

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004 (in thousands of dollars, except per share amounts)

TSX Group Inc. (the “Company”) owns and operates two national stock exchanges, Toronto Stock Exchange and TSX Venture Inc., serving Canada’s senior equity and public venture equity markets respectively, as well as Natural Gas Exchange Inc. (“NGX”), a leading North American exchange for the trading and clearing of natural gas and electricity contracts.

All references to earnings per share, common shares issued and outstanding, common shares reserved for issuance, and options reflect the impact of the two-for-one stock split which was effective May 17, 2005.

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company’s wholly owned subsidiaries, TSX Inc., Natural Gas Exchange Inc. (“NGX”) and TSX Inc.’s wholly owned subsidiary, TSX Venture Exchange Inc. Intercompany balances and transactions have been eliminated upon consolidation.

(b) Change in accounting policy:

During 2005 the Company retroactively changed its accounting policy for initial listing fees and additional listing fees to comply with the evolving interpretation of The Canadian Institute of Chartered Accountants’ Emerging Issues Committee Abstract 141-Revenue Recognition. Previously, non-refundable initial and additional listing fees were recognized at the time such fees were received. The Company now recognizes such fees on a straight-line basis over an estimated service period of ten years.

For Toronto Stock Exchange, reported revenue from initial and additional listing fees has been recalculated for the ten years preceding the periods presented in these financial statements. For TSX Venture Exchange, which was acquired on August 1, 2001, reported revenue from initial and additional listing fees has been recalculated from the date of acquisition.

The effect of the change in accounting policy relating to revenue recognition from the prior method is a decrease in revenue for the year ended December 31, 2005 of \$58,620 (2004 - \$52,123). Income taxes for the year ended December 31, 2005 decreased by \$24,246 (2004 - \$22,216). Net income for the year ended December 31, 2005 decreased \$34,374 (2004 - \$29,907). The effect of the change on basic earnings per share for the year ended December 31, 2005 was a decrease of \$0.50 (2004 - \$0.44).

The effect on the consolidated balance sheet at December 31, 2005 and at December 31, 2004 is an increase in the future tax asset of \$93,110 and \$68,864 respectively, and an increase in deferred revenue-initial and additional listing fees of \$278,775 and \$220,155 respectively, with a corresponding increase in deficit of \$185,665 and \$151,291 respectively.

(c) Investments:

The investment portfolio includes pooled fund investments.

Pooled funds are managed by an external investment fund manager and are carried at the lower of carrying value or market value. Market values for securities held by the pooled funds are determined by reference to quoted market prices. To the extent that the value of the underlying assets in the pooled funds decrease, the value of the units will decrease and such decrease will be recognized during the period in which it occurs. There is no contractual maturity date for the investment in pooled funds.

Investment income is recognized in the period it is earned. Realized gains or losses on investments are recorded in the period in which they occur.

The Company’s investment in an affiliate, which is subject to significant influence, is accounted for using the equity method of accounting.

(d) Derivative financial instruments:

The Company has restricted and deferred share units that are awarded to directors and senior management. The Company uses derivatives to manage the exposure of the restricted share units and deferred share units to the Company’s share price fluctuations. The Company’s policy is not to utilize derivative financial instruments for trading or speculative purposes. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets or liabilities on the balance sheet. The Company also formally assesses, both at the hedge’s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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The Company purchases total return forward contracts to hedge against the market price fluctuations of the Company's common shares. Any increase in the Company's share price results in an increase in the liability to directors and senior management and a corresponding increase in the return on the hedged units. The reverse situation arises in the case of a price decline. The only impact to the income statement is for the cost of the hedge itself. In the event a designated hedged item is sold, matures, or becomes ineffective prior to the termination of the relative derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

(e) Amortization:

Amortization is provided over the following useful lives of the assets:

Asset	Basis	Rate
Premises under capital lease	Straight line	25 years
Computers and electronic trading equipment	Straight line	3 - 5 years
Furniture, fixtures and other equipment	Straight line	5 years
Leasehold improvements	Straight line	Over terms of various leases to a maximum of 15 years
Intangible assets comprising:		
TSX Venture Exchange listed issuer base	Declining balance	7.3%
NGX customer base	Declining balance	8.0%

(f) Revenue recognition:

Revenue for goods and services is recognized when the services are provided or the goods are sold.

Trading and related revenues for capital markets are recorded and recognized as revenue in the month in which the trades are executed or when the related services are provided.

Fees relating to NGX trading are recognized over the period the service is provided.

Listing revenues are derived primarily from recurring annual sustaining fees and transaction-based fees for initial and additional listings. Sustaining fees are billed during the first quarter of the year and the amount is recorded as deferred revenue and amortized over the year on a straight-line basis. Initial and additional listing fees are recorded as deferred revenue and are recognized on a straight line basis over an estimated service period of ten years.

