 31, 2005. As at December 31, 2005, $246.7 million (2004 — $222.4 million) was included in the cost of property, plant and equipment related to Chile IV. The Company is eligible for incentive tax credits related to the construction of Chile IV and this amount of $30.1 million was recorded as a reduction to property, plant and equipment. The benefit of incentive tax credits will be recognized in earnings through lower depreciation in future periods.

4. Interest in Atlas joint venture:

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

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31	2005	2004
Cash and cash equivalents	**$ 24,032**	$ 13,981
Other current assets	**32,937**	21,677
Property, plant and equipment	**281,765**	284,336
Other assets	**20,409**	14,930
Accounts payable and accrued liabilities	**30,340**	30,112
Future income tax liabilities	**21,988**	—
Long-term debt, including current maturities (note 6)	**150,948**	159,012

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31	2005	2004
Revenue	**$177,760**	$68,980
Expenses	**145,478**	46,692
Income before income taxes	**32,282**	22,288
Future income tax expense	**(21,988)**	—
Net income	**$ 10,294**	$22,288

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31	2005	2004
Cash inflows from operating activities	**$ 33,672**	$ 32,865
Cash inflows (outflows) from financing activities	**(8,064)**	5,827
Cash outflows from investing activities	**(15,557)**	(52,676)

5. Other assets:

AS AT DECEMBER 31	2005	2004
Marketing and production rights, net of accumulated amortization	**$ 49,976**	$57,625
Restricted cash for debt service reserve account	**15,061**	9,060
Deferred financing costs, net of accumulated amortization	**12,063**	11,566
Deferred charges, net of accumulated amortization	**4,580**	5,363
Other	**10,290**	12,580
	$ 91,970	$96,194

For the year ended December 31, 2005, amortization of marketing and production rights and deferred charges included in depreciation and amortization was $7.7 million (2004 — $10.7 million) and amortization of deferred financing costs included in interest expense was $2.1 million (2004 — $2.1 million).

6. Long-term debt:

AS AT DECEMBER 31		2005	2004
Unsecured notes:			
i)	**8.75% due August 15, 2012 (effective yield 8.75%)**	**$200,000**	$ 200,000
ii)	**6.00% due August 15, 2015 (effective yield 6.03%)**	**150,000**	—
iii)	**7.75% due August 15, 2005 (effective yield 7.83%)**	**—**	249,920
		350,000	449,920
Atlas Methanol Company — limited recourse debt facilities (63.1% proportionate share):			
i)	**Senior commercial bank loan facility with interest payable semi-annually with rates based on LIBOR plus a spread ranging from 2.25% to 2.75% per annum. Principal is paid in twelve semi-annual payments which commenced June 5, 2005.**	**63,239**	71,303
ii)	**Senior secured notes bearing an interest rate with semi-annual interest payments of 7.95% per annum. Principal will be paid in nine semi-annual payments commencing December 5, 2010.**	**63,100**	63,100
iii)	**Senior fixed rate bearing an interest rate of 8.25% per annum with semi-annual interest payments. Principal will be paid in four semi-annual payments commencing June 5, 2015.**	**15,144**	15,144
iv)	**Subordinated loans with an interest rate based on LIBOR plus a spread ranging from 2.25% to 2.75% per annum. Principal will be paid in twenty semi-annual payments commencing December 5, 2010.**	**9,465**	9,465
		150,948	159,012
		500,948	608,932
Less current maturities		**(14,032)**	(258,064)
		$486,916	$ 350,868

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

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

As at December 31, 2005, the Company has an undrawn, unsecured revolving bank facility of $250 million that expires in June 2010. This credit facility ranks pari passu with the Company's unsecured notes.

