METHANEX CORP
Form 6-K
October 26, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF OCTOBER 2006

METHANEX CORPORATION

(Registrant s name)

SUITE 1800, 200 BURRARD STREET, VANCOUVER, BC V6C 3M1 CANADA

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F o Form 40-F þ

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82__________.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf by the undersigned, thereunto duly authorized.

METHANEX CORPORATION

Date: October 26, 2006

By: /s/ RANDY MILNER
Name: Randy Milner
Title: Senior Vice President, General Counsel & Corporate Secretary

NEWS RELEASE

Methanex Corporation
1800 200 Burrard St.
Vancouver, BC Canada V6C 3M1
Investor Relations: (604) 661-2600
http://www.methanex.com

For immediate release

METHANEX ACHIEVES ANOTHER QUARTER OF EXCELLENT EARNINGS

October 25, 2006

For the third quarter of 2006, Methanex recorded net income of US$113.2 million (diluted net income per share of US$1.05) and Adjusted EBITDA[1] of US$201.3 million. This compares with net income of US$82.1 million (diluted net income per share of US$0.75) and Adjusted EBITDA[1] of US$153.0 million for the second quarter of 2006.

Bruce Aitken, President and CEO of Methanex commented, Continued strong demand and a large number of competitor outages caused an unprecedented shortage of methanol supply in the third quarter that drove spot methanol prices to record highs. We believe that planned and unplanned production outages across the industry in the third quarter caused the loss of more than one million tonnes of methanol supply. As a result, methanol contract prices escalated by approximately US$100 per tonne in the United States and Asia in September and increased further in all regions early in the fourth quarter. Our average realized price for the third quarter was US$305 per tonne compared with US$279 per tonne for the second quarter of 2006.

The Methanex European posted contract price has been set for the fourth quarter of 2006 at 400 Euros per tonne (US$511 per tonne at time of settlement), an increase of 150 Euros over the third quarter price. Our non-discounted posted contract prices for the United States and Asia for October are US$599 per tonne and US$550 per tonne, respectively. This represents an average increase to posted prices across the global regions of approximately US$235 per tonne from July to October.

Mr. Aitken added, Despite these very significant price increases, methanol demand remains strong. Global methanol inventories are at very low levels and an extended period of high operating rates is required to balance supply and demand.

Mr. Aitken concluded, Our cash generation was very strong this quarter. With US$265 million cash on hand at the end of the third quarter, a strong balance sheet and a US$250 million undrawn credit facility, we are well positioned to meet our financial requirements related to a potential methanol project in Egypt, complete our capital maintenance spending program, pursue new opportunities to enhance our leadership position in the methanol industry, investigate opportunities related to new methanol demand for energy applications and continue to deliver on our commitment to return excess cash to shareholders.

A conference call is scheduled for **Thursday, October 26, 2006 at 11:00 am EDT (8:00 am PDT)** to review these third quarter results. To access the call, dial the Telus Conferencing operator ten minutes prior to the start of the call at **(416) 883-0139**, or toll free at **(888) 458-1598**. The passcode for the call is **75577**. A playback version of the conference call will be available for fourteen days at (877) 653-0545. The reservation number for the playback version is 302062. There will be a simultaneous audio-only webcast of the conference call, which can be accessed from our website at www.methanex.com. In addition, an audio recording of the conference call can be downloaded from our website for three weeks after the call.

Methanex is a Vancouver based, publicly-traded company engaged in the worldwide production and marketing of methanol. Methanex shares are listed for trading on the Toronto Stock Exchange in Canada under the trading symbol MX and on the Nasdaq Global Market in the United States under the trading symbol MEOH.

- more -

FORWARD-LOOKING STATEMENTS

Information contained in this press release and the attached Third Quarter 2006 Management s Discussion and Analysis contains forward-looking statements. Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections that are included in these forward-looking statements. Methanex believes that it has a reasonable basis for making such forward-looking statements. However, forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. The risks and uncertainties include those attendant with producing and marketing methanol and successfully carrying out major capital expenditure projects in various jurisdictions, the ability to successfully carry out corporate initiatives and strategies, conditions in the methanol and other industries including the supply and demand balance for methanol, actions of competitors and suppliers, changes in laws or regulations in foreign jurisdictions, world-wide economic conditions and other risks described in our 2005 Management s Discussion & Analysis and the attached Third Quarter 2006 Management s Discussion and Analysis. Undue reliance should not be placed on forward-looking statements. They are not a substitute for the exercise of one s own due diligence and judgment. The outcomes anticipated in forward-looking statements may not occur and we do not undertake to update forward-looking statements. These materials also contain certain non-GAAP financial measures. Non-GAAP financial measures do not have any standardized meaning and therefore are unlikely to be comparable to similar measures used by other companies. For more information regarding these non-GAAP measures, please see our 2005 Management s Discussion & Analysis and the attached Third Quarter 2006 Management s Discussion and Analysis.