Real time market data revenue is recognized based on usage as reported by customers and vendors. The Company conducts periodic audits of the information provided. Other Market Data and Business Services revenue are recorded and recognized as revenue in the month in which the services are provided.

(g) Development expenditures:

Development expenditures, including application software, are expensed as they are incurred.

(h) Income taxes:

Future income taxes are provided in recognition of temporary differences between the carrying amount of assets and liabilities and their respective tax bases, operating losses and tax credit carryforwards made for financial reporting and income tax purposes. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be removed or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the substantive enactment occurs.

(i) Employee future benefits:

TSX Inc., TSX Venture Exchange Inc. and NGX have registered pension plans with a defined benefits tier and a defined contributions tier covering substantially all of their employees, as well as a retirement compensation arrangement (“RCA”) for senior management. Benefits are based on years of service and the employee’s compensation. The costs of these programs are being funded currently. In addition, the Company provides other employee future benefits, such as supplementary medical and dental coverage, to defined eligible employees (“other benefit plans”). The cost of the other benefit plans is not being funded; however, a provision for this has been made in the accounts.

The Company accrues its obligations under employee defined benefit plans as the employees render the services necessary to earn pension and other employee future benefits.

The Company has adopted the following policies for its benefit plans:

- (i) The cost of defined benefit pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management’s best estimate of salary escalation, retirement ages and expected health care cost.
- (ii) For the purpose of calculating expected return on plan assets, those assets are valued at fair value.
- (iii) Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the time of the amendment.
- (iv) Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees.
- (v) When a restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(j) Intangible assets:

Intangible assets are reviewed at least annually. When the carrying amount of the reporting unit’s intangible asset exceeds the implied fair value of the intangible asset, an impairment loss is recognized as an amount equal to the excess and is identified separately on the statement of income.

(k) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company’s reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit’s goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is recorded in the statement of income before extraordinary items and discontinued operations.

(l) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

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(m) Earnings per share:

Earnings per share are calculated using the treasury stock method.

Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of share options, if dilutive. The number of additional shares is calculated by assuming that outstanding share options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

(n) Related party transactions:

Any transactions entered into between the Company and related parties are on terms and conditions that are at least as favourable to the Company as market terms and conditions and are recorded at the agreed upon exchange amount.

(o) Share based compensation:

The Company has a share-based compensation plan, which is described in notes 18 and 19. The Company accounts for all share-based payments to employees that call for settlement by the issuance of equity instruments, granted on or after January 1, 2003, using the fair value based method. Under the fair value based method, compensation cost attributable to options to employees is measured at fair value at the grant date and amortized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash is measured at intrinsic value and amortized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost.

For options that vest at the end of the vesting period, compensation cost is recognized on a straight-line basis. No compensation cost is recognized for options that employees forfeit if they fail to satisfy the service requirement for vesting.

2. PURCHASE OF NGX CANADA INC.:

On March 1, 2004, the Company acquired 100% of the outstanding common shares of a predecessor of NGX. NGX is a Canadian exchange that trades and clears natural gas and electricity contracts. The acquisition of NGX was accounted for using the purchase method.

The purchase price was \$39,338 in cash plus closing costs of \$834. In addition, a payment that considers the memorandum of agreement signed in 1999 was made to the Bourse de Montreal totalling \$5,000. The allocation of the purchase price, including the valuation of goodwill and intangible asset, was completed at the end of April 2004.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of acquisition:

As at March 1, 2004:

Cash	\$	12,989
Current assets		396,794
Premises and equipment		1,116
Future tax asset		386
Intangible asset		12,620
Goodwill		18,978
		442,883
Current liabilities		398,153
Income taxes payable		4,558
Purchase price	\$	40,172

The results of NGX are included from the date of acquisition.

3. MARKETABLE SECURITIES:

The carrying and fair values of the investment portfolio are as follows:

	2005		2004	
	Carrying value	Fair value	Carrying value	Fair value
Money market fund	\$ 134,701	\$ 134,701	\$ 92,085	\$ 92,085
Short-term bond and mortgage fund	113,046	113,117	62,041	62,576
	<u>\$ 247,747</u>	<u>\$ 247,818</u>	<u>\$ 154,126</u>	<u>\$ 154,661</u>

4. DERIVATIVE FINANCIAL INSTRUMENTS:

TSX Inc. has entered into total return swaps which synthetically replicate the economics of TSX Inc. purchasing the Company's shares as a partial hedge to the share appreciation rights of restricted share units and deferred share units that are awarded to directors and employees of the Company and its affiliates. TSX Inc. has purchased derivative financial instruments to effectively hedge against the impact of its share price fluctuations on the non-performance based portion of the long-term incentive plan.