7. Other long-term liabilities:

AS AT DECEMBER 31	2005	2004
Capital lease obligation (a)	**$ 32,146**	$ —
Asset retirement obligations (b)	**19,596**	26,757
Deferred and restricted share units (note 8)	**17,688**	15,350
Chile retirement arrangement (note 16)	**17,353**	14,269
Consideration payable for acquisition of ammonia production assets	**—**	9,454
Other	**2,301**	4,579
	89,084	70,409
Less current maturities	**(9,663)**	(10,239)
	$ 79,421	$ 60,170

(a) Capital lease obligation:

As at December 31, 2005, the Company has a capital lease obligation related to an ocean shipping vessel. The future minimum lease payments in aggregate and for each of the five succeeding years are as follows:

2006	**$ 8,699**
2007	**8,744**
2008	**8,789**
2009	**8,834**
2010	**8,879**
Thereafter	**17,126**
	61,071
Less executory and imputed interest costs	**(28,925)**
	$ 32,146

(b) Asset retirement obligations:

The Company has accrued for asset retirement obligations related to those sites where a reasonably definitive estimate of the fair value of the obligation can be made. Because of uncertainties in estimating future costs and the timing of expenditures related to the currently identified sites could differ from the amounts estimated. As at December 31, 2005, the total undiscounted amount of estimated cash flows required to settle the obligation was $20.2 million (2004 – $28.8 million).

8. 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 Company's stock option plan: incentive stock options and performance stock options. As at December 31, 2005, the Company had 0.3 million common shares reserved for future stock option grants to its directors and employees under the Company's stock option plan.

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

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 grant. Options granted prior to 2005 have a maximum term of ten years with one-half of the options vesting one year after the date of grant and a further vesting of one-quarter of the options per year over the subsequent two years. Options granted in 2005 have a maximum term of seven years with one-third of the options vesting each year after the date of grant.

Common shares reserved for outstanding incentive stock options at December 31, 2005 and 2004 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, 2003	4,682,775	$ 11.27	3,105,550	$ 7.51
Granted	—	—	103,300	11.74
Exercised	(3,698,100)	10.70	(1,738,950)	7.02
Cancelled	(200,000)	23.75	(72,900)	8.86
Outstanding at December 31, 2004	784,675	10.82	1,397,000	8.36
Granted	—	—	682,750	17.61
Exercised	(452,525)	11.49	(731,950)	7.96
Cancelled	(15,500)	14.63	(19,350)	12.01
Outstanding at December 31, 2005	**316,650**	**$ 9.67**	**1,328,450**	**$ 13.29**

Information regarding the incentive stock options outstanding at December 31, 2005 is as follows:

RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OF STOCK OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF STOCK OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
Options denominated in CAD $					
$3.29 to 13.65	**3.2**	**316,650**	**$ 9.67**	**316,650**	**$ 9.67**
Options denominated in US $					
$6.45 to 10.01	**6.9**	**591,700**	**8.46**	**357,200**	**7.95**
11.56 to 17.85	**6.4**	**736,750**	**17.16**	**34,050**	**13.23**
	6.6	**1,328,450**	**$ 13.29**	**391,250**	**$ 8.41**

On March 3, 2006, the Company granted, subject to shareholder approval, 1,667,400 incentive stock options with an exercise price of US$20.76 per share. The Company also granted 403,560 performance share units, 20,000 restricted share units and 25,000 deferred share units. Performance share units are grants of notional common shares where the ultimate number of units that vest will be determined by the Company's total shareholder return in relation to a predetermined target over the period to vesting and the number of units that will ultimately vest will be in the range of 50% to 120% of the original grant. The performance share units granted on March 3, 2006 will vest on December 31, 2008.

8. Stock-based compensation (continued):

ii) Performance stock options:

Common shares reserved for outstanding performance stock options at December 31, 2005 and 2004 are as follows:

	NUMBER OF STOCK OPTIONS	AVERAGE EXERCISE PRICE (CAD $)
Outstanding at December 31, 2003	925,200	$ 4.47
Exercised	(721,200)	4.47
Outstanding at December 31, 2004	204,000	4.47
Exercised	(154,000)	4.47
Outstanding at December 31, 2005	**50,000**	**$ 4.47**

As at December 31, 2005, all outstanding performance stock options have vested and are exercisable. The performance stock options expire September 9, 2009.

iii) Fair value assumptions:

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

FOR THE YEARS ENDED DECEMBER 31	2005	2004
Risk-free interest rate	**4%**	3%
Expected dividend yield	**2%**	2%
Expected life of option	**5 years**	5 years
Expected volatility	**43%**	35%
Expected forfeitures	**5%**	5%
Weighted average fair value of options granted ($U.S. per share)	**$ 6.51**	$ 3.36

For the year ended December 31, 2005, compensation expense related to stock options was $2.8 million (2004 – $1.7 million).