1 *These items are non-GAAP measures that do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and therefore are unlikely to be comparable to similar measures presented by other companies. Refer to Supplemental Non-GAAP Measures in the attached Third Quarter 2006 Management s Discussion and*

Analysis for a description of each Supplemental Non-GAAP Measure and a reconciliation to the most comparable GAAP measure.

For further information, contact:
Wendy Bach
Director, Investor Relations
Tel: 604.661.2600

- end -

3

Interim Report
For the
Nine Months Ended
September 30, 2006

At October 24, 2006 the Company had 106,751,142 common shares issued and outstanding and stock options exercisable for 730,700 additional common shares.

Share Information

Methanex Corporation s common shares are listed for trading on the Toronto Stock Exchange under the symbol MX and on the Nasdaq Global Market under the symbol MEOH.

Transfer Agents & Registrars

CIBC Mellon Trust Company
320 Bay Street
Toronto, Ontario, Canada M5H 4A6
Toll free in North America:
1-800-387-0825

Investor Information

All financial reports, news releases and corporate information can be accessed on our website at www.methanex.com.

Contact Information

Methanex Investor Relations
1800 200 Burrard Street
Vancouver, BC Canada V6C 3M1
E-mail: invest@methanex.com
Methanex Toll-Free: 1-800-661-8851

THIRD QUARTER MANAGEMENT S DISCUSSION AND ANALYSIS

Except where otherwise noted, all currency amounts are stated in United States dollars.

This third quarter 2006 Management s Discussion and Analysis should be read in conjunction with the 2005 Annual Consolidated Financial Statements and the Management s Discussion and Analysis included in the Methanex 2005 Annual Report. The Methanex 2005 Annual Report and additional information relating to Methanex is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

	Three Months Ended			**Nine Months Ended**	
($ millions, except where noted)	**Sep 30 2006**	Jun 30 2006	Sep 30 2005	**Sep 30 2006**	Sep 30 2005
Sales volumes (thousands of tonnes)					
Company produced					
Chile and Trinidad	**1,419**	1,241	947	**3,914**	3,203
New Zealand and Kitimat	**59**	110	183	**236**	634
	1,478	1,351	1,130	**4,150**	3,837
Purchased methanol	**222**	294	325	**813**	890
Commission sales [1]	**176**	133	75	**450**	378
Total sales volumes	**1,876**	1,778	1,530	**5,413**	5,105
Average realized price ($ per tonne) [2]	**305**	279	240	**289**	253
Methanex average non-discounted posted price ($ per tonne) [3]	**350**	340	282	**341**	300
Operating income [4]	**170.1**	128.7	16.8	**441.7**	229.6

Net income (loss)	**113.2**	82.1	(21.8)	**310.5**	117.2
Income before unusual items (after-tax) [4]	**113.2**	82.1	24.2	**284.7**	163.2
Cash flows from operating activities [4 5]	**163.1**	129.5	28.7	**406.5**	241.3
Adjusted EBITDA [4]	**201.3**	153.0	69.3	**520.9**	323.6
Basic net income (loss) per common share	**1.05**	0.75	(0.19)	**2.82**	0.99
Diluted net income (loss) per common share	**1.05**	0.75	(0.19)	**2.82**	0.98
Diluted income before unusual items (after-tax) per share [4]	**1.05**	0.75	0.21	**2.58**	1.37
Common share information (millions of shares):					
Weighted average number of common shares	**108.0**	109.7	117.5	**110.0**	118.6
Diluted weighted average number of common shares	**108.0**	110.0	117.5	**110.3**	119.3
Number of common shares outstanding, end of period	**107.2**	108.6	116.6	**107.2**	116.6

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

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

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

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

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

For the third quarter of 2006 we recorded Adjusted EBITDA of $201.3 million and net income and income before unusual items (after-tax) of $113.2 million ($1.05 per share on a diluted basis). This compares with Adjusted EBITDA of $153.0 million and net income and income before unusual items (after-tax) of $82.1 million ($0.75 per share on a diluted basis) for the second quarter of 2006 and Adjusted EBITDA of $69.3 million, a net loss of $21.8 million ($0.19 loss per share on a diluted basis) and income before unusual items (after-tax) of $24.2 million ($0.21 per share on a diluted basis) for the third quarter of 2005.