The counterparty creates a hedge and delivers the cash proceeds net of borrowing costs to TSX Inc. at maturity. TSX Inc. has pledged assets with a market value of \$nil (2004 - \$11,934) at December 31, 2005 in a collateral account at The Canadian Depository for Securities Limited but retains beneficial ownership.

As at December 31, 2005:

	Remaining term to maturity (notional amount)			Fair value		
	Under 1 year	1 to 3 years	Total	Gain	Loss	Net
Equity Swap Contract #3	\$ 711	\$ -	\$ 711	\$ 601	\$ -	\$ 601
Equity Swap Contract #4	772	-	772	652	-	652
Equity Swap Contract #5	-	695	695	409	-	409
Equity Swap Contract #6	935	-	935	471	-	471
Equity Swap Contract #7	-	12,388	12,388	430	-	430
	<u>\$ 2,418</u>	<u>\$ 13,083</u>	<u>\$ 15,501</u>	<u>\$ 2,563</u>	<u>\$ -</u>	<u>\$ 2,563</u>

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As at December 31, 2004:

	Remaining term to maturity (notional amount)			Fair value		
	Under 1 year	1 to 3 years	Total	Gain	Loss	Net
Equity Swap Contract #2	\$ 10,174	\$ –	\$ 10,174	\$ 3,291	\$ –	\$ 3,291
Equity Swap Contract #3	711	–	711	33	–	33
Equity Swap Contract #4	–	772	772	36	–	36
	\$ 10,885	\$ 772	\$ 11,657	\$ 3,360	\$ –	\$ 3,360

5. PREMISES AND EQUIPMENT:

2005	Cost	Accumulated amortization	Net book value
Premises under capital lease	\$ 12,317	\$ 10,818	\$ 1,499
Computers and electronic trading equipment	51,215	42,080	9,135
Furniture, fixtures and other equipment	16,984	15,209	1,775
Leasehold improvements	40,166	26,799	13,367
	\$ 120,682	\$ 94,906	\$ 25,776

2004	Cost	Accumulated amortization	Net book value
Premises under capital lease	\$ 12,317	\$ 10,162	\$ 2,155
Computers and electronic trading equipment	49,372	37,412	11,960
Furniture, fixtures and other equipment	16,579	14,264	2,315
Leasehold improvements	37,496	22,442	15,054
	\$ 115,764	\$ 84,280	\$ 31,484

Amortization charged for the year was \$10,969 (2004 - \$10,456).

6. OTHER ASSETS:

	2005	2004
Accrued benefit asset (note 7)	\$ 8,841	\$ 9,317
Other assets	4,185	5,491
	\$ 13,026	\$ 14,808

7. EMPLOYEE FUTURE BENEFITS:

Information about the Company's benefit plans is as follows:

Total cash amounts recognized as paid or payable for employee future benefits in 2005, consisting of employer contributions to the defined benefit pension plans, employer contributions to the other benefit plans, and employer contributions to the defined contribution plans, was \$3,466 (2004-\$1,881).

Defined benefit plans:

Commencing January 1, 2004, the Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at September 30 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as at December 31, 2002, and the next required valuation will be as at December 31, 2005.

	Pension and RCA plans		Other benefit plans	
	2005	2004	2005	2004
Accrued benefit obligation:				
Balance, beginning of year	\$ 40,996	\$ 37,719	\$ 7,566	\$ 5,762
Current service cost	1,653	1,715	880	408
Interest cost	2,642	2,410	547	436
Benefits paid	(1,799)	(1,244)	(129)	(111)
Employee contributions	322	266	-	-
Actuarial losses (gains)	6,637	(945)	2,677	929
Transfers	-	-	-	-
Special termination benefits	-	238	-	-
Acquisitions	-	837	-	142
Balance, end of year	\$ 50,451	\$ 40,996	\$ 11,541	\$ 7,566

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	Pension and RCA plans		Other benefit plans	
	2005	2004	2005	2004
Plan assets:				
Fair value, beginning of year	\$ 43,406	\$ 42,544	\$ -	\$ -
Actual return on plan assets	6,142	1,356	-	-
Employer contributions	1,407	19	-	-
Employee contributions	322	266	-	-
Benefits paid	(1,799)	(1,244)	-	-
Acquisitions	-	465	-	-
Transfers	-	-	-	-
Fair value, end of year	\$ 49,478	\$ 43,406	\$ -	\$ -
Funded status - plan surplus (deficiency)				
	\$ (973)	\$ 2,410	\$ (11,541)	\$ (7,566)
Unamortized net actuarial loss (gain)	8,273	5,465	2,888	210
Employer contributions after measurement date	276	7	-	-
Unamortized transitional obligation	58	74	-	-
Unamortized past service costs	1,207	1,361	129	136
Accrued benefit asset (liability)	\$ 8,841	\$ 9,317	\$ (8,524)	\$ (7,220)