8. Stock-based compensation (continued):

(b) Deferred and restricted share units:

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

Deferred and restricted share units outstanding at December 31, 2005 and 2004 are as follows:

	NUMBER OF DEFERRED SHARE UNITS	NUMBER OF RESTRICTED SHARE UNITS
Outstanding at December 31, 2003	366,389	500,640
Granted	187,773	579,700
Granted in-lieu of dividends	10,669	21,049
Cancelled	—	(9,243)
Redeemed	(109,312)	(77,833)
Outstanding at December 31, 2004	455,519	1,014,313
Granted	80,502	569,234
Granted in-lieu of dividends	11,898	31,375
Cancelled	—	(37,310)
Redeemed	(120,655)	(487,776)
Outstanding at December 31, 2005	**427,264**	**1,089,836**

The fair value of deferred and restricted share units outstanding at December 31, 2005 was $29.0 million (2004 – $26.9 million) compared with the recorded liability at December 31, 2005 of $17.7 million (2004 – $15.4 million). The difference between the fair value and the recorded liability of $11.3 million will be recognized over the weighted average remaining service period of approximately 1.5 years. For the year ended December 31, 2005 compensation expense related to deferred and restricted share units included in cost of sales and operating expenses was $13.0 million (2004 – $12.8 million). Included in compensation expense for the year ended December 31, 2005 was $3.8 million (2004 – $7.0 million) related to the effect of the increase in the Company's share price since the date of grant.

9. Kitimat closure costs:

On November 1, 2005 the Kitimat methanol and ammonia facilities were permanently closed. The total closure costs of $41.1 million (before and after-tax) include employee severance costs of $13.3 million and contract termination costs of $27.8 million. Contract termination costs include costs to terminate a take-or-pay natural gas transportation agreement and an ammonia supply agreement. Approximately $6 million of the total Kitimat closure costs were paid in 2005 and the remainder will be paid in 2006.

10. Interest expense:

FOR THE YEARS ENDED DECEMBER 31	2005	2004
Interest expense before capitalized interest	**$ 49,253**	$ 54,503
Less capitalized interest	**(7,764)**	(23,862)
	$ 41,489	$ 30,641

11. Segmented information:

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

During the year ended December 31, 2005 and 2004, revenues attributed to geographic regions, based on the location of customers, were as follows:

	UNITED STATES	EUROPE	JAPAN	KOREA	CANADA	OTHER	TOTAL
Revenue							
2005	**$ 585,828**	**$ 353,060**	**$ 174,816**	**$ 177,712**	**$ 71,825**	**$ 294,879**	**$ 1,658,120**
2004	656,668	350,947	182,291	170,303	75,398	283,877	1,719,484

For the year ended December 31, 2005, revenues from one customer represent approximately 10% of the Company's total revenues.

As at December 31, 2005 and 2004, the net book value of property, plant and equipment by country was as follows:

	CHILE	TRINIDAD	CANADA	KOREA	OTHER	TOTAL
Property, plant and equipment						
2005	**$ 763,220**	**$ 550,185**	**$ 20,840**	**$ 17,817**	**$ 44,064**	**$ 1,396,126**
2004	757,886	555,916	28,850	10,538	13,597	1,366,787

12. Income and other taxes:

(a) Income tax expense:

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

FOR THE YEARS ENDED DECEMBER 31	2005	2004
Canadian statutory tax rate	**35%**	36%
Income tax expense calculated at Canadian statutory tax rate	**$ 100,466**	$ 119,402
Increase (decrease) in tax resulting from:		
Income taxed in foreign jurisdictions	**(24,244)**	(35,958)
Losses not tax-effected	**60,909**	29,919
Benefits of previously unrecognized loss carryforwards and temporary differences	**(29,852)**	(15,081)
Adjustment related to retroactive change in tax legislation	**16,879**	—
Non-taxable income and non-deductible expenses	**(2,905)**	(3,427)
Other	**1,194**	373
Total income tax expense	**$ 122,447**	$ 95,228

12. Income and other taxes (continued):

During 2005, the government of Trinidad introduced new tax legislation retroactive to January 1, 2004. As a result, during 2005 the Company recorded a $16.9 million charge to increase future income tax expense to reflect the retroactive impact for the period January 1, 2004 to December 31, 2004. Subsequent to December 31, 2005, the Trinidad government passed an amendment to this legislation that changes the retroactive date to January 1, 2005 and, accordingly, the Company will reverse substantially all of this adjustment in 2006.