For the nine months ended September 30, 2006, we recorded Adjusted EBITDA of $520.9 million, net income of $310.5 million ($2.82 per share on a diluted basis) and income before unusual items (after-tax) of $284.7 million ($2.58 per share on a diluted basis) compared with Adjusted EBITDA of $323.6 million, net income of $117.2 million ($0.98 per share on a diluted basis) and income before unusual items (after-tax) of $163.2 million ($1.37 per share on a diluted basis) during the same period in 2005.

The following is a reconciliation of income before unusual items (after-tax) to net income:

	Three Months Ended			**Nine Months Ended**	
($ millions)	**Sep 30 2006**	Jun 30 2006	Sep 30 2005	**Sep 30 2006**	Sep 30 2005
Income before unusual items (after-tax)	**$113.2**	$82.1	$ 24.2	**$284.7**	$163.2
Add (deduct) unusual items:					
Kitimat closure costs (before and after-tax)			(29.1)		(29.1)
Future income taxes related to change in tax legislation			(16.9)	**25.8**	(16.9)
Net income (loss)	**$113.2**	$82.1	$(21.8)	**$310.5**	$117.2

Refer to note 5 to our third quarter of 2006 interim consolidated financial statements for further information regarding the Kitimat closure costs and *Income Taxes* on page 5 of this Management s Discussion and Analysis and note 7 to our third quarter of 2006 interim consolidated financial statements for further information regarding future income taxes related to a change in tax legislation.

EARNINGS ANALYSIS

A core element of our strategy is to strengthen our position as a low cost producer. Our core production facilities in Chile and Trinidad are underpinned by long-term take-or-pay natural gas purchase agreements with pricing terms that vary with methanol prices. These production hubs have an annual production capacity of 5.8 million tonnes and represent over 90% of our current annual production capacity. The operating results for these facilities represent a substantial proportion of our Adjusted EBITDA and, accordingly, we separately discuss the impact of the changes in average realized price, sales volumes and total cash costs related to these facilities.

Over the last few years we have been shutting down our high cost production which was exposed to volatile prices for natural gas. We permanently closed our Kitimat facility on November 1, 2005. Our facilities in New Zealand have been positioned as flexible production assets with future operations dependent on securing natural gas on commercially acceptable terms. The Waitara Valley facility in New Zealand was idled on July 10, 2006 and was restarted on August 16, 2006. As the operating results for these facilities represent a smaller proportion of our Adjusted EBITDA, the impact of changes in average realized price, sales volumes and total cash costs have been combined and presented as the change in cash margin related to these facilities in our analysis of Adjusted EBITDA. For a further discussion of the definitions and calculations used in our Adjusted EBITDA analysis, refer to *How We Analyze Our Business*.

Adjusted EBITDA

The increase (decrease) in Adjusted EBITDA resulted from the following:

($ millions)	**Q3 2006 compared with Q2 2006**	**Q3 2006 compared with Q3 2005**	**YTD Q3 2006 compared with YTD Q3 2005**
Chile and Trinidad facilities and Corporate:			
Average realized price	$ 42	$ 97	$ 142
Sales volumes	26	56	98
Total cash costs	(18)	(33)	(72)
	50	120	168
Margin on the sale of purchased methanol	1	4	11
Margin earned from New Zealand and Kitimat facilities	(3)	8	18
	$ 48	$ 132	$ 197

Average realized price

	Three Months Ended			Nine Months Ended	
($ per tonne, except where noted)	**Sep 30 2006**	Jun 30 2006	Sep 30 2005	**Sep 30 2006**	Sep 30 2005
Methanex average non-discounted posted price [1]	**350**	340	282	**341**	300
Methanex average realized price [2]	**305**	279	240	**289**	253
Average discount	**13%**	18%	15%	**15%**	16%

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

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

We entered the third quarter of 2006 in a strong pricing environment underpinned by high global energy prices and low global inventories. During the third quarter of 2006 planned and unplanned production outages led to extremely tight supply conditions with certain methanol suppliers declaring force majeure as they were unable to meet customer sales commitments. As a result, global inventories were significantly depleted during the quarter and methanol prices increased dramatically in September.