The accrued benefit asset and accrued benefit obligation is included in the Company's consolidated balance sheet as follows:

	Pension and RCA plans		Other benefit plans	
	2005	2004	2005	2004
Other assets	\$ 8,841	\$ 9,317	\$ -	\$ -
Long term liabilities	-	-	(8,524)	(7,220)
Total	\$ 8,841	\$ 9,317	\$ (8,524)	\$ (7,220)

Plan assets consist of:

Asset category	Percentage of plan assets	
	2005	2004
Equity securities	51%	54%
Debt securities	37%	32%
Canada Revenue Agency refundable tax account	12%	14%
	100%	100%

The elements of the Company's defined benefit plan costs recognized in the year are as follows:

	Pension and RCA plans		Other benefit plans	
	2005	2004	2005	2004
Current service cost, net of employees' contributions	\$ 1,653	\$ 1,715	\$ 880	\$ 408
Interest cost	2,642	2,410	547	436
Actual return on plan assets	(6,142)	(1,356)	–	–
Amortization of past service costs	–	–	7	6
Special termination benefits	–	238	–	–
Actuarial losses (gains)	6,637	(945)	–	(6)
	4,790	2,062	1,434	844
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between expected return and actual return on plan assets for year (a)	3,760	(1,224)		
Difference between actuarial (gains) losses recognized for year and actual actuarial (gains) losses on accrued benefit obligation for the year (b)	(6,575)	1,036		
Difference between amortization of past service costs for year and actual plan amendments for the year (c)	154	154		
Difference between costs arising in the period and costs recognized in the period in respect of transitional obligation (asset)	16	13		
Net benefit plan expense	\$ 2,145	\$ 2,041	\$ 1,434	\$ 844

(a) Expected return on plan assets of \$2,382 (2004 - \$ 2,580) less the actual return on plan assets of \$6,142 (2004 - \$ 1,356).

(b) Actuarial (gain) loss recognized for the year of \$62 (2004 - \$91) less the actual actuarial (gain) loss on accrued benefit obligation of \$6,637 (2004 - \$(945)).

(c) Amortization of past service costs for the year of \$154 (2004 - \$ 154) less the actual plan amendments for year of \$nil (2004 - \$nil).

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The significant actuarial assumptions adopted in measuring the obligation are as follows (weighted average):

	Pension and RCA plans		Other benefit plans	
	2005	2004	2005	2004
Discount rate	6.25%	6.25%	5.25%	6.50%
Rate of compensation increase	4.25%	4.25%	n/a	n/a
Expected long-term rate of return on plan assets	6.25%	7.0%	n/a	n/a

The assumed health care cost trend rate at December 31, 2005 was 7.3% (2004 – 7.3 %), decreasing to 4.6% (2004 – 4.6%) over seven years.

Increasing or decreasing the assumed health care cost trend rates by one percentage point would have the following effects for 2005.

	Increase	Decrease
Total of service and interest cost	\$ 387	\$ (292)
Accrued benefit obligation	\$ 2,995	\$ (2,256)

In 2005, the Company contributed and expensed \$1,783 (2004 - \$1,855) to the defined contribution tier, which amounts are not included in the recognized defined benefit costs above.

The average remaining service period of the active employees covered by the pension plans is 12 years (2004 – 12 years). The average remaining service period of the active employees covered by the other retirement benefits plans is 19 years (2004 – 24 years).

8. INVESTMENT IN AFFILIATE:

On July 8, 2002, the Company paid \$15,000 plus closing costs of \$126, to acquire approximately 40% equity interest in CanDeal.ca Inc. (“CanDeal”), which owns an electronic trading system for the institutional debt market. As part of the investment, the Company and CanDeal entered into an agreement under which the Company would provide technological services in support of CanDeal’s electronic trading system.

On April 10, 2003, CanDeal acquired for redemption, shares previously issued to Basis 100, a technology provider, resulting in the Company’s equity interest increasing to approximately 45%. The other shareholders of CanDeal includes its founders, Canada’s six largest investment dealers, which represent the majority of the institutional debt trading market in Canada, and a service provider.

The investment is accounted for using the equity method. The purchase price exceeded the proportionate share of the fair value of tangible net assets acquired by \$16,069. This amount represents intangible assets and goodwill.

In 2005 the Company charged CanDeal \$751 (2004 - \$710) for technology services.

