2006 MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This Management's Discussion and Analysis (MD&A) of TSX Group Inc.'s (TSX Group) financial condition and results of operations is provided to enable a reader to assess our financial condition, material changes in our financial condition and our results of operations, including our liquidity and capital resources, for the financial year ended December 31, 2006, compared with the year ended December 31, 2005. This MD&A is dated January 31, 2007. It should be read carefully together with our 2006 Consolidated Financial Statements and related notes for the corresponding period, filed with Canadian securities regulators, and accessible through www.sedar.com, or our website at www.tsx.com. All amounts are in Canadian dollars and are based on financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP), unless otherwise specified.

Additional information about TSX Group, including our most recent Annual Information Form is available through www.sedar.com and on our website www.tsx.com. We are not incorporating information contained on the website in this MD&A.

NON-GAAP FINANCIAL MEASURES

Certain measures used in this MD&A, specifically listing fees received, initial listing fees received, additional listing fees received and total revenue based on initial and additional listing fees received, do not have standardized meanings prescribed by Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers. We present these measures as an indication of how initial and additional listing activity and the fees received for listing or reserving securities, impact the financial performance and cash flows of our business. Management uses these measures to assess the effectiveness of our strategy to serve our listed issuers and grow the listings portion of our business.

VISION

Our vision: To be a leading Canadian public company that is the best operator of electronic marketplaces on a global standard.

Our strategy: To continue to enhance our core business and seek growth opportunities by diversifying both horizontally into related markets in which we can leverage our domestic and international competitive advantages, as well as vertically into other areas of the trading value chain.

Competitive Advantages

Domestic:

- Brand and reputation
- Pre-eminent domestic position
- Trading and data technology capability
- Marketplace operations capability
- Data platform and capability

International:

- Mining listings and expertise
- Oil & Gas listings and expertise
- Small-Medium Enterprise (SME) expertise

OVERVIEW OF THE BUSINESS

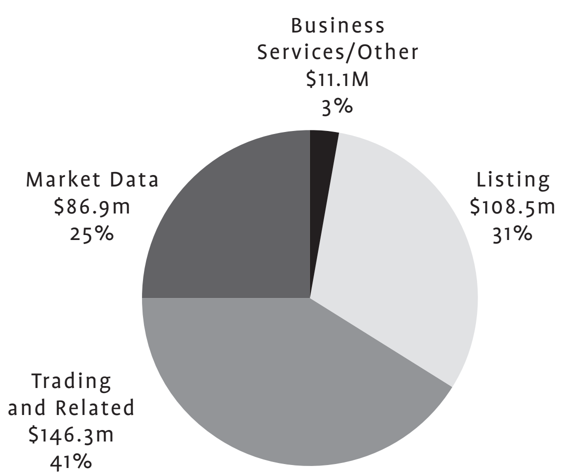
We own and operate equity, energy and fixed income markets in Canada.

- Our equity markets, Toronto Stock Exchange and TSX Venture Exchange, are the primary venues for capital formation and liquidity in Canada. The total market capitalization of the 3,842 issuers listed on our equity exchanges at December 31, 2006 was over $2.1 trillion, making our combined equity exchanges the third largest in North America and the eighth largest in the world. The total volume of securities traded on our two equity exchanges in 2006 was 119.7 billion. There were over 139,000 professional and equivalent real-time market data subscriptions at the end of 2006.
- Our energy market, Natural Gas Exchange Inc. (NGX) is a Canadian-based exchange that trades and clears natural gas and electricity contracts. During 2006, 9.8 million terajoules in natural gas and electricity contracts were traded or cleared on NGX. In October 2006, we added to our energy business when we acquired Oxen Inc. which owns the Alberta Watt Exchange Limited (Watt-Ex), a platform for providing ancillary services to the Alberta Electric System Operator which is used to balance supply and demand on the Alberta grid.
- We acquired our fixed income market, Shorcan Brokers Limited (Shorcan), Canada's first fixed income inter-dealer broker (IDB) in December 2006. We estimate that the IDB market represents about 40% of total fixed income trading in Canada and that Shorcan's share of this market is about 37%, or $540 billion in 2006. This complemented the October 2006 purchase of Scotia Capital Inc.'s* (Scotia Capital) Fixed Income Indices, PC-Bond® analytics, and related data assets by a wholly-owned subsidiary of TSX Group. We also signed a long-term data license for Scotia Capital to continue to provide fixed income pricing data.
- We also own 47% of CanDeal.ca. Inc. (CanDeal), an institutional fixed income trading system. During 2006, CanDeal traded $333.5 billion in fixed income securities.

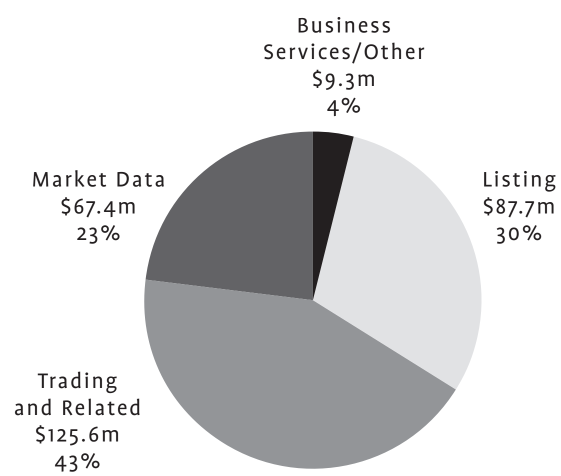
Core Business of TSX Group

We derive revenue from three principal sources – listings, trading, and market data.

2006 revenue of $ 352.8 million



2005 revenue of $ 290.0 million



* Registered trade-mark of The Bank of Nova Scotia. Used under license.

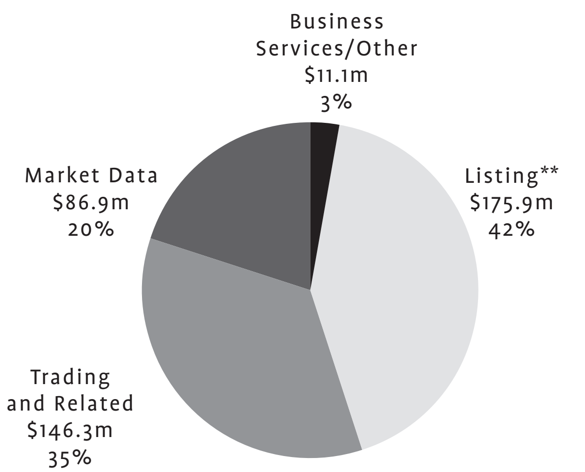
Canadian GAAP requires that we recognize initial and additional listing fees over an estimated service period related to the fees, which we have determined to be ten years, even though we receive these fees upon completion of the transaction and they are non-refundable to customers. We believe it is helpful to also show total revenue based on initial and additional listing fees received* as this measure links these listing fees more closely with the listing transactions and cash flows we generate from these transactions. In October 2005, we adopted these GAAP requirements regarding the accounting for fees charged for initial listings and additional financings and retroactively applied this treatment so that we recognize these fees over a ten year period, as described in our Review of Operations – 2006 under the heading **Listing Revenue**.

The following is a reconciliation of total revenue based on initial and additional listing fees received* to total revenue based on initial and additional listing fees reported:

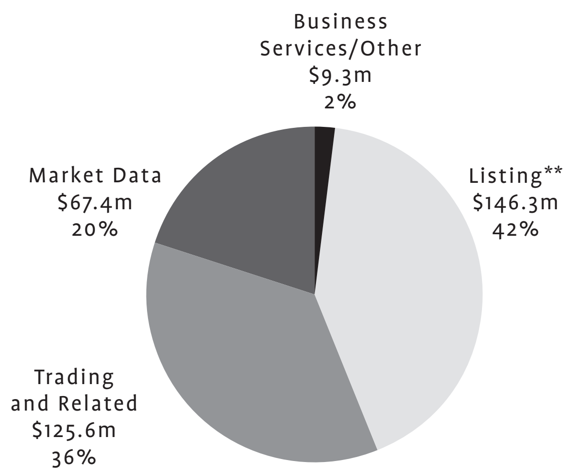
(in millions of dollars)

	2006	**2005**
Total revenue based on initial and additional listing fees received*	**$ 420.2**	$ 348.6
Initial and additional listing fees received and deferred to future periods*	**$ (112.9)**	$ (95.7)
Recognition of initial and additional listing fees received and previously included in deferred revenue	**$ 45.5**	$ 37.1
Total revenue based on initial and additional listing fee revenue reported	**$ 352.8**	$ 290.0

2006 revenue of $ 420.2 million*
(total revenue based on initial
and additional listing fees received*)



2005 revenue of $ 348.6 million*
(total revenue based on initial
and additional listing fees received*)



* See discussion under the heading Non-GAAP Financial Measures.

** See discussion under the heading Non-GAAP Financial Measures. The composition of listing fees received and a reconciliation to listing fees reported is available in our Review of Operations – 2006 under the heading **Listing Revenue.**

Listings – Toronto Stock Exchange and TSX Venture Exchange

Our listings operations take place through Toronto Stock Exchange, our senior market, and TSX Venture Exchange, our junior market. TSX Venture Exchange also offers a board called NEX[1] for issuers that have fallen below TSX Venture Exchange's ongoing listing standards.

- At December 31, 2006, 1,598 issuers with an aggregate market capitalization of $2.1 trillion were listed on Toronto Stock Exchange.
- At December 31, 2006, 2,244 issuers with an aggregate market capitalization of $55.3 billion were listed on TSX Venture Exchange.
- In 2006, revenue from listing fees on the two exchanges was $108.5 million, or 31% of our revenue, of which 80% related to Toronto Stock Exchange listings and 20% related to TSX Venture Exchange listings. Listing fees received** from our issuers in 2006 was $175.9 million, or 42% of our total revenue based on initial and additional listing fees received***, of which 71% related to Toronto Stock Exchange listings and 29% related to TSX Venture Exchange listings.
- In 2005, revenue from listing fees on the two exchanges was $87.7 million, or 30% of our revenue, of which 83% related to Toronto Stock Exchange listings and 17% related to TSX Venture Exchange listings. Listing fees received** from our issuers in 2005 was $146.3 million, or 42% of our total revenue based on initial and additional listing fees received***, of which 75% related to Toronto Stock Exchange listings and 25% related to TSX Venture Exchange listings.