(b) Net future income tax liabilities:

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

AS AT DECEMBER 31	2005	2004
Future income tax liabilities:		
Property, plant and equipment	**$ 210,295**	$ 159,096
Other	**186,192**	150,853
	396,487	309,949
Future income tax assets:		
Non-capital loss carryforwards	**320,252**	281,484
Property, plant and equipment	**34,760**	46,946
Other	**36,583**	28,548
	391,595	356,978
Future income tax asset valuation allowance	**(326,182)**	(312,567)
	65,413	44,411
Net future income tax liabilities	**$ 331,074**	$ 265,538

At December 31, 2005, the Company had non-capital loss carryforwards available for tax purposes of $712 million in Canada, $67 million in the United States and $72 million in New Zealand. In Canada and the United States these loss carryforwards expire in the period 2006 to 2024, inclusive. In New Zealand the loss carryforwards do not have an expiry date.

13. Supplemental cash flow information:

(a) Other cash payments related to operating activities:

Other cash payments related to operating activities for the years ended December 31, 2005 and 2004 are as follows:

FOR THE YEARS ENDED DECEMBER 31	2005	2004
Deferred and restricted share units	**$ 10,587**	$ 2,981
Asset retirement obligations	**5,035**	300
	$ 15,622	$ 3,281

13. Supplemental cash flow information (continued):

(b) Changes in non-cash working capital related to operating activities:

The increase (decrease) in cash flows from operating activities related to changes in non-cash working capital for the years ended December 31, 2005 and 2004 are as follows:

FOR THE YEARS ENDED DECEMBER 31	2005	2004
Receivables	**$ 37,147**	$ (72,336)
Inventories	**2,375**	(15,565)
Prepaid expenses	**2,925**	(1,628)
Accounts payable and accrued liabilities	**(4,117)**	50,452
	$ 38,330	$ (39,077)

14. Derivative financial instruments:

As at December 31, 2005, the Company's forward exchange sales contracts to sell foreign currency in exchange for U.S. dollars were as follows:

AS AT DECEMBER 31, 2005	NOTIONAL AMOUNT	AVERAGE EXCHANGE RATE	MATURITY
Forward exchange sales contracts:			
Euro	**48 million**	**$ 1.1955**	**2006**
Chilean peso	**20 billion**	**$ 0.0018**	**2006**
British Pound	**4 million**	**$ 1.7221**	**2006**

As at December 31, 2005, the carrying value of forward exchange sales contracts was a liability of $3.2 million (2004 – $5.3 million) which approximates the fair value of these contracts.

The Company has an interest rate swap contract recorded in other long-term liabilities with a carrying value of $2.0 million (2004 – $4.3 million) which approximates the fair value. As at December 31, 2005, this interest rate swap contract had a remaining notional principal amount of $45 million (2004 – $55 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.

15. Fair value disclosures:

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

	2005		2004	
AS AT DECEMBER 31	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Long-term debt	**$ (500,948)**	**$ (526,789)**	$ (608,932)	$ (662,000)
Forward exchange purchase contracts:				
Future capital expenditures	**$ —**	**$ —**	$ —	$ 5,026

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

15. Fair value disclosures (continued):

The fair value of forward exchange contracts used to hedge anticipated or committed foreign currency denominated exposures is recognized as an adjustment to the related revenues, operating costs or capital expenditures when the hedged transaction is recorded. As at December 31, 2004, the Company had forward exchange contracts to hedge future capital expenditures where the underlying capital expenditures had not been recorded.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments but does not expect any counterparties to fail to meet their obligations. The Company deals with only highly rated counterparties, normally major financial institutions. The Company is exposed to credit risk when there is a positive fair value of derivative financial instruments at a reporting date. The maximum amount that would be at risk if the counterparties to derivative financial instruments with positive fair values failed completely to perform under the contracts was $0.3 million at December 31, 2005 (2004 – $5.1 million).