Our average realized price for the third quarter of 2006 was $305 per tonne compared with $279 per tonne for the second quarter of 2006 and $240 per tonne for the third quarter of 2005. Higher average realized prices for the third quarter of 2006 increased our Adjusted EBITDA by $42 million compared with the second quarter of 2006 and increased our Adjusted EBITDA by $97 million compared with the third quarter of 2005. Our average realized price for the nine months ended September 30, 2006 was $289 per tonne compared with $253 per tonne during the same period in 2005 resulting in an increase in Adjusted EBITDA of $142 million.

The methanol industry is highly competitive and prices are affected by supply/demand fundamentals. We publish non-discounted prices for each major methanol market and offer discounts to customers based on various factors. For the third quarter of 2006 our average realized price was approximately 13% lower than our average non-discounted posted price. This compares with approximately 18% lower for the second quarter of 2006 and 15% lower for the third quarter of 2005. To reduce the impact of cyclical pricing on our earnings, we have entered into long-term contracts for a portion of our production volume with certain global customers where prices are either fixed or linked to our costs plus a margin. Sales volumes under these long-term contracts in the third quarter of 2006 represented a lower proportion of our total sales volume compared with the second quarter of 2006 and this, together with additional volumes sold at high spot prices during the quarter, resulted in a lower discount compared with the second quarter. 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.

Chile and Trinidad sales volumes

Sales volumes of methanol produced at our production hubs in Chile and Trinidad for the third quarter of 2006 were higher by 178,000 tonnes compared with the second quarter of 2006 and this increased Adjusted EBITDA by $26 million.

The commencement of operations of Chile IV in June 2005 increased our annual production capacity to 5.8 million tonnes from 5.0 million tonnes. Sales volumes of methanol produced at our production hubs in Chile and Trinidad for the third quarter of 2006 and the nine months ended September 30, 2006 were higher than in the comparable periods in 2005 by 472,000 tonnes and 711,000 tonnes, respectively. Higher sales volumes for these periods increased Adjusted EBITDA by $56 million and $98 million, respectively.

Total cash costs

Our production facilities in Chile and Trinidad are underpinned by long-term take-or-pay natural gas purchase agreements with pricing terms that include base and variable price components. The variable component is adjusted in relation to increases in methanol prices above pre-determined prices. We believe this enables these facilities to be competitive throughout the methanol price cycle.

Total cash costs for the third quarter of 2006 were higher than in the second quarter of 2006 by $18 million. Natural gas and certain other costs impacted by higher methanol prices increased cash costs by $10 million for the third quarter compared with the second quarter. Higher unabsorbed fixed costs as a result of lower production at our facilities in Chile during the third quarter of 2006 increased our cash costs by $4 million. The remaining increase in cash costs relates primarily to higher supply chain and ocean shipping costs during the third quarter of 2006 compared with the second quarter of 2006.

Total cash costs for the third quarter of 2006 and the nine months ended September 30, 2006 were higher than in the comparable periods in 2005 and this decreased Adjusted EBITDA by $33 million and $72 million, respectively. Natural gas and certain other costs impacted by higher methanol prices increased cash costs for the third quarter of 2006 and the nine month period ended September 30, 2006 compared with the same periods in 2005 by $20 million and $34 million, respectively. Stock-based compensation expense was higher for the third quarter of 2006 and the nine months ended September 30, 2006 compared with the same periods in 2005 by $6 million and $13 million, respectively. The increase in stock-based compensation expense is primarily due to the impact of increases in our share price. The remaining increase in our cash costs for the third quarter of 2006 and the nine months ended September 30, 2006 compared with the same periods in 2005 relates primarily to higher ocean shipping fuel costs and other supply chain costs in 2006. The increase in supply chain costs during 2006 has been partially recovered from customers and this recovery has been included in revenue.