9. NGX COLLATERAL ARRANGEMENTS AND CLEARING BACKSTOP FUND:

As part of its clearing operations, NGX becomes the counterparty to each transaction, thereby guaranteeing the fulfillment of every contract that is executed on its electronic trading platform. To manage the risks associated with its clearing activities NGX is fully collateralized by the counterparty and maintains a \$30,000 clearing backstop fund. The Company is the guarantor of this fund, and has pledged \$30,000 of marketable securities related to its obligations as guarantor.

NGX requires each counterparty (the “Contracting Party”) to provide collateral in the form of cash or letters of credit based on the magnitude of its unsettled contractual obligations which may be accessed in the event of default by a Contracting Party. The collateral provided in the form of cash (“the cash collateral deposits”) is segregated in individually designated bank accounts held at a major Canadian chartered bank by NGX which acts as trustee for these funds. The collateral deposits, together with letters of credit provided by all the Contracting Parties, exceed all of the outstanding credit exposure, as determined by NGX, for all its unsettled contractual obligations at any time.

10. NGX CLEARING RISK:

As an electronic exchange for energy products, NGX is a party to offsetting contracts for the physical delivery of energy products in future periods at fixed prices for all energy products traded on NGX between buyers and sellers. Prices are determined by the electronic matching of bids and offers from NGX customers at the time the trade contracts are initiated. NGX is also a party to offsetting financial swap contracts with customers which call for the payment of the differential between fixed prices, as agreed through the bid offer process, and specified market indices at future dates.

NGX does not participate in the price risk associated with these trading contracts and does not take physical delivery of energy products traded on NGX. In the event of non-performance by one of the customers in a trade, NGX has arranged for third party physical backstopping on trades with all related costs payable by the non-performing customer. As NGX handles the clearing of all payments related to trading contracts, it bears credit risk associated with customer obligations.

The terms of physical contracts traded on NGX range from same day to October 31, 2008 and the terms for swap contracts traded on NGX range from near month to Calendar Year 2010 which ends December 31, 2010.

As the clearing counterparty to every trade, NGX is exposed to credit risk in the event that a buyer fails to pay the required funds for energy products purchased and the market risk if buyers or sellers fail to take or deliver energy products which have been contracted at prices less favourable than market prices at the time of the contract delivery period or if a customer fails to settle their financial trade commitments. To mitigate these risks, NGX employs a customized energy market margining model secured by liquid collateral deposits from all Contracting Parties with exposure.

NGX will provide the counterparty with an invoice on or before the 15th day of each calendar month for deliveries and receipts of energy products during the prior calendar month pursuant to physical contracts which are payable in the same currency, setting forth a net amount owing by or to the counterparty itemizing and applying set-off to each of any purchase amount payable or receivable in respect of any such physical contracts, any amounts payable for fees to NGX, and any amounts payable for GST. Physical and financial trading contracts which have not yet been settled, as well as the revenues and expenses related to the value of energy products traded or swap differential payments made during the year, are not recognized in these consolidated financial statements as NGX does not function as a principal in these trading activities. NGX energy contract receivable and payable positions are recognized for all trading contracts where physical delivery has occurred prior to the period end but payments had not yet been made.

NGX monitors and measures total potential exposure for each Contracting Party’s portfolio on a real-time basis as the aggregate of:

- (i) outstanding accounts receivable positions;
- (ii) “Variation Margin”, which is comprised of the aggregate “mark to market” exposure for all outstanding purchase and sale contracts with a negative value from the perspective of the customer; and
- (iii) “Initial Margin”, which is an amount expressed as a rate in dollars per unit of energy that estimates the worst expected loss that a position might incur under normal market conditions during a liquidation period.

NGX maintains credit policies and practices with regard to its customers that management believes significantly minimize overall clearing risk. These policies and practices include a continuous monitoring of aggregate margin requirements for each customer to ensure that the customer has posted sufficient collateral in compliance with the Risk Management Policy of the Contracting Party’s Agreement which is a standardized agreement that allows for netting of positive and negative exposures associated with a single customer.

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In addition, NGX monitors the customer's (and its credit support providers, if any) financial condition to ensure full compliance with the representations and warranties of the contracting party. In the event of default by any contracting party, which includes a failure to take delivery of product, a failure to make delivery of product, failure to pay, failure to deposit collateral, or insolvency, NGX will liquidate the defaulting customer's open positions, draw down the collateral to cover the liquidation, and terminate such contracting party from trading on NGX.

11. GOODWILL AND INTANGIBLE ASSETS:

Goodwill is tested for impairment annually. The impairment test is carried out in two steps. In the first step, the Company compared the carrying amounts of its reporting units with their fair values. The tests were performed in the fourth quarter. The measurement methodology used to determine whether impairment exists was recoverability based on discounted future cash flows. The Company found that the fair values of its reporting units were not impaired. Therefore, the second step of the impairment test was not required.

At the time of the respective purchases, the Company recorded an intangible asset related to the listed issuer base of TSX Venture Exchange Inc. and of the customer base of NGX.

	2005	2004
Intangible assets, beginning of year	\$ 33,208	\$ 23,108
Acquisition of intangible asset (note 2)	-	12,620
Less amortization of intangible assets	(2,508)	(2,520)
Intangible assets, end of year	\$ 30,700	\$ 33,208

12. LEASE COMMITMENTS:

The Company is committed under long-term leases as follows:

- (a) The rental of office space, under various long-term operating leases with remaining terms of up to 13 years and a capital lease for an initial term of 25 years with an additional 10-year renewal option.
- (b) The rental of computer hardware and software for terms of one to three years.

Current lease obligations over the remaining terms of the operating leases are as follows:

Years ending December 31:

2006	\$	12,893
2007		9,838
2008		4,791
2009		4,001
2010		3,936
Thereafter		19,886
	\$	55,345

The obligations under capital leases are as follows:

	2005	2004
Total minimum lease payments	\$ 1,893	\$ 2,138
Less amounts representing interest	157	323
	1,736	1,815
Less current portion	833	533
	\$ 903	\$ 1,282

Interest on the obligations under capital leases amounted to \$160 (2004 - \$204).

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Current lease obligations over the remaining terms of the capital leases are as follows:

Years ending December 31:

2006	\$	942
2007		815
2008		136
2009		—
Thereafter		—
	\$	1,893

13. SEGMENTED INFORMATION

The Company operates in two reportable segments. In the Capital Markets segment, the Company owns and operates Canada's two national stock exchanges, Toronto Stock Exchange and TSX Venture Exchange. The Energy Markets segment is engaged in trading and clearing natural gas and electricity contracts through NGX.

	Capital Markets	Energy Markets*	Total
<u>2005</u>			
Total Revenue	\$ 272,541	\$ 17,423	\$ 289,964
Net Income	99,192	4,161	103,353
Goodwill	5,963	18,978	24,941
Total Assets	531,056	1,027,169	1,558,225
<u>2004</u>			
Total Revenue	\$ 232,051	\$ 11,379	\$ 243,430
Net Income	67,091	1,399	68,490
Goodwill	5,963	18,978	24,941
Total Assets	412,424	623,870	1,036,294

* Results from date of acquisition

14. OTHER LIABILITIES:

Other liabilities include amounts payable under the long term incentive plan (note 19) and liabilities due to the contraction of office space.

15. DEFERRED REVENUE-INITIAL AND ADDITIONAL LISTING FEES:

Deferred revenue-initial and additional listing fees represents non-refundable fees received from listed issuers. This deferred revenue will be recognized on a straight line basis over an estimated service period of ten years.

16. SHAREHOLDERS' EQUITY:

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preference shares, issuable in series.

Each common share of the Company entitles its holder to one vote at all meetings of shareholders subject to certain restrictions with respect to the voting rights and the transferability of the shares. No person or combination of persons acting jointly or in concert is permitted to beneficially own or exercise control or direction over more than 10% of any class or series of voting shares of the Company without the prior approval of the Ontario Securities Commission.

Each common share of the Company is also entitled to receive dividends if, as and when declared by the Board of Directors of the Company. All dividends that the Board of Directors of the Company may declare and pay will be declared and paid in equal amounts per share on all common shares, subject to the rights of holders of the preference shares. Holders of common shares will participate in any distribution of the net assets of the Company upon liquidation, dissolution or winding-up on an equal basis per share, but subject to the rights of the holders of the preference shares.

There are no pre-emptive, redemption, purchase or conversion rights attaching to the common shares, except for the compulsory sale of shares or redemption provision described in connection with enforcing the restriction on ownership of voting shares of the Company.

Details of capital transactions are as follows:

	Common shares Number	Share capital	Deficit	Share option plan	Total shareholders' equity
Balance, December 31, 2003	67,500,182	\$ 372,004	\$ (277,119)	\$ 1,018	\$ 95,903
Net income 2004	–	–	68,490	–	68,490
Dividends	–	–	(39,282)	–	(39,282)
Exercised options	280,400	3,761	–	–	3,761
Share option costs	–	–	–	644	644
Balance, December 31, 2004	67,780,582	375,765	(247,911)	1,662	129,516
Net income 2005	–	–	103,353	–	103,353
Dividends	–	–	(61,241)	–	(61,241)
Exercised options	312,436	5,160	–	–	5,160
Share option costs	–	–	–	1,007	1,007
Balance, December 31, 2005	68,093,018	\$ 380,925	\$ (205,799)	\$ 2,669	\$ 177,795