16. Retirement plans:

(a) Defined benefit pension plans:

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

	2005	2004
Accrued benefit obligations:		
Balance, beginning of year	**$ 50,177**	$ 42,671
Current service cost	**2,336**	2,024
Interest cost on accrued benefit obligations	**2,840**	2,519
Benefit payments	**(3,504)**	(1,548)
Actuarial losses	**5,490**	614
Foreign exchange losses	**2,272**	3,897
Balance, end of year	**59,611**	50,177
Fair value of plan assets:		
Balance, beginning of year	**36,065**	28,997
Actual returns on plan assets	**2,463**	2,071
Contributions	**2,987**	4,007
Benefit payments	**(3,504)**	(1,548)
Foreign exchange gains	**943**	2,538
Balance, end of year	**38,954**	36,065
Unfunded status	**20,657**	14,112
Unrecognized actuarial losses	**11,600**	7,055
Accrued benefit liabilities	**$ (9,057)**	$ (7,057)

The Company has an unfunded retirement arrangement for its employees in Chile that will be funded at retirement. Included in accrued benefit liabilities and unfunded status in the above table at December 31, 2005 was $17.4 million (2004 – $14.3 million) related to this arrangement.

16. Retirement plans (continued):

(a) Defined benefit pension plans (continued):

The Company's net defined benefit plan pension expense for the years ended December 31, 2005 and 2004 are as follows:

FOR THE YEARS ENDED DECEMBER 31	2005	2004
Net defined benefit pension plan expense:		
Current service cost	**$ 2,336**	$ 2,024
Interest cost on accrued benefit obligations	**2,840**	2,519
Actual returns on plan assets	**(2,463)**	(2,071)
Other	**1,000**	1,531
	$ 3,713	$ 4,003

The Company uses a December 31 measurement date for its defined benefit pension plans. Actuarial reports for the Company's defined benefit pension plans were prepared by independent actuaries for funding purposes as at December 31, 2003. The next actuarial reports for funding purposes are scheduled to be completed as at December 31, 2006.

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

	2005	2004
Benefit obligation at December 31:		
Weighted average discount rate	**5.60%**	6.30%
Rate of compensation increase	**3.50%**	3.50%
Net expense for the year ended December 31:		
Weighted average discount rate	**6.70%**	6.70%
Rate of compensation increase	**3.50%**	4.00%
Expected rate of return on plan assets	**7.25%**	7.50%

The asset allocation for the defined benefit plan assets as at December 31, 2005 and 2004 are as follows:

	2005	2004
Equity securities	**63%**	65%
Debt securities	**33%**	29%
Cash and other short-term securities	**4%**	6%
Total	**100%**	100%

(b) Defined contribution pension plans:

The Company has defined contribution pension plans. The Company's funding obligations under the defined contribution pension plans are limited to making regular payments to the plans, based on a percentage of employee earnings. Total net pension expense for the defined contribution pension plans charged to operations during the year ended December 31, 2005 was $2.9 million (2004 – $2.2 million).

17. 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:

2006	2007	2008	2009	2010	THEREAFTER
$ 175,122	$ 179,159	$ 185,581	$ 183,950	$ 185,466	$ 2,894,421

(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:

2006	2007	2008	2009	2010	THEREAFTER
$ 122,046	$ 104,078	$ 93,860	$ 90,703	$ 68,873	$ 465,162

18. United States Generally Accepted Accounting Principles:

The Company follows generally accepted accounting principles in Canada (Canadian GAAP) which are different in some respects from those applicable in the United States and from practices prescribed by the United States Securities and Exchange Commission (U.S. GAAP). The significant differences between Canadian GAAP and U.S. GAAP with respect to the Company's consolidated financial statements as at and for the years ended December 31, 2005 and 2004 are as follows:

CONDENSED CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31	2005 CANADIAN GAAP	2005 U.S. GAAP	2004 CANADIAN GAAP	2004 U.S. GAAP
ASSETS				
Current assets	**$ 608,936**	**$ 608,936**	$ 661,900	$ 666,958
Property, plant and equipment (a)	**1,396,126**	**1,434,349**	1,366,787	1,406,921
Other assets	**91,970**	**91,970**	96,194	96,194
	$ 2,097,032	**$ 2,135,255**	$ 2,124,881	$ 2,170,073
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	**$ 250,107**	**$ 250,107**	$ 499,061	$ 503,956
Long-term debt	**486,916**	**486,916**	350,868	350,868
Other long-term liabilities (d)	**79,421**	**82,347**	60,170	60,170
Future income taxes (a)(f)	**331,074**	**344,452**	265,538	279,680
Shareholders' equity:				
Capital stock (a)(b)	**502,879**	**909,023**	523,255	929,069
Additional paid-in capital (b)	**—**	**4,109**	—	3,750
Contributed surplus (b)	**4,143**	**—**	3,454	—
Retained earnings	**442,492**	**61,227**	422,535	42,722
Accumulated other comprehensive loss	**—**	**(2,926)**	—	(142)
	949,514	**971,433**	949,244	975,399
	$ 2,097,032	**$ 2,135,255**	$ 2,124,881	$ 2,170,073