Margin earned from New Zealand and Kitimat facilities

For the third quarter of 2006, our cash margin on the sale of New Zealand inventory was $3 million lower than the second quarter of 2006 primarily as a result of lower sales volumes during the third quarter. For the third quarter of 2006 and nine months ended September 30, 2006, our cash margin on the sale of New Zealand and Kitimat inventory was higher by $8 million and $18 million, respectively, than the comparable periods in 2005. The increase in cash margin primarily relates to lower sales volumes of high cost Kitimat inventory and higher methanol prices during 2006.

Depreciation and Amortization

Depreciation and amortization was $31 million for the third quarter of 2006 compared with $24 million for the second quarter of 2006 and $23 million for the third quarter of 2005. The increase in depreciation and amortization during the third quarter of 2006 is primarily as a result of higher sales volumes of Chile and Trinidad production and unabsorbed depreciation recorded for our Chile facilities during planned and unplanned maintenance activities during the third quarter. For the nine months ended September 30, 2006, depreciation and amortization was $79 million compared with $65 million for the same period in 2005. The increase in depreciation and amortization for the nine months ended September 30, 2006 compared with the same period in 2005 is primarily due to the depreciation of Chile IV, which commenced

operations in June 2005, and depreciation related to a capital lease for an oceangoing vessel which commenced during the fourth quarter of 2005.

Interest Expense & Interest and Other Income

	Three Months Ended			Nine Months Ended	
($ millions)	**Sep 30 2006**	Jun 30 2006	Sep 30 2005	**Sep 30 2006**	Sep 30 2005
Interest expense before capitalized interest	**$12**	$ 11	$ 11	**$ 33**	$ 39
Less capitalized interest related to Chile IV					(8)
Interest expense	**$12**	$ 11	$ 11	**$ 33**	$ 31
Interest and other income	**$ 4**	$ 4	$ 7	**$ 10**	$ 8

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

Income Taxes

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

Excluding the above-noted adjustment, the tax rate for the third quarter of 2006 was 30% compared with 32% for the second quarter of 2006. The statutory tax rate in Chile and Trinidad, where we earn substantially all of our pre-tax earnings, is 35%. Our Atlas facility in Trinidad has partial relief from corporation income tax until 2014. During the third quarter of 2006, we earned a higher proportion of our consolidated income from methanol produced at the Atlas facility and this contributed to a lower effective tax rate as compared with the second quarter of 2006. Excluding unusual items, the effective tax rate for the nine months ended September 30, 2006 was 32% compared with 31% for the same period in 2005.

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

PRODUCTION SUMMARY

	Q3 2006		Q2 2006	Q3 2005	YTD Q3 2006	YTD Q3 2005
(thousands of tonnes)	**Capacity**	**Production**	**Production**	**Production**	**Production**	**Production**
Chile and Trinidad:						
Chile I, II, III and IV	**960**	**666**	872	684	**2,420**	2,113

Titan	**212**	**206**	214	184	**635**	521
Atlas (63.1% interest)	**268**	**264**	273	157	**790**	644
	1,440	**1,136**	1,359	1,025	**3,845**	3,278
Other:						
New Zealand	**132**	**71**	118	120	**293**	343
Kitimat				102		341
	132	**71**	118	222	**293**	684
	1,572	**1,207**	1,477	1,247	**4,138**	3,962

Our methanol facilities in Trinidad operated at near design capacity during the third quarter of 2006. These plants are capable of producing above design capacity and would have produced a further 34,000 tonnes of production but for short-term delivery infrastructure constraints of our natural gas suppliers.

Our methanol production facilities in Chile produced 666,000 tonnes during the third quarter of 2006 compared with an operating capacity of 960,000 tonnes. Planned maintenance on our Chile I facility was completed in July resulting in a loss of approximately 30,000 tonnes of production and various unplanned outages at our Chile facilities during the third quarter of 2006 resulted in a loss of approximately 146,000 tonnes of production. The repair and maintenance of delivery infrastructure by our natural gas suppliers resulted in a loss of approximately 93,000 tonnes of production and curtailments of natural gas as a result of redirection orders from the Argentinean government resulted in a loss of approximately 25,000 tonnes of production. We expect that we will continue to lose some amounts of natural gas as a result of delivery infrastructure repair and maintenance in the fourth quarter of 2006, however, these losses should be lower as the demand for natural gas in the domestic market is typically reduced during the summer season in the southern hemisphere.