As a result of legislation passed by the Ontario Legislature on December 14, 1999, effective April 3, 2000, Toronto Stock Exchange continued from a not-for-profit corporation to a for-profit taxable business corporation, The Toronto Stock Exchange Inc. (subsequently renamed TSX Inc.). At the time of the continuance, any accumulated excess in revenue over expenses was internally restricted as it was not intended that any part of the surplus be distributed to shareholders. As at December 31, 2005, the Company determined this amount to be \$63,407 (2004 - \$64,511).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004 (in thousands of dollars, except per share amounts)

17. EMPLOYEE SHARE PURCHASE PLAN:

The Company offers an employee share purchase plan for eligible employees of the Company and its subsidiaries. Under the employee share purchase plan, contributions by the Company and by eligible employees will be used by the plan administrator, CIBC Mellon Trust Company, to make purchases of common shares of the Company on the open market. Each eligible employee may contribute up to 10% of the employee's salary to the employee share purchase plan. The Company will contribute to the plan administrator the funds required to purchase one common share of the Company for each two common shares purchased on behalf of the eligible employee, up to a maximum annual contribution of \$2.5. Shareholder approval is not required for this plan.

The Company accounts for its contribution as compensation expense when it is contributed to the plan. Compensation expense related to this plan was \$829 for the year ended December 31, 2005 (2004 - \$758).

18. SHARE OPTION PLAN:

The Company established a share option plan in the year of its initial public offering. All employees of the Company and its affiliates are eligible to be granted options under the option plan. The plan provides that the number of shares reserved for issuance pursuant to stock options granted to any one person under the plan and all other share compensation arrangements cannot exceed 5 % of the outstanding common shares of the Company. 5,007,164 common shares of the Company have been reserved for issuance upon exercise of options granted under this plan, representing approximately 7% of the outstanding common shares of the Company.

In 2005, 384,482 (2004-450,800) options were granted to eligible employees, 312,436 (2004-280,400) options were exercised and 155,484 (2004-244,500) options were forfeited, resulting in 1,248,462 (2004-1,331,900) options remaining outstanding under the share option plan. Options granted in 2005 have strike prices in the range of \$29.636 to \$31.113. Options granted in 2004 had strike prices in the range of \$22.403 to \$26.447.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2005: dividend yield of 2.5 percent; expected volatility of 25 percent; risk-free interest rate of 4 percent and expected life of seven years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2004: dividend yield of 2.5 percent; expected volatility of 25 percent; risk-free interest rate of 3.910 percent and expected life of five years.

Options granted will expire in 2011, 2012 and 2013.

Share options:

	For the years ended			
	2005		2004	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	1,331,900	\$ 13.937	1,406,000	\$ 10.608
Granted	384,482	29.660	450,800	22.590
Forfeited	(155,484)	16.140	(244,500)	12.309
Exercised	(312,436)	13.270	(280,400)	10.553
Outstanding, end of year	1,248,462	\$ 18.980	1,331,900	\$ 13.937

193,932 options were fully vested and exercisable at strike prices in the range of \$10.529 to \$26.45 at December 31, 2005. During 2005, the Company recognized compensation cost of \$2,023 (2004 - \$1,424) in respect of its share option plan.

19. LONG-TERM INCENTIVE PLAN:

Effective January 1, 2001, TSX Inc. introduced an interim bonus plan (in lieu of a long-term incentive plan) for officers and director level employees of TSX Inc. and its affiliates. The interim bonus plan provided eligible employees with a deferred award based on the annual financial performance of the Company. Amounts earned in 2001 were converted into deferred share units for executive officers and restricted share units for other participants in conjunction with the public offering of the Company, with each deferred share unit or restricted share unit having an initial value equal to the price of one common share of the Company in the public offering. Amounts earned in 2002 were converted into deferred share units or restricted share units based on the share value, with each deferred share unit or restricted share unit having a value based on the value of one common share of the Company on December 31, 2002.

In general, deferred share units vest in accordance with the same schedule contemplated by the existing interim bonus plan, being, for deferred share units issued on conversion of 2001 amounts, one-third on each of December 31, 2002, 2003 and 2004, and, for deferred share units issued on conversion of 2002 amounts, one-third on each of December 31, 2003, 2004 and 2005, but can only be redeemed upon termination of employment or retirement. Restricted share units vest in accordance with the same three-year vesting schedule described above and were redeemed at the end of the schedule, or in certain circumstances, on an earlier date. The deferred share unit plan and the restricted share unit plan were established for the purpose of converting amounts earned under the interim bonus plan. No shares will be issued or transferred on redemption of deferred share units or restricted share units; only cash payments will be made. Each participant may elect to receive their incentive compensation, in whole or in part, in the form of deferred share units.

In January, 2004 the Board approved a long-term incentive plan which provides for the granting of restricted share units ("RSUs"). The amount of the award payable at the end of three years will be determined by the total shareholder return at the end of the three year period. Total shareholder return represents the appreciation in share price plus dividends paid on a share, measured at the time RSUs vest.

The Company records its obligation under the plan, if any, in the period in which the award is earned. As at December 31, 2005, \$18,398 (2004 - \$11,674) has been accrued and is included in accounts payable and accrued liabilities and other liabilities. The Company has purchased derivative financial instruments to effectively hedge against the impact of its share price fluctuations on the non-performance based portion of the long-term incentive plan (note 4).

20. EARNINGS PER SHARE:

	2005	2004
Net income	\$ 103,353	\$ 68,490
Weighted average number of common shares outstanding	68,025,907	67,687,706
Basic earnings per share	\$ 1.52	\$ 1.01
Diluted weighted average number of common shares outstanding	68,649,533	68,398,816
Diluted earnings per share	\$ 1.51	\$ 1.00

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004 (in thousands of dollars, except per share amounts)

21. INCOME TAXES:

Income tax expense attributable to income differs from the amounts computed by applying the combined federal and provincial income tax rate of 35.52% (2004 – 35.54%) to pre-tax income from operations as a result of the following:

	2005	2004
Income before income taxes	\$ 156,955	\$ 102,461
Computed expected tax expense	\$ 55,750	\$ 36,415
Non-deductible expenses	1,400	945
Share of affiliate loss	248	433
Deferred revenue not affecting tax	(3,385)	(3,692)
Impact of changes in substantively enacted income tax rates	(301)	–
Other	(110)	(130)
	\$ 53,602	\$ 33,971

The income tax provisions for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
Current tax expense	\$ 79,624	\$ 54,595
Future tax expense	(26,022)	(20,624)
	\$ 53,602	\$ 33,971

The tax effects of temporary differences that give rise to significant portions of the future tax asset at December 31, 2005 and 2004 are presented below:

	2005	2004
Non-capital loss carryforwards	\$ 1,434	\$ 1,048
Premises and equipment	5,660	5,279
Cumulative eligible capital	34,131	35,810
Financing costs	710	1,142
Deferred listing revenue	93,110	68,864
Other temporary differences	8,544	5,424
	\$ 143,589	\$ 117,567
Future tax asset:		
Current	\$ 4,571	\$ 5,694
Long-term	139,018	111,873
	\$ 143,589	\$ 117,567

22. REGULATORY SERVICES:

Since 2002, the Securities Commissions of Alberta, British Columbia, Manitoba, Ontario and Quebec (the commissions) have recognized Market Regulation Services Inc. (“RS”) as a self-regulatory organization and approved the retention of RS to perform certain market regulation functions formerly performed by TSX Inc. RS is a private corporation jointly owned by TSX Inc. and the Investment Dealers Association of Canada and operated on a not-for-profit basis in accordance with its articles. RS provides regulatory services to Canadian marketplaces (i.e., exchanges, alternative trading systems and quotation and trade reporting systems) that contract with it, in consideration of fees to be paid by such marketplaces and their participants. TSX Inc. and TSX Venture Exchange Inc. have retained RS to perform certain market regulation functions.

For the period from January 1 to December 31, 2005, \$6,876 (2004 - \$7,292) of Business Services revenue was earned for technology, payroll and human resources services provided to RS and \$3,485 (2004- \$3,065) was paid to RS for services provided by RS.

23. FINANCIAL INSTRUMENTS:

(a) Fair values of financial assets and financial liabilities:

The fair values of the Company’s cash, accounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term nature. The fair value of other assets and the obligation under capital lease is not readily determinable.

(b) Foreign currency risk:

Accounts receivable include U.S. \$ 3,483 (2004 - U.S. \$2,441), which is exposed to change in the U.S.-Canadian dollar exchange rate.

24. CONTINGENT LIABILITY:

From time to time in connection with its operations, the Company or its subsidiaries are named as a defendant in actions for damages and costs sustained by plaintiffs, or as a respondent in court proceedings challenging the Company’s or its subsidiaries’ regulatory actions, decisions or jurisdiction.

During the first quarter of 2005, TSX Venture Inc. was named as a defendant in an action for unspecified damages. The Company believes the claim is without merit and intends to vigorously defend the action. Accordingly, no provision has been made in the accounts.

During the last quarter of 2005, TSX Inc. was named as a respondent in an application for an injunction and other declaratory relief regarding certain regulatory proceedings proposed to be taken against the applicants by TSX Inc.’s regulation services provider. The Company does not believe that this application will have a material impact on the Company.