18. United States Generally Accepted Accounting Principles (continued):

CONDENSED CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31	2005	2004
Net income in accordance with Canadian GAAP	**$ 165,752**	$ 236,444
Add (deduct) adjustments for:		
Depreciation and amortization (a)	**(1,911)**	(1,911)
Stock-based compensation (b)	**—**	(8,424)
Forward exchange contracts (c)	**(306)**	3,045
Income tax effect of above adjustments (a)(f)	**764**	786
Net income in accordance with U.S. GAAP	**$ 164,299**	$ 229,940
Per share information in accordance with U.S. GAAP:		
Basic net income per share	**$ 1.40**	$ 1.89
Diluted net income per share	**$ 1.39**	$ 1.87

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31	2005	2004
Net income in accordance with U.S. GAAP	**$ 164,299**	$ 229,940
Other comprehensive income (loss):		
Change in fair value of forward exchange contracts (c)	**142**	(29,440)
Change in additional minimum pension liability (d)	**(2,926)**	—
Comprehensive income in accordance with U.S. GAAP	**$ 161,515**	$ 200,500

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31	2005	2004
Balance, beginning of year in accordance with U.S. GAAP	**$ (142)**	$ 29,298
Other comprehensive loss	**(2,784)**	(29,440)
Balance, end of year in accordance with U.S. GAAP	**$ (2,926)**	$ (142)

(a) Business combination:

Effective January 1, 1993, the Company combined its business with a methanol business located in New Zealand and Chile. Under Canadian GAAP, the business combination was accounted for using the pooling-of-interest method. Under U.S. GAAP, the business combination would have been accounted for as a purchase with the Company identified as the acquirer. For U.S. GAAP purposes, property, plant and equipment at December 31, 2005 has been increased by $38.2 million (2004 — $40.1 million) and future income tax liabilities has been increased by $13.4 million (2004 — $14.1 million) to reflect the business combination as a purchase. For the year ended December 31, 2005, an adjustment to increase depreciation expense by $1.9 million (2004 — $1.9 million) and to decrease future income tax expense by $0.8 million (2004 — $0.8 million) has been recorded in accordance with U.S. GAAP.

18. United States Generally Accepted Accounting Principles (continued):

(b) Stock-based compensation:

Incentive stock options — Effective January 1, 2004, Canadian GAAP required the adoption of the fair value method of accounting for stock-based compensation awards granted on or after January 1, 2002. Effective January 1, 2005, under U.S. GAAP, the Company adopted the Financial Accounting Standards Board (FASB) FAS No. 123R, Share-Based Payments which requires the fair value method of accounting for stock-based compensation awards for all awards granted, modified, repurchased or cancelled after the adoption date and unvested portions of previously issued and outstanding awards as at the adoption date. As this statement harmonizes the impact of accounting for stock-based compensation on net income under Canadian and U.S. GAAP for the Company, except as disclosed in (i) and (ii) below, no adjustment to operating expenses was required for the year ended December 31, 2005. Prior to January 1, 2005, under U.S. GAAP, the Company applied the intrinsic value method for accounting for stock options. For the year ended December 31, 2004, an expense of $1.7 million was recorded to cost of sales and operating expenses related to the fair value method of accounting for stock options under Canadian GAAP which was not required under U.S GAAP.

(i) Variable plan options

In 2001, prior to the effective implementation date for fair value accounting related to stock options for Canadian GAAP purposes, the Company granted 946,000 stock options that are accounted for as variable plan options under U.S. GAAP because the exercise price of the stock options is denominated in a currency other than the Company's functional currency or the currency in which the optionee is normally compensated. Under the intrinsic value method for U.S. GAAP, the final measurement date for variable plan options is the earlier of the exercise date, the forfeiture date and the expiry date. Prior to the final measurement date, compensation expense is measured as the amount by which the quoted market price of the Company's common shares exceeds the exercise price of the stock options at each reporting date. Compensation expense is recognized ratably over the vesting period. During the year ended December 31, 2005, no adjustment to operating expenses (2004 — increase of $1.1 million) was recorded in accordance with U.S. GAAP.

(ii) Performance stock options

In 1999, prior to the effective implementation date for fair value accounting related to stock options for Canadian GAAP purposes, the Company granted performance stock options with graded vesting based on the Company's common shares trading at or above CAD $10, CAD $15 and CAD $20 subsequent to the date of grant. These target share prices of CAD $10, CAD $15 and CAD $20 were achieved in 2002, 2003 and 2004, respectively. Under the intrinsic value method for U.S. GAAP, the compensation expense related to performance stock options is measured and recognized at the date the target share price is achieved. There was no adjustment to operating expenses for the year ended December 31, 2005 (2004 — increase of $9.0 million) as all compensation expense related to performance stock options had been recorded as of December 31, 2004.

(c) Forward exchange contracts:

Under Canadian GAAP, forward exchange contracts that are designated and qualify as hedges are recorded at fair value and recognized in earnings when the hedged transaction is recorded. Under U.S. GAAP, forward exchange contracts that are designated and qualify as hedges are recorded at fair value at each reporting date, with the change in fair value either being recognized in earnings to offset the change in fair value of the hedged transaction, or recorded in other comprehensive income until the hedged transaction is recorded. The ineffective portion, if any, of the change in fair value of forward exchange contracts that are designated and qualify as hedges is immediately recognized in earnings. For the year ended December 31, 2005, adjustments to increase other comprehensive income by $0.1 million (2004 — decrease of $29.4 million) and to decrease other income by $0.3 million (2004 — increase of $3.0 million) have been recorded in accordance with U.S. GAAP.

18. United States Generally Accepted Accounting Principles (continued):

(d) Defined benefit pension plans:

For the Company's North American defined benefit pension plan, the accumulated benefit obligation as determined under U.S. GAAP as of the end of a reporting period exceeds the fair value of the plan assets. Such an amount is referred to as an unfunded accumulated benefit obligation. U.S. GAAP requires the recognition of an additional minimum pension liability equal to the excess of the unfunded accumulated benefit obligation over the accrued pension benefits liability. For the year ended December 31, 2005, an adjustment to increase other long-term liabilities and decrease other comprehensive income by $2.9 million has been recorded in accordance with U.S. GAAP.

(e) Interest in Atlas joint venture:

U.S. GAAP requires interests in joint ventures to be accounted for using the equity method. Canadian GAAP requires proportionate consolidation of interests in joint ventures. The Company has not made an adjustment in this reconciliation for this difference in accounting principles because the impact of applying the equity method of accounting does not result in any change to net income or shareholders' equity. This departure from U.S. GAAP is acceptable for foreign private issuers under the practices prescribed by the United States Securities and Exchange Commission. Details of the Company's interest in the Atlas joint venture is provided in note 4 to the Company's consolidated financial statements for the year ended December 31, 2005.

(f) Income tax accounting:

The income tax differences include the income tax effect of the adjustments related to accounting differences between Canadian and U.S. GAAP. During the year ended December 31, 2005, this resulted in an adjustment to decrease income tax expense by $0.8 million (2004 — $0.8 million).

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

As applicable to the Company, there are no U.S. accounting standards currently issued and not yet implemented that would differ materially from Canadian accounting standards.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use of our Auditors' Report to the Shareholders of Methanex Corporation (the "Company") dated March 3, 2006 included in this annual report on Form 40-F.

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.

(signed) "KPMG LLP"
Chartered Accountants
Vancouver, Canada
March 3, 2006

Exhibit 31.1

CERTIFICATION

I, Bruce Aitken, 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 and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
   c) 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 27, 2006

/s/ BRUCE AITKEN
Bruce Aitken
President and 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 and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
   c) 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 27, 2006

/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, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bruce Aitken, President 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/ BRUCE AITKEN
Bruce Aitken
President and Chief Executive Officer
March 27, 2006

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, 2005 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 27, 2006