Effective July 25, 2006, the government of Argentina increased the duty on exports of natural gas from Argentina to Chile, which have been in place since May 2004, from approximately $0.30 per mmbtu to $2.25 per mmbtu. Exports of natural gas from the province of Tierra del Fuego were exempt from this duty until late October 2006 when the government of Argentina extended this duty to include this province retroactive to May 2004 at the same rates applicable to the other provinces. As a result of this resolution, the increased duty on exports of natural gas will apply to all of the natural gas feedstock that we source from Argentina, or approximately 60% of the total current gas supply to our plants in Chile. The total cost of the export duty to our gas suppliers on an annual basis has increased to approximately $200 million. While we have contractual protection against these export duties, we have been in discussions with certain of our Argentinean gas suppliers regarding the impact of the increased export duty and, subject to certain conditions, we have indicated a willingness to share some of this export duty. We expect to reach agreements with our gas suppliers by the end of the year.

The cost of any potential agreements reached with our gas suppliers related to this export duty cannot be reasonably estimated at this time and therefore we cannot provide assurance that this export duty will not have an adverse effect on our results of operations and financial condition.

The Waitara Valley facility in New Zealand was temporarily idled on July 10, 2006 and was restarted on August 16, 2006. We produced 71,000 tonnes at this facility during the third quarter of 2006 and as at the end of the third quarter we had contracted natural gas to allow us to produce approximately 80,000 tonnes of methanol. We continue to seek other supplies of natural gas to supplement this production and to extend the life of our New Zealand operations. There can be no assurance that we will be able to secure additional gas on commercially acceptable terms.

SUPPLY/DEMAND FUNDAMENTALS

We entered the third quarter of 2006 in a strong pricing environment underpinned by high global energy prices and low global methanol inventories. During the third quarter of 2006, planned and unplanned production outages led to extremely tight supply conditions with certain methanol suppliers declaring force majeure as they were unable to meet customer sales commitments. As a result, global inventories were significantly depleted and methanol prices increased dramatically in September and again in October. We believe that it could take an extended period of high operating rates to balance supply and demand.

Over the next twelve months, we expect new capacity and expansions of existing capacity to increase methanol supply by approximately 2.5 million tonnes, outside of China. Over the same period, we believe a similar volume of capacity could shut down as a result of high feedstock prices. The next increment of world-scale capacity is the 1.7 million tonne per year NPC facility in Iran and we expect product from this facility will be available to the market during the first half of 2007.

In addition, there is a 1.0 million tonne plant in Oman that is under construction. We expect product from this plant to be available to the market early in 2008.

Methanex Non-Discounted Regional Posted Prices [1]

(US$ per tonne)	**Oct 2006**	**Sep 2006**	**Aug 2006**	**July 2006**
United States [2]	599	442	343	333
Europe [3]	511	315	315	315
Asia	550	420	310	305

1 Discounts from our posted prices are offered to customers based on various factors.

2 The November non-discounted posted price in the United States is US$599 per tonne

3 400 at October 2006 (July 2006 250) converted to United States dollars at the date of settlement..

In China, a 0.6 million tonne per year natural gas-based methanol plant on Hainan Island is in its early start-up phase. Due to its location on the coast, this plant could export methanol. However, it is our understanding that most of the production from this facility will supply traditional methanol markets in the coastal provinces of East and South China. There is also additional smaller-scale capacity being added in China over the next year which is expected to be absorbed in the domestic market in China.

Demand for methanol in China has grown at higher rates than we expected in 2006. We believe that a large proportion of this additional unexpected demand is related to non-traditional uses for methanol such as gasoline blending. Therefore, while new production capacity has recently commenced operations and additional smaller-scale capacity is expected to be constructed in China during 2006, we continue to believe substantially all domestic methanol production will be consumed within the local market. As a result, we expect imports into China during 2006 to remain at levels similar to 2005 and that imports into China will grow over time.

