

## CEO'S LETTER TO SHAREHOLDERS

I am pleased to report on another excellent year.

It was excellent in two regards, for what we achieved in terms of results, and for what we accomplished in preparing for what's ahead.

Let me start with our results.

This was a year of multiple records:

- The market capitalization of our listed issuers exceeded \$2 trillion for the first time.
- New records were set on both our equity exchanges for the volume of securities traded – up 40 per cent in 2006 compared to a year before.
- A record of 139,000 data subscriptions at year-end helped make TSX Datalinx our fastest growing primary revenue stream.

This strength across our business lines produced a 26 per cent increase in earnings per share in 2006, compared with 2005.

This is the more impressive because our markets had to absorb two shocks during the year – the correction in the resources sectors which saw oil, natural gas, gold and some other metals prices decline sharply from historic peaks, and the surprise decision of the federal government to change taxation policy with respect to income trusts.

So apart from the market demonstrating the capacity to produce stellar returns, it also demonstrated powerful resilience, reflecting the underlying strength of the Canadian economy and the confidence that Canadians have in our financial markets.

Our accomplishments in building for the future were equally impressive.

On the trading side of our business, we announced several enhancements to our trading system which, collectively and individually, add speed and efficiency to our marketplaces.

Our TSXPress™ initiative is an example of this. TSXPress improves the performance of our existing trading engine by dedicating processing to the most actively traded securities. This optimizes execution speeds for our most demanding customers.

In addition, we added the international trading protocol known as FIX to our own protocol, STAMP, to make it easier for international traders to access our exchanges. Trading from abroad is an increasingly important source of growth – some 40 per cent of our trading now comes from the U.S.

Initiatives such as these provided us with an added benefit – they bought us the time to create our next generation trading engine.

By year's end, following lab testing of the capabilities of the new engine, we were able to announce that we will roll out this new platform – named Quantum™ – beginning in the fourth quarter of 2007.

The benchmark testing on the system was truly impressive. Throughput tested at 100,000 messages a second and response time was in the low single digit millisecond range. Capacity tested more than two billion order messages a day. Reliability showed the capability for full system fail-over in seconds, with no lost messages – in other words, near-perfect system availability. And finally, we achieved order match processing in micro-seconds – that is, in millionths of a second.

When the new engine is in place we expect we will move from North American competitive parity, with our existing system, to global leadership in trading engine technology.

Trading technology was not our only area of progress. We now provide managed services for our direct data products. We have achieved this by co-locating their data infrastructure within our data centres to reduce latency and provide bandwidth efficiencies. We also re-launched the tsx.com web site, in the process introducing advertising on the web site to provide a new revenue source.

We have strengthened our position in gas and electricity trading with NGX's acquisition of Oxen Inc., the owner of the Alberta Watt Exchange or Watt-Ex. Watt-Ex supplies services which allow the Alberta market operator to balance electricity supply and demand on the grid. NGX has also provided services to the Ontario Power Authority, running periodic auctions of electricity.

And we have built up our position in fixed income securities, and clearly there is the potential for greater growth still. Electronic trading in CanDeal.ca, of which we own 47 per cent, increased significantly – up 128 per cent over the previous year. CanDeal turned its first profit during the year.

Acquisitions strengthened our position in fixed income securities even further – the addition of Shorcan Brokers Limited gives us a leading position in the inter-dealer brokerage business; the addition of Scotia Capital's bond indices bring into TSX Group the most widely used fixed income performance benchmarks in the Canadian market.

These accomplishments are a solid base for moving ahead in 2007.

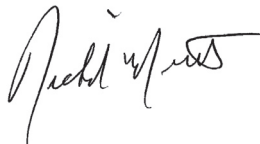
On March 5, 2007 we announced that we are establishing a joint venture with International Securities Exchange (ISE) to launch our own futures and options exchange. This will bring together our strengths as the pre-eminent market for Canadian securities and ISE's strengths as one of the leading derivatives exchanges in the world.

I have every confidence that this venture – to be known as DEX<sup>TM</sup> – will give us the same pre-eminence in the Canadian derivatives market as we have in equities and other cash products.

Altogether a year that gives us immense confidence in our future prospects.

Finally, one of the keys to our success has been the focused teams we have built in our operations to deal not simply with current needs and opportunities, but to carry this company into the future.

Two of our team builders – John Cieslak, our Chief Information and Administration Officer, and Linda Hohol, President of TSX Venture Exchange – will retire from TSX Group on April 30, 2007. Both made immense contributions during their years with TSX Group, but the most important of their contributions may well prove to be the teams they put in place to carry their work forward in the years ahead.



**RICHARD NESBITT**  
Chief Executive Officer  
TSX Group Inc.