In general, issuers initially list on Toronto Stock Exchange either in connection with their initial public offerings (IPOs), or by graduating from TSX Venture Exchange. Junior companies generally list on TSX Venture Exchange either in connection with their IPOs or through alternative methods such as TSX Venture Exchange's Capital Pool Company® (CPC™) program or reverse takeovers.

Issuers list a number of different types of securities including conventional securities such as common shares, preferred shares, rights and warrants, and an expanding variety of alternative types of securities such as exchangeable shares, convertible debt instruments, limited partnership units, exchange-traded fund units, income trust units and structured products.

Issuers that meet initial and ongoing listing requirements of Toronto Stock Exchange or TSX Venture Exchange receive a range of benefits, including opportunities to efficiently access public capital, liquidity for existing investors, mentorship programs and the prestige and market exposure associated with being listed on one of Canada's national stock exchanges. In June 2006, we launched TSXconnect® in collaboration with Thomson Financial. TSXconnect is an integrated, web-based platform for accessing investor relations management tools and was provided to Toronto Stock Exchange listed issuers at no additional charge.

We generate listing revenue by charging issuers the following types of listing fees:

Initial Listing Fees

Toronto Stock Exchange and TSX Venture Exchange issuers pay initial fees based on the value of the securities to be listed or reserved, subject to minimum and maximum fees. Initial listing fees fluctuate with the number of transactions and value of securities being listed or reserved in a given period. For accounting purposes, we recognize revenue from initial listing fees on a straight line basis over a ten year period. Unamortized balances are recorded as part of "Deferred revenue - initial and additional listing fees" on the consolidated balance sheet.

Additional Listing Fees

Issuers already listed on one of our equity exchanges pay fees in connection with subsequent capital market transactions, such as the raising of new capital through the sale of additional securities. Additional listing fees are based on the value of the securities to be listed or reserved, subject to minimum and maximum fees. Additional listing fees fluctuate with the number of transactions and value of securities being listed or reserved in a given period. For accounting purposes, we recognize additional listing fees on a straight line basis over a ten year period. Unamortized balances are recorded as part of "Deferred revenue - initial and additional listing fees" on the consolidated balance sheet.

** See discussion under the heading Non-GAAP Financial Measures. The composition of listing fees received and a reconciliation to listing fees reported is available in our Review of Operations – 2006 under the heading **Listing Revenue**.

*** See discussion under the heading Non-GAAP Financial Measures and reconciliation to total revenue based on initial and additional listing fee revenue reported under the heading **Core Business of TSX Group.**

[1] Unless otherwise indicated, market statistics and financial information for TSX Venture Exchange includes information for NEX.

Sustaining Listing Fees

Issuers listed on one of our equity exchanges pay annual fees to maintain their listing, based on their market capitalization at the end of the prior calendar year, subject to minimum and maximum fees. Sustaining listing fees provide a relatively stable, recurring revenue stream. Sustaining listing fees are billed during the first quarter of the year, recorded as deferred revenue and amortized over the year on a straight-line basis.

Changes to Listing Fees for 2007

On October 25, 2006, we announced changes to the fee structure for issuers listed on Toronto Stock Exchange and TSX Venture Exchange, effective January 1, 2007. This decision followed a review of listing fees on other major global exchanges. Based on year to date levels of market activity up to October 25, 2006, it was anticipated that listing fees received* would have increased by about five to seven percent on an annual basis primarily as a result of adjustments made to the maximum fee for certain listing fees[2].

Trading – TSX Markets, NGX and Shorcan

TSX Markets

Our trading operations for both Toronto Stock Exchange and TSX Venture Exchange are managed through TSX Markets. Participating Organizations and Member Firms (collectively POs), acting as principals or agents for retail and institutional investors, place orders to buy or sell listed securities using our fully electronic trading systems.

- In 2006, trading and related fees paid by POs relating to both exchanges represented $126.3 million, or 36% of our revenue. Trading and related revenue was $98.3 million on Toronto Stock Exchange and $28.0 million on TSX Venture Exchange.
- In 2005, trading and related fees paid by POs relating to both exchanges represented $108.7 million, or 37% of our revenue. Trading and related revenue was $92.4 million on Toronto Stock Exchange and $16.3 million on TSX Venture Exchange.

Trading occurs on a continuous basis throughout the day but begins at market open in an auction format and ends with an extended trading session in which trades occur at the closing price, referred to as a single price closing call market. Trading also occurs through crosses in which POs internally match orders and report them through the exchanges. All trades are settled through The Canadian Depository for Securities Limited (CDS), a recognized clearing agency in which we have an approximate 18% ownership interest. The other shareholders are the major Canadian chartered banks and the Investment Dealers Association of Canada (IDA).

Trading activity is affected when listed issuers seek additional listings on foreign exchanges, principally in the United States (often referred to as interlisting or dual listings). Interlistings generally raise the profile of issuers in the global market, and trading volumes for these issuers' securities often increase across all markets as well as on Toronto Stock Exchange. Whether a significant portion of trading of a particular issuer remains in Canada following its interlisting depends on a number of factors, including the location of the issuer's shareholder base and the location of research analysts who cover the issuer.

TSX Markets has a dedicated sales team focused on U.S. accounts with the goal of raising the level of awareness regarding the benefits of trading on Toronto Stock Exchange and TSX Venture Exchange.

On October 1, 2005, we introduced a volume-based trading fee structure on issues that are interlisted on Toronto Stock Exchange and either NASDAQ or AMEX, and implemented further changes to our overall trading fee structure on January 1, 2006. Effective July 1, 2006, we changed the fee model for most issues on Toronto Stock Exchange and TSX Venture Exchange from a value-based fee model to a volume-based fee structure. The volume-based fee structure better aligns our trading fees with the prevailing model in various U.S. marketplaces and replaced the value-based fee model for most issues. This model has been structured so that market participants have an incentive to enter orders in the central limit order book. When liquidity is added to the central limit order book, executed passive orders receive a credit on a per security basis, and when liquidity is removed from the central limit order book, each executed active order is charged on a per security basis. While we implemented a volume-based model for TSX Venture Exchange issues, there are no credits provided for passive order flow. To further encourage trading on our equity exchanges, discounts are available to customers based on the volume of shares traded and total trading revenue for the month.

* See discussion under the heading Non-GAAP Financial Measures.

[2] The "Changes to Listing Fees for 2007" section above contains certain forward-looking statements. Please refer to "Forward-Looking Statements, Risks and Uncertainties" for a discussion of risks and uncertainties related to such statements.

Trading Technology

In 1997, Toronto Stock Exchange was the first major exchange in North America (and one of the first globally) to move to a fully automated exchange where trading takes place entirely through electronic systems, thereby increasing the speed of execution, accessibility to the exchange and the number of transactions that can be processed. In May 2001, our original electronic trading systems were replaced with a more reliable, flexible and scalable system. In 2003, the gateway systems were replaced with a more scalable and higher throughput system. The system hardware was upgraded in 2004. Two hardware upgrades and two software performance releases were implemented in 2005 in response to increases in order message volumes and transactions being generated within the marketplace.

In 2006, we worked on a number of initiatives to meet growing demand:

- TSXPress™: three significant trading system performance enhancements were completed in 2006 have reduced overall average TSX response time and optimized execution speeds for algorithmic traders.
- Next generation trading engine: a state-of-the-art platform designed to have world-class messaging capabilities and response times in the low single digit millisecond range. This is scheduled for phased rollout starting in Q4/07. The results of benchmark laboratory testing conducted in December 2006 were as follows:
  - Capacity tested to over 320 million order messages an hour (or approximately 2 billion order messages per trading day) and proven to be linearly scalable;
  - Throughput tested to over 100,000 messages per second and proven to be linearly scalable;
  - Order matching in microseconds (less than one millisecond);
  - Response time in the low single digit millisecond range; and
  - Capability of full system fail-over in seconds with no lost messages.
- FIX: implementation of this protocol which allows new and existing customers to route orders using the global connectivity standard.

We have a business continuity plan designed to provide the means for us to continue to operate in the event of a disruption to our main facility. As part of this plan, we operate two data centres in separate locations, allowing for back-up recovery in the event that one of the centres experiences a failure.

Products

On December 1, 2001, regulatory changes (described below) were introduced, which among other things, permitted the creation of alternative trading systems (ATSs) to compete with our marketplaces. Part of our strategy is to continually implement new trading features and methodologies to meet diverse customer requirements for trade execution. The following products have been launched over the last several years:

- TSX Firm Order eXecution™, or FOX™, a system designed to assist POs to more effectively and efficiently manage capital risk, and to consolidate order flow across trading desks within their own firm.
- TSX Market On Close™ (MOC) facility (designed to increase liquidity and provide lower levels of volatility at the close of the trading session), expanded in 2005 to include all symbols in the S&P/TSX Composite Index[3].
- Multiple Broker Give-Up, designed to allow investors to distribute their trading relationships among multiple POs.
- TSX Compliance Automated Reporting System™ (CARS™) provides POs with a suite of compliance-monitoring products.
- Specialty price crosses (designed to decrease costs associated with advanced trading techniques).
- Voluntary attribution (allows traders to anonymously execute transactions).
- Iceberg orders (large size orders may be entered while disclosing only a small portion of the total order size at any time).

In 2007, we plan to launch ATX™, a high-speed TSX trading facility to match firm order flow against in-house liquidity as well as liquidity from other POs**. In addition, we plan to introduce a market order router that should help domestic and international customers meet best execution obligations.

** Subject to regulatory approval.

[3] S&P is a trade-mark owned by The McGraw-Hill Companies, Inc. and is used under license.

Regulation

Market integrity is an essential element of any marketplace. Historically, Toronto Stock Exchange and TSX Venture Exchange regulated the market conduct of their POs directly. In order to separate this regulatory function from our business operations, in 2001, we proposed the creation of a separate corporate entity, Market Regulation Services Inc. (RS), to administer a set of universal market integrity rules (UMIR) for marketplaces trading equities in Canada. RS is owned 50% by TSX Inc., a wholly-owned subsidiary of TSX Group, and 50% by the IDA. RS is recognized by the Ontario, Manitoba, Alberta and British Columbia securities commissions, as well as in Quebec, by the Autorité des marchés financiers, as a self-regulatory organization (SRO) to act as a regulation services provider under National Instrument 21-101-*Marketplace Operation* and National Instrument 23-101-*Trading Rules* (together, the ATS Rules). In March 2002, Toronto Stock Exchange and TSX Venture Exchange retained RS to provide regulation services to them under the ATS Rules as agent for each of them. RS monitors and enforces compliance with UMIR by the POs, their directors, officers, employees and affiliates and performs other regulatory functions that our equity exchanges delegate to RS.

In April 2006, the Boards of Directors of the IDA and RS announced a proposal to create a new SRO to succeed the IDA and RS. A joint steering committee has been established by the IDA and RS which is working with Canadian securities administrators and capital markets stakeholders to develop a detailed implementation plan.

NGX

In March, 2004 we acquired NGX, a Canadian-based energy exchange that provides customers with an electronic platform that trades and clears natural gas and electricity contracts.

NGX generates trading and clearing revenue by applying fees to all transactions based on the contract volume traded or centrally cleared through the exchange, and charges a monthly fixed subscription fee to each trading customer who trades on NGX.

- NGX's revenue from trading and clearing activities for the year ended December 31, 2006 was $19.1 million, or 5% of 2006 revenue.
- NGX's revenue from trading and clearing activities for the year ended December 31, 2005 was $16.8 million, or 6% of 2005 revenue.

In October 2006, we added to our energy business when we acquired Oxen Inc. which owns the Alberta Watt Exchange Limited (Watt-Ex), a platform for providing ancillary services to the Alberta Electric System Operator which is used to balance supply and demand on the Alberta grid.

Shorcan

In December 2006, we further expanded our presence in the fixed income market by acquiring Shorcan, Canada's first fixed income IDB. Shorcan offers broker services for clients trading in federal, provincial, corporate and mortgage bonds and treasury bills. Shorcan became the first IDB to offer Straight Through Processing in 2004. We estimate that the IDB market represents about 40% of total fixed income trading in Canada and that Shorcan's share of this market is about 37%, or $540 billion in 2006.

Market Data – TSX Datalinx

Through TSX Datalinx, we sell our real-time quotation and trading data, historical data and corporate information to market participants on a global basis. Timely and comprehensive information about market activity and listed issuers assists POs and investors in their decision-making processes and facilitates efficient markets.

- In 2006, market data revenue represented $86.9 million, or 25% of our revenue. Market data revenue was $65.7 million on Toronto Stock Exchange, $19.2 million on TSX Venture Exchange and $0.7 million on NGX.
- In 2005, market data revenue represented $67.4 million, or 23% of our revenue. Market data revenue was $51.7 million on Toronto Stock Exchange, $15.0 million on TSX Venture Exchange and $0.7 million on NGX.

Real-Time Market Data Products

Trading activity on our equity exchanges produces a stream of real-time data reflecting orders and executed transactions. This stream of data is packaged by TSX Datalinx into real-time market data products and delivered, directly or indirectly, to end users via more than 90 Canadian and global market data vendors that sell data feeds and desktop information services. As at December 31, 2006, there were over 139,000 professional and equivalent real-time data subscriptions in both Canada and the United States, compared with over 118,000 at December 31, 2005. These information services allow end users to view the real-time market activity of several marketplaces, as well as to view supporting reference data, corporate actions, news and foreign exchange rates. These services also enable the end user to transfer the data to applications to manipulate and analyze the data and facilitate automated trading. We also provide market data feeds directly to end users in order to address their requirements for reduced latency.

Our market data distribution platform offers a flexible and reliable environment over which we distribute a wide range of data simultaneously to a large number of clients. We carry data from other sources including CanDeal and stocks traded on the Canadian Trading and Quotation System Inc. (CNQ). In 2005, we added a number of new products including real time interbank foreign exchange rates, TSX/CP Equities News™, as well as data from Perimeter Financial Corp. In 2006, we entered into an agreement with TriAct Canada Marketplace LP to distribute their data. This expanded content set has enhanced our delivery of relevant and timely Canadian capital markets information to our global client base.

Subscribers for TSX Datalinx data generally pay fixed monthly rates for access to real time streaming data, which differ depending on the number of end users and the depth of information accessed. In addition to streaming data, many individual investors consume real time quote data, for which we charge on a per quote basis. Real-time data fees are primarily driven by the number of data subscriptions and therefore are partly related to industry employment. We charge market data vendors and direct feed clients a fixed monthly fee for access to data feeds. The direct feed business has been growing due to the increase in automated trading. Sales of real-time market data represented approximately 94% of our market data revenue in 2006 and approximately 95% in 2005.

In 2003, along with CNW Group Ltd. (CNW), we announced the creation of CNX Marketlink[4], which provides an investor communications and disclosure network for publicly listed companies to disseminate press releases. We receive a portion of the revenue from the sale of CNX Marketlink products.

Customers currently access NGX data through a fully electronic, independent trading platform. NGX applies a monthly fixed viewing fee to firms who wish to subscribe to market data services.

Historical Market Data Products and Corporate Information

Historical market data products include market information (such as historical pricing, index constituents and weightings) and corporate information (such as dividends and corporate actions). This information is generally made available at the end of the trading day and is used in research, analysis and trade clearing.

Generally, we sell historical data products for a fixed amount per product accessed. Fees vary depending on the type of end use. Data products to be used for commercial purposes require an enterprise-wide license for internal redistribution. We produce two electronic reference data publications for each exchange, a Daily Record and a Monthly Review, both of which are sold on a subscription and firm license basis.

Distribution

TSX Datalinx content is available directly to clients in a variety of ways:

- via a low latency data feed known as TSX Direct,
- via tsxdatalinx.com,
- through a variety of market data vendors,
- by telecommunications providers and extranets, and
- via our tsx.com web site.

Several direct data feed clients have also engaged us to provide managed services. Under this arrangement, we have co-located their data infrastructure within our data centres to reduce latency and provide bandwidth efficiencies. In 2006, TSX Datalinx re-launched the tsx.com web site which provides delayed market data and listed issuer information as well as information about TSX Group and our business. We also introduced online advertising which generates market data revenue.

Index Products - Equities

We have long supported indices to measure equity market performance. Toronto Stock Exchange introduced the first Canadian indices in 1934. We introduced the Toronto 35 index in 1987, which was the basis for the world's first exchange-traded fund, TIPS® (Toronto 35 Index Participation Units). TSX Datalinx and Standard & Poor's (S&P) collaborated in 1998 to bring global recognition to the Canadian markets.

[4] CNX Marketlink is a trade-mark of CNW Group Ltd. and is used under license.

Together, we introduced several indices, including the S&P/TSX 60 Index (the large capitalization index for the Canadian equity market) and in 2002, the S&P/TSX Composite Index (the Index). The Index (formerly the TSE 300 Composite Index®) is the most quoted index for the Canadian equity market, appearing frequently in business media which strengthens our brand profile. In December 2006, we launched the S&P/TSX Global Gold Index in conjunction with S&P. It is an international benchmark that tracks the world's leading gold companies.

TSX Datalinx has an arrangement with S&P under which we share license fees received from organizations that create products, such as mutual funds and exchange-traded funds (ETFs), based on the S&P/TSX indices. In general, these license fees are based on a percentage of funds under management in respect for those products.

Index and Analytics Products - Fixed Income

In October 2006, we acquired Scotia Capital Inc.'s* Fixed Income Indices, its PC-Bond® analytics, and related data assets to expand our presence in the Canadian fixed income market. We also signed a long-term data license under which Scotia Capital will provide fixed income pricing data to us. Scotia Capital has been publishing indices to measure the performance of the Canadian fixed income market since 1947. These indices are the most widely used fixed income performance benchmarks in Canada. The best known of these indices is the Universe Bond Index, which tracks the broad Canadian bond market. In addition to the Universe Bond Index, we now publish a variety of sub-indices for different term and credit sectors, as well as indices for tracking other segments of the market, including high yield bonds, Euro Canadian bonds, maple bonds (Canadian dollar bonds issued by a non-Canadian issuer), yankee bonds, inflation-indexed real return bonds, treasury bills and residential and commercial mortgage-backed securities. We also purchased the ScotiaBond portfolio attribution package and Scotia Capital's historical price database.

Changes to Market Data Fees for 2007

Effective January 1, 2007, changes were implemented to the fee structure for market data products. This followed a review of market data fees on other major global exchanges. Based on activity levels in 2006, it is anticipated that, in aggregate, market data revenue will increase in the range of approximately three to five percent on an annual basis as a result of these changes[5].

Business Services – TSX Technologies

We have assembled a team of exchange technology professionals with extensive industry experience in installing and operating trading and related systems at other global exchanges. We currently provide Market Regulation Services Inc. technology and related services necessary to conduct its review and real-time monitoring of trading. Market Regulation Services Inc. pays us fees for these services, negotiated on an arm's length basis, in accordance with an agreement which also details service levels. We also have an agreement with CanDeal to provide technology services for a fee in support of its institutional fixed-income trading system.

- In 2006, business services revenue represented $9.4 million, or 3% of our revenue.
- In 2005, business services revenue represented $7.9 million, or 3% of our revenue.

REVIEW OF OPERATIONS – 2006

Year Ended December 31, 2006 compared with Year Ended December 31, 2005

The following is a summary of financial results:

(in millions of dollars, except per share amounts)

	2006	2005	Increase	% increase
Revenue	**$ 352.8**	$ 290.0	$ 62.8	22%
Expenses	**$ 148.3**	$ 139.2	$ 9.1	7%
Net income	**$ 131.5**	$ 103.4	$ 28.1	27%
Earnings per share:				
Basic	**$ 1.92**	$ 1.52	$ 0.40	26%
Diluted	**$ 1.91**	$ 1.51	$ 0.40	26%

* Registered trade-mark of The Bank of Nova Scotia. Used under license.

[5] The "Changes to Market Data Fees for 2007" section above contains certain forward-looking statements. Please refer to "Forward-Looking Statements, Risks and Uncertainties" for a discussion of risks and uncertainties related to such statements.

- *Revenue* increased in each of the three primary revenue streams of listings, trading and data.
- *Expenses* increased largely due to an increase in compensation and benefits costs as well as higher information and trading systems costs, partially offset by lower general and administration costs.
- *Net income* increased mainly as a result of higher revenue and investment income, partially offset by increased expenses and higher income taxes, primarily related to an adjustment in the value of our future tax asset largely as a result of federal legislation enacted in June 2006 to reduce corporate tax rates for the years 2008-2010 and beyond.

Revenue

Listing Revenue

The following is a summary of listing fees reported and listing fees received* (reconciled below in this section) in 2006 and 2005.

(in millions of dollars)

	Reported				Received*			
	2006	2005	$ increase	% increase	2006	2005	$ increase	% increase
Initial listing fees	**$ 11.4**	$ 9.3	$ 2.1	23%	**$ 28.4**	$ 28.0	$ 0.4	1%
Additional listing fees	**$ 35.9**	$ 29.8	$ 6.1	20%	**$ 86.3**	$ 69.7	$ 16.6	24%
*Sustaining listing fees***	**$ 61.2**	$ 48.6	$ 12.6	26%	**$ 61.2**	$ 48.6	$ 12.6	26%
Total listing fees	**$ 108.5**	$ 87.7	$ 20.8	24%	**$ 175.9**	$ 146.3	$ 29.6	20%

Initial and additional listing fees are non-refundable fees received from listed issuers, which are recorded as "Deferred revenue – initial and additional listing fees", and recognized as listing revenue on a straight line-basis over an estimated service period of ten years. The estimated service period of ten years was determined by conducting an historical review of listing activity. We determined that the average period of time that an issuer remained listed on Toronto Stock Exchange was approximately ten years. In addition, turnover rates were calculated for a Toronto Stock Exchange listed issuer and for a TSX Venture Exchange listed issuer, and were determined to be in the range of ten to twelve years. Examining historical data allowed us to consider the impact of economic cycles and other trends in capital markets over time. The service period selected affects the rate at which deferred revenue is recognized, as well as the value of the future tax asset related to these fees.

The following is a reconciliation of listing fees received* to listing fees reported.

Initial Listing Fees

(in millions of dollars)

	2006	2005
Initial listing fees received*	**$ 28.4**	$ 28.0
Initial listing fees received* and deferred to future periods	**$ (28.0)**	$ (27.4)
Recognition of initial listing fees received* and previously included in deferred revenue	**$ 11.0**	$ 8.7
Initial listing fee revenue reported	**$ 11.4**	$ 9.3

* See discussion under the heading Non-GAAP Financial Measures.

** Sustaining listing fees received, as shown in this table, represents the amount recognized for accounting purposes during the year. Sustaining listing fees are billed during the first quarter of the year, recorded as deferred revenue and amortized over the year on a straight line basis.

Additional Listing Fees

(in millions of dollars)

		2006		2005
Additional listing fees received*	$	**86.3**	$	69.7
Additional listing fees received* and deferred to future periods	$	**(84.9)**	$	(68.3)
Recognition of additional listing fees received* and previously included in deferred revenue	$	**34.5**	$	28.4
Additional listing fee revenue reported	$	**35.9**	$	29.8

- *Initial and additional listing fees reported* increased due to capital market activity and listing fee increases during the period from April 1, 1996 to December 31, 2006 compared with the period from April 1, 1995 to December 31, 2005. *Initial and additional listing fees received** in 2006, as compared with 2005, reflect changes in the value of securities listed and reserved in the respective periods, as well as changes to the pricing model that were implemented in Q1/06.
- *Sustaining listing fees* increased due to the overall higher market capitalization of listed issuers at the end of 2005 compared with the end of 2004. Issuers listed on Toronto Stock Exchange and TSX Venture Exchange pay annual fees primarily based on their market capitalization at the end of the prior calendar year, subject to minimum and maximum fees. In addition, revenue from sustaining listing fees increased due to fee increases on each equity exchange that were effective January 1, 2006.

Trading and Related Revenue

(in millions of dollars)

		2006		2005		$ increase	% increase
Capital Markets	$	**127.2**	$	108.7	$	18.5	17%
Energy Markets	$	**19.1**	$	16.8	$	2.3	14%
Total trading and related revenue	$	**146.3**	$	125.5	$	20.8	17%

Capital Markets

- *Trading and Related* revenue increased as a result of significantly higher levels of market activity in 2006. However, the effect of this increased activity was reduced by the impact of a series of changes to our trading fee structure, effective October 1, 2005, January 1, 2006 and July 1, 2006 that resulted in an overall reduction in fees charged to our customers.
- The total volume of securities traded in 2006 on Toronto Stock Exchange and TSX Venture Exchange increased by 40% over 2005 (119.7 billion securities in 2006 versus 85.7 billion securities in 2005).
- The total value of securities traded in 2006 on Toronto Stock Exchange and TSX Venture Exchange increased by 33% over 2005 ($1,449.4 billion in 2006 versus $1,090.9 billion in 2005).
- The number of transactions in 2006 on Toronto Stock Exchange and TSX Venture Exchange increased by 57% over 2005 (92.1 million in 2006 versus 58.6 million in 2005).
- In addition, revenue from Shorcan for December 2006 has been included.

Energy Markets

- The volumes traded or cleared in natural gas and electricity contracts on NGX in 2006 increased by 11% over 2005 (9.8 million terajoules in 2006 versus 8.8 million terajoules in 2005).

* See discussion under the heading Non-GAAP Financial Measures.

Market Data Revenue

(in millions of dollars)

	2006	2005	$ increase	% increase
	$ 86.9	$ 67.4	$ 19.5	29%

- *Market Data* revenue increased due to an 18% increase in the number of professional and equivalent real-time data subscriptions (over 139,000 at the end of 2006 versus over 118,000 at the end of 2005) partly due to increased sales of premium products as well as increased sales to U.S. customers.
- The increase was also due to revenue from more recent initiatives including on-line delivery of data to retail investors, direct to client low latency data feeds and advertising on tsx.com.
- The increase was also due to incremental revenue recoveries in 2006 of approximately $3.6 million over 2005 related to under-reported usage of real-time quotes.
- The increase was also attributable to the inclusion of revenue from Scotia Capital's fixed income indices and related products following their acquisition on October 25, 2006.
- The increase was also due to fee changes that were effective April 1, 2006 and May 1, 2005.
- The increase was reduced by the negative impact of the appreciation of the Canadian dollar against the United States dollar in 2006 versus 2005. In 2006, approximately $29.1 million Canadian was derived from market data sales to customers paying in United States dollars compared with approximately $22.4 million Canadian in 2005.

Business Services Revenue

(in millions of dollars)

	2006	2005	$ increase	% increase
	$ 9.4	$ 7.9	$ 1.5	19%

- *Business Services* revenue increased due to providing additional services to existing and new customers.
- Market Regulation Services Inc. paid us $7.2 million in 2006 for technology related services as compared with $6.9 million in 2005.

Expenses

Compensation and Benefits

(in millions of dollars)

	2006	2005	$ increase	% increase
	$ 79.0	$ 72.5	$ 6.5	9%

- In 2005, *Compensation and Benefits* costs were reduced by a gain of approximately $4.5 million under a hedging program related to long-term based incentives, compared with a gain of $0.7 million in 2006.
- *Compensation and Benefits* costs increased due to higher costs related to salaries, pension and employee benefits as well as short-term incentives, somewhat offset by lower organizational transition costs.
- The number of employees increased from 510 at the end of 2005 to 548 at the end of 2006 primarily due to the fourth quarter acquisitions of Shorcan, Oxen Inc. and Scotia Capital Inc.'s* Fixed Income Indices, PC-Bond® analytics, and related data assets.

Information and Trading Systems

(in millions of dollars)

	2006	2005	$ increase	% increase
	$ 22.0	$ 17.4	$ 4.6	26%

- *Information and Trading Systems* costs increased due to higher hardware operating lease and maintenance costs relating in part to expansion of trading system capacity required to accommodate the substantial growth in the number of orders and transactions. In addition, resources were directed towards further improving execution speeds for traders with our TSXPress™ initiative, and providing our listed issuers with investor relations management tools through TSXconnect.

General and Administration

(in millions of dollars)

	2006	2005	$ (decrease)	% (decrease)
	$ 34.2	$ 35.8	$ (1.6)	(4%)

- *General and Administration* costs decreased due to reduced spending on marketing activities as well as lower capital taxes and directors' compensation, somewhat offset by higher fees paid to external consultants.
- We paid Market Regulation Services Inc. $3.4 million for regulation services in 2006 ($3.5 million in 2005).

Amortization

(in millions of dollars)

	2006	2005	$ (decrease)	% (decrease)
	$ 13.0	$ 13.5	$ (0.5)	(4%)

- *Amortization* decreased primarily due to reduced depreciation of tangible assets, partially offset by an increase in the amortization related to the intangible assets associated with acquisitions made in Q4/06.

* Registered trade-mark of The Bank of Nova Scotia. Used under license.

Loss from Investment in Affiliate

(in millions of dollars)

	2006	2005	$ (decrease)	% (decrease)
	$ 0.1	$ 0.7	$ (0.6)	(86%)

- *Loss from Investment in Affiliate*, which decreased from 2005, represents our share of CanDeal's loss for 2006. The reduced loss reflects CanDeal's progress in adding liquidity providers and buy-side institutional investors as well as continued cost containment measures.

Investment Income

(in millions of dollars)

	2006	2005	$ increase	% increase
	$ 14.4	$ 6.9	$ 7.5	109%

- There was an increase in cash and marketable securities during 2006 versus 2005, generating higher investment income.

Income Taxes

(in millions of dollars)

			Effective tax rate (%)	
2006	2005	$ increase	2006	2005
$ 87.4	$ 53.6	$ 33.8	**40%**	34%

- The effective tax rate increased from approximately 34% for 2005 to approximately 40% for 2006. The higher tax rate relates primarily to an adjustment in the value of the future tax asset. In June 2006, the federal government enacted legislation to reduce corporate tax rates for 2008-2010 and beyond. The future tax asset was reduced, and income taxes increased largely as a result of these changes in federal corporate tax rates.

LIQUIDITY AND CAPITAL RESOURCES

We had $322.1 million of cash and marketable securities at December 31, 2006, and no external borrowings other than $0.9 million of obligations under capital leases. Based on our current business operations and model, we believe that we have sufficient resources to operate and continue to grow our business.

Cash and Marketable Securities

(in millions of dollars)

	2006	2005	$ increase
	$ 322.1	$ 276.2	$ 45.9

- The increase was primarily due to $189.5 million in cash received from operations in 2006, offset by quarterly dividends of $0.33 per common share, or $90.2 million in aggregate, and by payments of $53.7 million (net of cash acquired) related to the purchases of Oxen Inc., Shorcan and Scotia Capital Inc.'s* Fixed Income Indices, PC-Bond® and related assets.

Total Assets

(in millions of dollars)

	2006	2005	$ increase
	$ 1,572.8	$ 1,557.2	$ 15.6

- *Total Assets* increased by $15.6 million due to an increase in cash and marketable securities of $45.9 million, net of $53.7 million (net of cash acquired) of payments related to the purchase of Oxen Inc., Shorcan and Scotia Capital Inc.'s* Fixed Income Indices, PC-Bond® and related assets. In addition, $69.4 million was recorded in 2006 to reflect the goodwill and intangible assets associated with these 2006 acquisitions. The increase was largely offset by lower energy contracts receivable of $889.4 million at December 31, 2006 related to the clearing operations of NGX, compared with $1,004.3 million at the end of 2005. The reduced level of receivables reflected lower natural gas prices in December 2006 compared with December 2005. (As the clearing counterparty to every trade, NGX also carries offsetting liabilities in the form of energy contracts payable, which were $889.4 million at December 31, 2006 compared with $1,004.3 million at the end of 2005.)

Shareholders' Equity

(in millions of dollars)

	2006	2005	$ increase
	$ 227.0	$ 177.8	$ 49.2

- Shareholders' Equity increased primarily due to net income of $131.5 million, offset by dividend payments of $90.2 million. In addition, proceeds of $5.3 million were received on the exercise of options. Net income from NGX was $4.7 million in 2006, as compared with $4.2 million in 2005.
- At December 31, 2006, there were 68,421,264 common shares issued and outstanding. There were 5,600,000 common shares originally reserved for issuance under a share option plan of which 328,246 common shares were issued on the exercise of stock options in 2006. At December 31, 2006, 4,678,918 common shares were reserved for issuance upon the exercise of options granted under the share option plan. At December 31, 2006, there were 1,096,650 options outstanding.
- At January 30, 2007, there were 68,423,264 common shares issued and outstanding and 1,094,650 options outstanding under the share option plan.

Cash Flows from Operating Activities

(in millions of dollars)

	2006	2005	$ increase in cash
Cash Flows from Operating Activities	**$ 189.5**	$ 167.1	$ 22.4

* Registered trade-mark of The Bank of Nova Scotia. Used under license.

Cash Flows from Operating Activities were $22.4 million higher in 2006 compared with 2005 due to:

(in millions of dollars)

		2006		2005		$ increase / (decrease) in cash
Net income	**$**	**131.5**	$	103.3	$	28.2
Amortization	**$**	**13.0**	$	13.5	$	(0.5)
(Increase) in future tax asset primarily related to deferring a portion of initial and additional listing fees received	**$**	**(12.6)**	$	(26.0)	$	13.4
(Increase) in accounts receivable and prepaid expenses	**$**	**(6.1)**	$	(5.0)	$	(1.1)
Net increase in accounts payable, accrued liabilities and long term other liabilities	**$**	**0.6**	$	8.9	$	(8.3)
Increase in deferred revenue that results from not recognizing a portion of listing fees received in the year	**$**	**67.3**	$	58.8	$	8.5
Increase/(decrease) in income taxes payable	**$**	**(7.4)**	$	8.3	$	(15.7)
Net increase in other items	**$**	**3.2**	$	5.3	$	(2.1)
Cash Flows from Operating Activities	**$**	**189.5**	$	167.1	$	22.4

Cash Flows From (Used in) Investing Activities

(in millions of dollars)

		2006		2005		$ increase in cash
Cash Flows From (Used in) Investing Activities	**$**	**(95.2)**	$	(98.2)	$	3.0

Cash Flows Used in Investing Activities were $3.0 million lower in 2006 compared with 2005 due to:

(in millions of dollars)

		2006		2005		$ increase / (decrease) in cash
Capital expenditures (net proceeds on disposal) primarily related to technology investments and leasehold improvements	**$**	**(4.2)**	$	(4.6)	$	0.4
Purchase of Oxen Inc., Shorcan and Scotia Capital Inc.'s* Fixed Income Indices, PC-Bond® and related assets (net of cash acquired)	**$**	**(53.7)**		-	$	(53.7)
Net (purchase) of marketable securities	**$**	**(37.3)**	$	(93.6)	$	56.3
Cash Flows (Used in) Investing Activities	**$**	**(95.2)**	$	(98.2)	$	3.0

* Registered trade-mark of The Bank of Nova Scotia. Used under license.

Fixed Income Initiatives

We paid approximately $53.7 million (net of cash acquired) in the fourth quarter of 2006 related to our Scotia Capital and Shorcan fixed income acquisitions. TSX Group, or one of its subsidiaries, will make further payments of up to $37.9 million related to performance incentives, data licenses and other arrangements over the term of the relevant agreements. The combined revenue for the most recently completed fiscal years was approximately $22.0 million.

Dividends

The recognition order of TSX Group and TSX Inc. contains certain financial viability tests that must be met. If TSX Inc. fails to meet any of these tests for a period of more than three months, TSX Inc. will not, without the prior approval of the Director of the Ontario Securities Commission, pay dividends (among other things) until the deficiencies have been eliminated for at least six months or a shorter period of time as agreed by Ontario Securities Commission staff.

Financial Instruments

Our financial instruments include cash and investments in marketable securities. We hold units in a money market fund and a short-term bond and mortgage fund. These investments are recorded at the lower of carrying value or market value, which is determined by reference to quoted market prices. The primary risks related to these financial instruments are variation in interest rates and counterparty default. Short-term interest rate risk is managed by maintaining a mix between amounts invested in the money market fund and the short-term bond and mortgage fund. We manage credit risk by restricting investments to counterparties with a credit rating of BBB or higher as determined by the Dominion Bond Rating Service.

Derivative Financial Instruments

We have entered into total return swaps which synthetically replicate the economics of TSX Inc. purchasing our shares as a partial economic hedge to the share appreciation rights of deferred share units (DSUs) and restricted share units (RSUs) that are awarded to our directors and employees. We mark to market the value of the hedged units as an adjustment to income, and simultaneously mark to market the liability to unit holders of as an adjustment to income. The fair values of the contracts reflected in accounts receivable were $0.8 million at December 31, 2006 and $2.6 million at December 31, 2005. During 2006, the change in the fair market value of the total return swaps of $0.4 million was reflected as a reduction in *Compensation and Benefits* costs. To manage counterparty risk, we entered into these total return swaps with a Schedule I Canadian chartered bank. The contracts are settled in cash upon maturity. The obligation to unit holders is reflected on the balance sheet.

Financial Instruments and Comprehensive Income

The Canadian Institute of Chartered Accountants has issued new accounting rules on financial instruments, hedges and comprehensive income that will require us to account for all of our financial assets and liabilities at fair value. With the adoption of the new rules on January 1, 2007, we will remeasure our financial assets and liabilities, as appropriate, at fair value and report a new section of shareholders' equity called other comprehensive income. We are determining the impact that these changes in accounting policy will have on our consolidated financial statements.

NGX Collateral Arrangements and Clearing Backstop Fund

As part of its clearing operations, NGX becomes the counterparty to each transaction, thereby guaranteeing the performance of every contract that is executed on its electronic trading platform. To backstop its clearing operations, NGX has a credit agreement in place with a Canadian chartered bank. We are NGX's guarantor for this credit agreement up to a maximum of $30.0 million. We have pledged $30.0 million of marketable securities related to our obligations as guarantor. In addition, NGX has covenanted under the agreement to maintain a minimum of $9.0 million of tangible net worth. If NGX suffers a loss on its clearing operations, it could lose its entire tangible net worth. The bank could also realize up to a maximum of $30.0 million on our guarantee, to the extent required to cover the loss.

NGX requires each counterparty (the Contracting Party) to provide collateral in the form of cash or letters of credit based on the margins required for its unsettled contractual obligations, which may be accessed in the event of a default by such Contracting Party.

The collateral provided in the form of cash (the cash collateral deposits) is segregated in individually designated bank accounts held at the same Canadian chartered bank by NGX, which acts as trustee for these funds. The cash 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 point in time.

Contractual Obligations

(in thousands of dollars)

	Total	Less than 1 year	1 – 3 years	4+ years
Capital Lease Obligations	$ 977	$ 830	$ 147	$ –
Operating Leases	69,772	13,006	21,501	35,265
Other Obligations	74,243	18,332	24,751	31,160
Total	144,992	32,168	46,399	66,425

SELECTED ANNUAL INFORMATION

(in thousands of dollars, except per share amounts)

	2006	2005	2004
Revenue	**$ 352,847**	$ 289,964	$ 243,430
Net income	**$ 131,524**	$ 103,353	$ 68,490
Total assets	**$ 1,572,838**	$ 1,557,225	$ 1,036,294
Long-term liabilities	**$ 43,450**	$ 30,508	$ 24,286
Deferred revenue –			
initial and additional listing fees (current and long-term)	**$ 346,133**	$ 278,775	$ 220,155
Earnings per share:			
Basic	**$ 1.92**	$ 1.52	$ 1.01
Diluted	**$ 1.91**	$ 1.51	$ 1.00
Cash dividends declared per common share	**$ 1.32**	$ 0.90	$ 0.58

Revenue, net income and earnings per share

2006

- For the year ended December 31, 2006, net income was $131.5 million, or $1.92 per common share ($1.91 on a diluted basis) on total revenue of $352.8 million, representing an increase of $28.1 million, or 27%, compared with $103.4 million, or $1.52 per common share ($1.51 on a diluted basis) for the year ended December 31, 2005.
- The 2006 results reflect significantly higher revenue across all of the primary revenue streams. The increase in revenue was partially offset by an increase in compensation and benefits expenses and information and technology costs as well as higher income taxes primarily related to a decrease in the value of our future tax asset. Net income in 2006 also reflects higher investment income due to increased cash and marketable securities in 2006 as well as gains on short-term bond and mortgage fund investments in 2006.

2005

- For the year ended December 31, 2005, net income was $103.4 million, or $1.52 per common share ($1.51 on a diluted basis) on total revenue of $290.0 million, representing an increase of $34.9 million, or 51%, compared with $68.5 million, or $1.01 per common share ($1.00 on a diluted basis) for the year ended December 31, 2004.
- The 2005 results reflect significantly higher revenue across all of the primary revenue streams and lower general and administrative expenses, partially offset by an increase in income taxes.

Total assets

2006

- During 2006, total assets of $1,572.8 million increased by $15.6 million over $1,557.2 million in 2005 due to an increase in cash and marketable securities of $45.9 million, net of $53.7 million (net of cash acquired) of payments related to the purchase of Oxen Inc., Shorcan and Scotia Capital Inc.'s* Fixed Income Indices, PC-Bond® and related assets. In addition, $69.4 million was recorded in 2006 to reflect goodwill and the intangible assets associated with these 2006 acquisitions. The increase was largely offset by lower energy contracts receivable of $889.4 million at December 31, 2006 related to the clearing operations of NGX, compared with $1,004.3 million at the end of 2005. The reduced level of receivables reflected lower natural gas prices in December 2006 compared with December 2005. (As the clearing counterparty to every trade, NGX also carries offsetting liabilities in the form of energy contracts payable, which were $889.4 million at December 31, 2006 compared with $1,004.3 million at the end of 2005.)

2005

- During 2005, total assets of $1,557.2 million increased by $520.9 million over $1,036.3 million in 2004 primarily as a result of higher energy contracts receivables of $1,004.3 million related to the clearing operations of NGX ($608.4 million in 2004). The increased level of receivables reflected higher natural gas prices in December 2005 compared with December 2004. (As the clearing counterparty to every trade, NGX also carries offsetting liabilities in the form of energy contracts payables, which were $1,004.3 million at the end of 2005 compared with $607.5 million at the end of 2004.) The increase in total assets also reflects an increase in marketable securities, accounts receivable and the long-term portion of the future tax asset.

Deferred revenue-initial and additional listing fees

- Deferred revenue-initial and additional listing fees increased from 2004 through 2006 as the fees received from initial and additional listings during this period were higher than the amount of revenue recognized for these fees related to prior periods.

QUARTERLY INFORMATION

(in thousands of dollars, except per share amounts)

	Dec. 31/06	Sept. 30/06	June 30/06	Mar. 31/06	Dec. 31/05	Sept. 30/05	June 30/05	Mar. 31/05
Revenue	**$ 91,025**	**$ 81,197**	**$ 92,612**	**$ 88,013**	$ 76,264	$ 75,333	$ 68,621	$ 69,746
Net Income	**35,116**	**33,217**	**28,464**	**34,727**	27,813	28,717	23,748	23,075
Earnings per share:								
Basic	**0.51**	**0.49**	**0.42**	**0.51**	0.41	0.42	0.35	0.34
Diluted	**0.51**	**0.48**	**0.41**	**0.50**	0.40	0.42	0.35	0.34

2005

- *Revenue* in Q2/05 declined slightly from *revenue* in Q1/05 primarily due to lower trading revenue. *Net income* for Q2/05 improved over *net income* for Q1/05 primarily due to lower compensation and benefits costs.
- *Revenue* in Q3/05 improved over the *revenue* in Q2/05 primarily due to higher trading, listing and market data revenue. *Net income* for Q3/05 improved over *net income* in Q2/05 primarily due to increased *revenue* combined with lower general and administration costs.
- *Revenue* in Q4/05 improved over revenue in Q3/05 primarily due to higher listing and market data revenue somewhat offset by lower trading revenue. *Net income* for Q4/05 declined over *net income* from Q3/05 primarily due to higher overall expenses.

* Registered trade-mark of The Bank of Nova Scotia. Used under license.

2006

- *Revenue* in Q1/06 improved over *revenue* in Q4/05 primarily due to higher trading, listing and market data revenue. *Net income* for Q1/06 increased over *net income* for Q4/05, primarily due to the increased *revenue* partially offset by higher overall expenses.
- *Revenue* in Q2/06 improved over *revenue* in Q1/06 primarily due to higher market data, listing and trading revenue. However, *net income* for Q2/06 decreased over *net income* for Q1/06, primarily due to higher income taxes. In Q2/06, the federal government enacted legislation to reduce corporate tax rates for 2008-2010 and beyond. The future tax asset was reduced, and income taxes increased by $9.6 million, primarily as a result of these changes in federal corporate tax rates.
- *Revenue* in Q3/06 declined over *revenue* in Q2/06 largely due to lower trading revenue, reflecting lower trading volumes and following the introduction of a volume-based fee structure for most issuers listed on Toronto Stock Exchange and TSX Venture Exchange, effective July 1, 2006. *Net income* for Q3/06 increased over Q2/06 primarily due to higher investment income as well as lower income taxes. The increase was partially offset by the decreased *revenue* and higher overall expenses.
- *Revenue* in Q4/06 improved over *revenue* in Q3/06 primarily due to higher trading, market data and listing revenue. *Net income* for Q4/06 increased over Q3/06 primarily due to the increased *revenue* partially offset by higher overall expenses.

Review of Fourth Quarter Results

Compared with Q4/05

- *Revenue* in Q4/06 improved over *revenue* in Q4/05 primarily due to higher market data, listing and trading revenue. *Net income* for Q4/06 increased over Q4/05 primarily due to the increased *revenue* partially offset by higher compensation and benefits and information and trading systems expenses. Investment income increased over Q4/05 due to an increase in cash and marketable securities and increased returns from short-term bond and mortgage fund investments. *Cash flows from operating activities* in Q4/06 decreased compared with Q4/05 largely due to an increase in accounts receivable and prepaid expenses, a decrease in income taxes payable, partially offset by an increase in *net income*.

Compared with Q3/06

- *Revenue* in Q4/06 improved over *revenue* in Q3/06 primarily due to higher trading, market data and listing revenue. *Net income* for Q4/06 increased over Q3/06 primarily due to the increased *revenue* partially offset by higher compensation and benefits and amortization expenses. *Cash flows from operating activities* in Q4/06 increased compared with Q3/06 primarily due to an increase in net income and a decrease in the value of the future tax asset.

CRITICAL ACCOUNTING ESTIMATES

Revenue from initial and additional listing fees

We recognize revenue generated from initial and additional listing fees on a straight line basis over an estimated service period of ten years. The estimated service period of ten years was determined by conducting an historical review of listing activity. We determined that the average period of time that an issuer remained listed on Toronto Stock Exchange was approximately ten years. In addition, turnover rates were calculated for a Toronto Stock Exchange listed issuer and for a TSX Venture Exchange listed issuer, and were determined to be in the range of ten to twelve years. Examining historical data allowed us to consider the impact of economic cycles and other trends in capital markets over time. The service period selected affects the rate at which deferred revenue is recognized, as well as the value of the future tax asset related to these fees.

Long-term incentive plan

We have a long-term incentive plan under which we may grant RSUs. The amount of the award payable at the end of the three years is determined by the total shareholder return (appreciation in share price plus dividends paid) at the end of the three year period. We accrue our obligations and include them in accounts payable and accrued liabilities and other liabilities. The obligations are recorded at a targeted payout and not necessarily based on the maximum amount that might be paid. The maximum amount to be paid is unknown and will be based on total shareholder return and share price at the time of payout. We have purchased derivative financial instruments that partially hedge the impact of share price appreciation.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for establishing and maintaining adequate disclosure controls and procedures. Disclosure controls and procedures are designed to ensure that information required to be disclosed in our filings under securities legislation is accumulated and communicated to management, including the CEO and CFO as appropriate, to allow timely decisions regarding public disclosure. They are designed to provide reasonable assurance that all information required to be disclosed in these filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. We regularly review our disclosure controls and procedures; however, they cannot provide an absolute level of assurance because of the inherent limitations in control systems to prevent or detect all misstatements due to error or fraud.

Our management, including the CEO and CFO, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2006. Based on this evaluation, the CEO and CFO have concluded that our disclosure controls and procedures are effective.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of TSX Group, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of TSX Group are being made only in accordance with authorizations of management and directors of TSX Group, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of TSX Group's assets that could have a material effect on the financial statements.

There have been no changes to the design of our internal controls over financial reporting during the quarter ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

STRATEGY AND OUTLOOK[6]

Our corporate strategy has evolved through our assessment of the exchange sector and of our business. We have identified trends that have important implications for our strategy and outlook.

Our corporate objectives are to capitalize on our competitive advantages (as outlined under our **Vision**) and to pursue the principal strategies described below, organically and through acquisitions, strategic alliances and investments to achieve profitable growth and maximize shareholder returns.

Global industry consolidation accelerated over the last twelve months, culminating in regional consolidation and trans-Atlantic merger proposals to create "super-exchanges". In our view, a strong driver of industry consolidation is cost synergies. We believe consolidation will continue. We expect to see multi-asset consolidation between large and small players, and exchanges to look abroad to broaden distribution and expand their offerings.

After March 16, 2009, when the memorandum of agreement with the Bourse de Montréal comes to an end, we plan to enter the derivatives market. In our view, Canada needs a strong player that provides an integrated equities and derivatives offering to compete globally in the consolidating world of exchanges. We believe that a strategic partnership, an acquisition or some combination of these alternatives is preferable to building the platform ourselves. We are encouraged by the number of parties who are interested in working with us.

Going forward, we plan to invest our cash as we pursue the many opportunities that surround us for enhancing our core business, extending our pre-eminent domestic position in Canada through diversification and expanding internationally.

Enhance the Core Business

To maintain our pre-eminent position in the Canadian equity capital markets, we intend to further expand our product and service offerings to address the changing needs of issuers, intermediaries and investors as we strive to maintain the highest quality marketplace.

[6] The "Strategy and Outlook" section above contains certain forward-looking statements. Please refer to "Forward-looking Statements, Risks and Uncertainties" for a discussion of risks and uncertainties related to such statements.

Listings

We have organized the listings operations of Toronto Stock Exchange and TSX Venture Exchange to increase our focus on growth. This includes expanding the business development function to improve the efficiency of its sales efforts. The team will focus on:

- Promoting Toronto Stock Exchange and TSX Venture Exchange as listings destinations.
- Enhancing relationships with influencers that will also promote Toronto Stock Exchange and TSX Venture Exchange as listing venues.
- Identifying targets and converting inquiries into listings.

Toronto Stock Exchange, specifically, will:

- Continue to focus on listing structured equity products, such as ETFs, which expand our reach into the investment marketplace.
- Offer value-added products by collaborating with industry leaders.
- Foster a customer-centric approach by tailoring listings standards to reflect the variety of equity products available on TSX.

TSX Venture, specifically, will:

- Focus on pursuing initiatives that drive new listings, such as expanding its Capital Pool Company® program and executing its Public Venture Capital Campaign.
- Offer mentoring programs designed to enhance existing issuers' probability of success as public companies.
- Pursue growth in Central and Eastern Canada, where public venture capital markets are relatively less developed.
- Pursue growth in untapped non-resource sectors.

Trading

- Through upgrades to our trading system, we intend to continue to deliver the reliability, scalability, low cost and high speed of execution, which underpins us as one of the world's leading electronic marketplaces. In 2007, we plan to upgrade our trading system with the next generation of servers. We expect to enter into new operating leases that will replace existing leases.
- We are keenly aware of the importance of speed of execution due to the rapid growth of algorithmic trading and plan to take the necessary steps to enhance capacity and performance.
- We will continue to develop and offer new customized trading products and services, such as TSX MOC™, Multiple Broker Give Up and FOX™ designed to meet the distinct needs of various investors and intermediaries and bring more liquidity and efficiency to the marketplace. ATX™, a high-speed TSX trading facility to match firm order flow against in-house liquidity as well as liquidity from other market participants, is currently in development and is scheduled to be launched in 2007***.

Market Data

We will focus on:

- Increasing penetration of existing customers and up-selling them to premium content products.
- Continuing to work with market data vendors to upgrade their data delivery capabilities.
- Continuing to provide direct distribution to clients (TSX Direct) to meet their needs for reduced data latency.
- Leveraging existing data capabilities and infrastructure (LinxPointOne™) to add new content, such as Over-the-Counter (OTC), fixed income, foreign exchange, and other premium data.
- Building on our agreement with The Canadian Press to provide fact-based, non-biased journalist generated news.

*** Subject to regulatory approval.

* Registered trade-mark of The Bank of Nova Scotia. Used under license.

Extend Pre-eminent Domestic Position

We will seek growth opportunities through diversification both horizontally into related markets in which we can leverage our competitive advantages and vertically into other areas of the capital markets. Two areas into which we have already expanded are fixed income and energy markets as follows:

Fixed Income

Following our fixed income acquisitions in 2006, we are now the leading provider of fixed income indices in Canada, and provide IDB, fixed income trading. In October 2006, we acquired Scotia Capital Inc.'s* Fixed Income Indices, its PC-Bond® analytics, and related data assets. In December 2006, we acquired Shorcan, Canada's first fixed income IDB. Shorcan offers clients trading in federal, provincial, corporate and mortgage bonds and treasury bills. Through our approximate 47% stake in CanDeal, we also provide dealer to client fixed income trading. CanDeal has achieved significant growth since its inception and reported a profit of $0.1 million in the second half of 2006. CanDeal continues to focus on expanding its product and service offering, adding more liquidity providers and attracting more institutional customers. CanDeal also provides access beyond Canada through its technology and co-marketing agreement with Thomson TradeWeb®.

Energy

We entered the energy trading and clearing business in March 2004 when we purchased NGX. NGX will continue to focus on growing its business. In October 2006, we added to our energy business when we acquired Oxen Inc. which owns the Alberta Watt Exchange Limited (Watt-Ex), a platform for providing ancillary services to the Alberta Electric System Operator which is used to balance supply and demand on the Alberta grid.

Expand Internationally

We will look for ways to expand beyond the borders of Canada, organically and through new acquisitions, strategic alliances and investments.

U.S. Market

We will continue to place greater focus on making Toronto Stock Exchange the market of choice for U.S. market participants for trading all Toronto Stock Exchange listed securities. We plan to pursue multiple initiatives across all business areas:

- We will seek to capture an increasing proportion of trading in Canadian-based interlisted stocks by continuing to meet U.S. and global connectivity standards (FIX), fostering best execution and educating the market on TSX's value proposition. Additionally, we will target executable order flow from U.S. market participants for Toronto Stock Exchange listed securities.
- We plan to leverage and expand the relationship between U.S. data sales agents and market data vendors with the goal of increasing data sales.
- We will seek to attract U.S. listings on our exchanges and focus on those areas where we provide a competitive advantage including targeting SMEs and issuers in the natural resource sector. We have planned a targeted seven-city marketing campaign for 2007.

Global Issuers

We will work to attract foreign issuers, leveraging our global competitive advantages in:

- Mining and Oil & Gas Sectors: We will seek to attract additional listings of global mining and oil & gas issuers by capitalizing on our international reputation of having a leading marketplace for those issuers. Based on the most recent data, as of September 30, 2006, we had approximately 50% market share of the world's global mining financings by value and approximately 59% of all publicly traded mining issuers were listed on one of our equity exchanges. We also listed the greatest number of oil & gas issuers globally. We have prioritized international target markets, focusing first on the US, then on Australia, Europe, South Africa, and China. We will increase our participation and presence in strategic events, such as conferences and listings forums. We will further develop and enhance relationships with key stakeholders and strategic partners to enable quick response to listing inquiries by prospective issuers.
- Structured Equity Products: We will also leverage internationally our domestic success by listing structured equity products, such as ETFs.

* Registered trade-mark of The Bank of Nova Scotia. Used under license.

FORWARD-LOOKING STATEMENTS, RISKS AND UNCERTAINTIES

This MD&A, in particular the sections under the headings **Strategy and Outlook, Changes to Listing Fees for 2007** and **Changes to Market Data Fees for 2007**, contains forward-looking statements, which are not historical facts but are based on certain assumptions and reflect our current expectations. These statements relate to among other things, anticipated financial performance, business prospects, strategies, regulatory developments, new services, market forces, commitments and technological developments. Forward-looking statements are typically identified by words such as “believe”, “plan”, “outlook”, “anticipate”, “continue”, “estimate”, “may”, “will”, “should”, “could”, and similar expressions. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Some of the risk factors that could cause actual results to differ materially from current expectations are those set out below. We do not undertake to update or revise any forward-looking statement that may be made from time to time by us or on our behalf.

We have in place an integrated risk management process in which the Board assumes overall stewardship responsibility for risk; the Finance & Audit Committee of the Board assesses the adequacy of risk management policies and procedures; and Senior Management oversees implementation of risk management policies and processes. The management framework supporting the risk management objectives includes regular assessments of principal risks, and implementation of risk management tactics, which are monitored and adjusted as required.

Our business, financial condition, or operating results could be materially adversely affected if any of these risks and uncertainties were to materialize, and if we were unsuccessful in mitigation of any of these risks. Additional risk factors are discussed in our materials filed with the securities regulatory authorities in Canada from time to time, including our most recent Annual Information Form. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

We Face Competition from Other Exchanges, ATSs, OTC Markets, Other Sources and New Technologies

We face competition from other exchanges as well as from ATSs, Electronic Communication Networks (ECNs), the OTC markets, other sources and new technologies. This competition may intensify in the near future, especially as technological advances create pressure to develop more efficient and less costly trading in global or regional markets. If we cannot maintain and enhance our ability to compete or respond to competitive threats, it will have an adverse impact on our results of operations.

Other Exchanges

We face increased competition for business from other exchanges, especially those in the United States as they consolidate, and investing becomes more global. We also face competition from foreign exchanges, such as AIM, for listings of Canadian-based issuers and trading in their securities. If we are unable to continue to provide competitive trade execution, the volume traded in Canadian-based interlisted issuers over our exchanges could decrease in the future and adversely affect our operating results. We continue to face competition from CNQ, which has partially launched a facility, Pure Trading, to trade our listed issuers’ securities.

The trend for exchanges to form alliances or consolidate and become for-profit and publicly traded is increasing and will result in our competitors becoming stronger. If we are not included in any alliances, these developments could materially adversely affect us.

ATSs

Technological advances have lowered barriers to entry and have facilitated the establishment of new exchanges and mechanisms, such as ATSs and ECNs, to electronically trade securities and other financial instruments outside traditional exchanges. ATSs have a framework to operate in Canada under the ATS Rules and may become our significant competitors in the future. For example, Instinet Canada Inc. has announced that it intends to launch a trading platform in 2007.

OTC Market and Other Sources

NGX’s business of trading and clearing energy contracts faces primary competition in energy markets in Canada and the United States from the OTC or bilateral markets (with support from voice brokers) who have recently consolidated. These voice brokers continue to provide efficient contract matching services for both standardized and structured products and are expanding their product offerings to include access to clearing facilities for trading parties who may have credit constraints. If NGX is unable to compete with the OTC voice brokers and their clearing partners, NGX may not be able to expand its business, which could materially affect its business and operating results.

In addition, CanDeal faces competition primarily from the OTC market. If CanDeal fails to attract institutional order flow from this market, it would adversely affect its operating results.

Shorcan's competitors in the fixed income IDB market include Freedom Bond Brokers, owned by Cantor Fitzgerald, Tullett Prebon, owned by Collins Stewart and BrokerTec, an electronic platform owned by ICAP. If Shorcan fails to attract institutional order flow from this market, it would adversely affect its operating results.

New Technologies

Technological advances, and in particular the Internet, have made it easier to download and disseminate electronic information. This may cause the value of our information to deteriorate since it is difficult to enforce restrictions on the use of information that we transmit electronically.

We may not be able to maintain or increase market data revenue if we cannot enforce our proprietary rights in the future.

We Depend on the Economy of Canada

Our financial results are affected by the Canadian economy, which is relatively small.

Approximately 96% of our listed issuers as of December 31, 2006 were Canadian-based companies. The performance of these issuers has an effect on the volume of trading on our exchanges. If the profit growth of Canadian-based companies is generally lower than the profit growth of companies based in other countries, the markets on which those other issuers are listed and trade may be more attractive to investors than our equity exchanges. The threat of a prolonged economic downturn may also have a negative impact on investment performance, the number of new issuers, the market capitalization of our listed issuers, additional securities being listed or reserved and trading volumes.

We Need to Retain and Attract Qualified Personnel

Our success depends to a significant extent upon the continued employment and performance of a number of key management personnel whose compensation is partially tied to vested stock options and long-term incentive plans that mature over time. The value of this compensation is dependent upon share price and total shareholder return performance. The loss of the services of key personnel could have a material adverse effect on our business and results of operations. We also believe that our future success will depend in large part on our ability to attract and retain highly skilled technical, managerial and marketing personnel. There can be no assurance that we will be successful in retaining and attracting the personnel we require.

Geopolitical Factors/Business Continuity

The continuity of our critical business functions could be interrupted by geopolitical upheaval, including terrorist, criminal, political and cyber, or by other types of disruptions, including natural events.

We have a series of integrated disaster recovery and business continuity plans for critical business functions to mitigate the risk of an interruption. However, these plans may not be adequate, and we cannot entirely eliminate the risk of a system failure or business interruption.

We Depend Heavily on Information Technology, which could Fail or Malfunction

We are extremely dependent on our information technology systems, including data and communications systems (IT Operations). Our trading is conducted exclusively on an electronic basis. We have disaster recovery and contingency plans and back-up procedures to manage, mitigate and minimize the risk of an interruption or failure to, and to ensure the integrity of, our IT Operations. We also test our disaster recovery plans for trading on Toronto Stock Exchange and TSX Venture Exchange, and include customers in that process. However, those plans may not be adequate and we cannot entirely eliminate the risk of a system failure or interruption. We have experienced occasional IT Operations failures and delays in the past, and we could experience future IT Operations failures and delays.

Our current technological architecture may not effectively or efficiently support our changing business requirements. The system hardware was upgraded in 2004. Two hardware upgrades and two software performance releases were implemented in 2005 in response to increases in order message volumes and transactions. In January 2007, we announced the completion of much of the work on TSXPress™, which included three major trading system enhancements in 2006. We will continue to make additional expenditures to further enhance and upgrade our systems. To grow, we will need to continuously improve our information technology systems so that we can handle increases and changes in trading activity and to respond to customer demand for faster processing times. This will require ongoing expenditures, which may require us to expend significant amounts in the future. In 2006, we tested our next generation trading engine in an independent laboratory. While results were positive, it is too early to tell if we will be able to replicate these results in a production environment.

If our systems are significantly compromised or disrupted or if we suffer repeated failures, this could interrupt our trading services; cause delays in settlement; cause us to lose data; corrupt our trading operations, data and records; or disrupt our business operations. This could undermine confidence in our exchanges and have a material adverse effect on our reputation or results of operations, and may lead to customer claims, litigation and regulatory sanctions.

We May Not Be Successful in Implementing our Strategy

We invest significant resources in the development and execution of our corporate strategy to grow profitability and maximize shareholder returns. We may not succeed in implementing our strategies.

We also have limited experience pursuing new business opportunities or growth opportunities in new geographic markets. We may have difficulty executing our strategies because of, among other things, increased global competition, difficulty developing and introducing new products, barriers to entry in other geographic markets, and changes in regulatory requirements. Any of these factors could have a material adverse effect on the success of our strategies.

As part of our strategy to sustain growth, we expect to continue to pursue appropriate acquisitions of other entities and technologies. An acquisition will only be successful if we can integrate the acquired businesses' operations, products and personnel; retain key personnel; and expand our financial and management controls and our reporting systems and procedures to accommodate the acquired businesses. If an investment or acquisition does not fulfil expectations, we may have to write down its value in the future or sell it at a loss.

We may enter into agreements in the future which further our strategy but which may also impose restrictions on us. For example, in the agreement with CNW Group, we agreed to certain restrictions on the business activities we can engage in until 2008 (in areas that we view as non-core to our business) in exchange for a share of revenue earned from products and services offered by CNX Marketlink in those areas. In addition, the memorandum of agreement with the Bourse de Montréal prevents us from providing trading facilities and services for exchange-traded derivative products, comprising (without limitation) options and futures contracts, other than natural gas and electricity products, until March 16, 2009.

We are Subject to Regulation

The provincial securities regulators regulate us and our exchanges and regulators in other jurisdictions may regulate our future operations. This regulation may impose barriers or constraints which limit our ability to build an efficient, competitive organization and may also limit our ability to expand foreign and global access. Securities regulators also impose financial and corporate governance restrictions on us. Some of the provincial securities regulators must approve or review our equity exchanges' listing rules, trading rules, and features and operations of, or changes to our systems and our fee structures. These approvals or procedures may increase our costs and delay our plans for implementation. There could also be regulatory changes that impact our customers and that could have a material adverse impact on us.

We are Subject to Litigation Risks

Some aspects of our business involve risks of litigation. Dissatisfied customers may make claims with respect to the manner in which we operate. Although we benefit from certain contractual indemnities and limitations on liabilities, these rights may not be sufficient. In addition, with the introduction of civil liability for misrepresentations in our continuous disclosure documents and statements and the failure to make timely disclosures of material changes in Ontario and certain other jurisdictions, dissatisfied shareholders can more easily make claims against us. If a lawsuit or claim is resolved against us, it could have a material adverse effect on our reputation, business, financial condition and operating results.

Our Exchanges Depend on the Development and Acceptance of our New Products

We are dependent to a great extent on developing and introducing new financial and trading products and on their acceptance by the investment community. While we continue to review and develop new products that respond to the needs of the marketplace, we may not continue to develop successful new products. Our current products may become outdated or lose market favour before we can develop adequate enhancements or replacements. Other exchanges or ATSs may introduce new products or product enhancements that make our products less attractive.

Even if we develop an attractive new product, we could lose trading activity to another marketplace that introduces a similar or identical product which offers greater liquidity or lower cost. We also may not receive regulatory approval (in a timely manner or at all) for our new products. Any of these events could have a material adverse effect on our results of operations.

New Business Activities May Adversely Affect Income

We may enter new business activities that could have an adverse effect on our existing profitability. While we would expect to realize new revenue from these new activities, there is a risk that this new revenue would not be greater than the associated costs or any related decline in existing revenue sources.

Our Trading Operation Depends Primarily on a Small Number of Clients and Vendors

During 2006, approximately 58% of our trading revenue on Toronto Stock Exchange and approximately 59% of our trading revenue on TSX Venture Exchange were accounted for by the top ten POs on each exchange. Our business, financial condition or operating results could suffer a material adverse effect if any one of these POs significantly reduced or stopped trading on our exchanges, or if two or more POs consolidated.

During 2006, approximately 19% of our trading revenue on Toronto Stock Exchange and approximately 11% of our trading revenue on TSX Venture Exchange was derived from trading in the securities of the ten most actively traded listed issuers on each exchange. If we lost one or more of these issuers, we would not only suffer a decrease in revenue from our listing operations, but we would also suffer an even more significant decrease in revenue from our trading operations.

We Could Suffer Losses as a Result of NGX's Clearing Activities

We could suffer a loss if one or more of NGX's participants defaults on their contractual obligations since NGX assumes this counterparty risk. As part of its clearing services, NGX guarantees that its cleared contracts will be honoured. NGX faces other risks associated with the clearing business including market risks, settlement risks, concentration risks and operational risks.

By providing a clearing facility, NGX is subject to the risk of a counterparty defaulting simultaneously with an extreme market price movement. NGX manages this risk by applying standard rules and regulations, and using a conservative margining regime based on globally accepted margin concepts. This margining regime involves valuing the market stress of client portfolios in real-time and requiring participants to deposit liquid collateral in excess of those valuations. NGX conducts market stress scenarios regularly to test the ongoing integrity of its clearing operation. NGX also relies on established policies, instructions, rules and regulations as well as procedures specifically designed to actively manage and mitigate risks.

To backstop its clearing operations, NGX has a credit agreement in place with a Canadian chartered bank. We are NGX's guarantor for this credit agreement up to a maximum of $30.0 million. We have pledged $30.0 million of marketable securities related to our obligations as guarantor. In addition, NGX has covenanted under the agreement to maintain a minimum of $9.0 million of tangible net worth. If NGX suffers a loss on its clearing operations, it could lose its entire tangible net worth. The bank could also realize up to a maximum of $30.0 million on our guarantee, to the extent required to cover the loss.

Our Cost Structure is Largely Fixed

Most of our expenses are fixed and cannot be easily lowered if our revenue decreases, which could have an adverse effect on our results of operations and financial condition.

We Depend on Market Activity that is Outside of our Control

Our revenue is highly dependent upon the level of activity on our exchanges, including the volume of securities traded; the number and market capitalization of listed issuers; the number of new listings; the number of active traders and brokerage firms in the market; and the number of subscribers to market data.

We do not have direct control over these variables. Among other things, these variables depend upon the relative attractiveness of securities traded on our exchanges and the relative attractiveness of our exchanges as a place to trade those securities as compared with other exchanges and other trading vehicles. Those variables are in turn influenced by:

- the overall economic conditions in Canada and the United States in particular, and in the world in general (especially growth levels and political stability);
- the condition of the resource sector;
- interest rate environment and resulting attractiveness of alternative asset classes;
- the regulatory environment for investment in securities;
- the relative activity and performance of global capital markets;
- investor confidence in the prospects and integrity of our listed issuers, and the prospects of Canadian-based listed issuers in general;
- pricing volatility of global energy markets; and
- changes in tax legislation that would impact the relative attractiveness of certain types of securities, including income trusts.

We may be able to indirectly influence the volume of trading by providing efficient, reliable and low-cost trading; maximizing the availability of timely, reliable information upon which research, advice and investment decisions can be based; and maximizing the ease of access to trading facilities. However, those activities may not have a positive effect on, or effectively counteract the factors that are outside of our control.

January 31, 2007