During 2005, just over two million tonnes of methanol was used in the production of MTBE for consumption in the United States. As a result of the 2005 United States Energy Policy Act, MTBE had been substantially removed from gasoline in the United States by the end of May 2006. We continue to believe the impact of lower demand for methanol for MTBE consumed in the United States in 2006 will be more than offset by increases in demand for methanol for MTBE elsewhere in the world, increases in demand for methanol in energy related uses as well as demand growth related to other chemical derivatives.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities before changes in non-cash working capital in the third quarter of 2006 were $163 million compared with $29 million for the same period in 2005. For the nine month period ended September 30, 2006, our cash flows from operating activities before changes in non-cash working capital were $406 million compared with $241 million for the same period in 2005. The changes in cash flows from operating activities before changes in non-cash working capital are primarily the result of the increased level of earnings.

During the third quarter of 2006, we repurchased 1.6 million common shares at an average price of US$21.85 per share, totaling $34 million, under a normal course issuer bid that expires May 16, 2007. At September 30, 2006, we have repurchased a total of 2.4 million common shares compared with a maximum allowable repurchase under this bid of 5.5 million common shares. For the nine months ended September 30, 2006, we repurchased a total of 7.1 million common shares at an average price of US$21.43 per share, totaling $151 million, inclusive of 4.7 million common shares repurchased in 2006 under a normal course issuer bid that expired May 16, 2006.

During the third quarter of 2006, we paid a quarterly dividend of US$0.125 per share, or $13 million. For the nine months ended September 30, 2006 we paid total dividends of US$0.36 per share, or $39 million.

We are developing a methanol project in Egypt with joint venture partners. We have a 60 percent interest in the proposed project to build a 1.3 million tonne per year methanol facility at Damietta on the Mediterranean Sea. We continue to make progress in meeting project milestones and, subject to finalizing financing arrangements, we expect to make a final investment decision before the end of 2006.

We have excellent financial capacity and flexibility. Our cash balance at September 30, 2006 was $265 million and we have a strong balance sheet and an undrawn $250 million credit facility. Our planned capital maintenance expenditure program directed towards major maintenance, turnarounds and catalyst changes is currently estimated to total approximately $90 million for the period to the end of 2008.

We are well positioned to meet our financial requirements related to the potential methanol project in Egypt, complete our capital maintenance spending program, pursue new opportunities to enhance our leadership position in the methanol industry, investigate opportunities related to new methanol demand for energy applications and continue to deliver on our commitment to return excess cash to shareholders.

The credit ratings for our unsecured notes at September 30, 2006 were as follows:

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

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

SHORT-TERM OUTLOOK

We believe the strong pricing environment and tight global inventory dynamics will continue into the fourth quarter. During 2007, we expect to see new non-traditional demand growth for methanol for energy related uses such as di-methyl ether (DME) and fuel blending. It is our view that traditional and non-traditional growth, along with closures of high cost capacity, will offset the new supply that is scheduled to start up over the coming year. We believe that supply/demand fundamentals will be balanced to tight during 2007 and that methanol prices will be underpinned by 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 a sound basis for Methanex continuing to be the leader in the methanol industry.

ADDITIONAL INFORMATION SUPPLEMENTAL NON-GAAP MEASURES

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

Adjusted EBITDA

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

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

	Three Months Ended			**Nine Months Ended**	
	Sep 30	Jun 30	Sep 30	**Sep 30**	Sep 30
($ thousands)	**2006**	2006	2005	**2006**	2005
Cash flows from operating activities	**$ 152,648**	$ 149,163	$ 45,586	**$ 321,885**	$ 252,982
Add (deduct):					
Changes in non-cash working capital	**10,417**	(19,670)	(16,899)	**84,612**	(11,678)
Other cash payments	**2,130**	1,362	192	**9,364**	2,803
Stock-based compensation expense	**(9,015)**	(7,463)	(2,292)	**(22,497)**	(9,044)
Other non-cash items	**(3,076)**	(681)	(1,874)	**(5,291)**	(4,461)
Kitimat closure costs			29,125		29,125
Interest expense	**11,586**	10,945	11,424	**33,489**	30,999
Interest and other income	**(3,607)**	(3,772)	(7,001)	**(9,913)**	(8,371)
Current income taxes	**40,221**	23,129	11,011	**109,214**	41,207
Adjusted EBITDA	**$ 201,304**	$ 153,013	$ 69,272	**$ 520,863**	$ 323,562

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 management considers 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 (loss) to income before unusual items (after-tax) and the calculation of diluted income before unusual items (after-tax) per share: