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Forward-Looking Statements

This annual report contains forward-looking statements, which are not historical facts but are based on certain assumptions and reflect TSX Group's current expectations. 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. Please see Forward-Looking Statements and Risks and Uncertainties in the 2005 Management's Discussion and Analysis for a description of some of the risk factors that could cause actual events or results to differ materially from current expectations.

CHAIR'S LETTER TO SHAREHOLDERS

It is my pleasure to report to you once again about the role TSX Group's Board of Directors played on shareholders' behalf at the company in 2005.

TSX Group's continued evolution as a leading operator of electronic marketplaces has produced another year of strong results for shareholders. The company's shares were split on a two-for-one basis in May, net income increased by 51 per cent and total dividends paid to investors in 2005 rose to 90 cents a share, a 55-per cent increase over 2004. This brings the total increase in the quarterly dividend since the company went public to 340 per cent, not including the special \$2.50 dividend (post-stock split) in 2003.

At the operational level, the company embarked on internal changes designed to promote greater efficiency. Incoming CEO Richard Nesbitt made adjustments to corporate strategy in anticipation of changes in the external competitive environments in Canada and the United States.

Shareholders will notice one of the more visible changes in this document. TSX Group has responded to investors' requests for an annual report that is cost-efficient while providing comprehensive information in plain language.

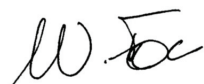
In 2005, TSX Group increased its cross-border activity in the United States, expanding activities there to serve the needs of U.S. investors and companies in the capital market with which TSX Group has its closest connections. As our enhanced U.S. initiative got underway last year, the U.S. exchanges announced plans for significant changes of their own. They began transactions that have accelerated exchange consolidation in the United States. As a consequence they are now addressing many of the structural and governance issues that TSX Group resolved several years ago as it became a public company. These U.S. exchange competitors will present challenges and opportunities for the Canadian capital markets.

In addition to these business initiatives, TSX Group also continued to play a leading role in governance last year. We adopted changes intended to enhance the effectiveness of our governance provisions while attempting to ensure that the benefits shareholders receive from them will exceed their costs.

As I have said previously, a central responsibility of a corporate board of directors is to establish governance policies that will guide the company's operations. In our case, as the operator of Canada's two leading national stock exchanges, our governance can also serve as a practical guide for companies listed on our markets. This year the Board has adopted new governance standards that are outlined in accompanying documents. They have been undertaken after careful consideration and consultation and include enhanced disclosure of executive compensation as well as adoption of majority voting by shareholders for directors. They reflect TSX Group's ongoing capital markets leadership in operating with fairness and transparency.

I would like to extend my thanks to all of TSX Group's Directors for their contributions at the Board's regular and special meetings last year. On behalf of the Board of Directors, I would also like to express appreciation to Ian Brown and Eric Tripp who will step down at our annual and special meeting after serving as Directors during the years when the company, as we know it today, began to emerge. Finally, I would like to express the Board's appreciation to all TSX Group employees whose work continued the company's record as an efficient and effective capital markets leader.

The company has positioned itself to take advantage of new growth opportunities and I am confident its efforts to promote and protect the competitiveness and integrity of the Canadian capital markets will continue.



WAYNE FOX
Chair, Board of Directors
TSX Group Inc.

CEO'S LETTER TO SHAREHOLDERS

I am pleased to report on my first full year as Chief Executive Officer of TSX Group Inc.

At TSX Group, we have put a sharp focus on building our business where the strongest gains are to be made. We employ a disciplined approach to cost control and seeking new efficiencies.

These approaches produced 19 per cent more revenue for the year, four per cent lower expenses and 51 per cent higher net income for 2005 compared to 2004.

All of this came in the context of growing Canadian economic strength – and strength in our capital markets to match. That strength was reflected throughout our business. In 2005, TSX Group had:

- Record listings with 223 new companies on Toronto Stock Exchange. Structured products, a key growth area, represented 59 of the 137 IPOs and 52 per cent of all IPO financing on TSX last year.
- Record trading, whether measured by value, volume or the number of transactions. We broke through the \$1 trillion mark on Toronto Stock Exchange for the first time in our history, handling more than 55 million transactions, another record. Trading on TSX Venture Exchange was also at record levels.
- Record levels in data sales, and data subscriptions hit a new all-time high.
- Record volumes in trading natural gas and electricity contracts on our Natural Gas Exchange (NGX).
- As well, value traded on CanDeal.ca Inc. was \$148 billion, up 68 per cent over 2004. CanDeal, Canada's leading electronic fixed income marketplace, is owned by TSX Group (45 per cent) and Canada's six largest banks.

These records are not without consequence. Record numbers of orders and trades – and a rising ratio of orders to trades as computer-program or algorithmic trading became more widespread – required that we constantly ensure adequate trading system capacity to meet rising demand.

We doubled our trading capacity through two separate upgrades during the year, cut our response time and added other enhancements to maintain our technological leadership. A strong technology base is essential to our customer's success.

So far this decade, the performance of the Canadian economy has been the success story of the global economy.

From December 31, 1999 to December 31, 2005, the S&P/TSX Composite Index was up 34 per cent. The comparable U.S. index, the S&P 500, was down 15 per cent, the Dow Jones Industrial Average down 7 per cent, the NASDAQ Composite down 46 per cent and the main London index, the FTSE 100, was down 19 per cent.

This out-performance is even more impressive when the currency gains as a result of the rising Canadian dollar are added in.

In certain sectors, TSX Group exchanges set the global standard.

TSX and TSX Venture are the mining exchanges for the world. Again last year, our equity exchanges were the largest single source of financing for mining projects and attracted listings from many parts of the world. Some 60 per cent of the world's mining companies continue to be issuers listed on Toronto Stock Exchange or TSX Venture Exchange.

This is a significant strength, especially during the cyclical strengthening of the industry that has accompanied the rise of China and India as important global economic players. More importantly they are societies that increasingly demonstrate the middle-class consumption patterns that fuel the demand for the basic materials that are a traditional Canadian strength.

TSX Group was well represented last fall at China Mining, that country's most important global mining conference. And last fall, during the annual meeting of the World Federation of Exchanges (WFE) in Mumbai, India's financial capital, I spent time with Indian business leaders and came away with a strong sense of the potential importance of stronger links between the Indian and Canadian capital markets, especially in the energy sector where India has burgeoning needs and Canada has expertise that can contribute to their meeting those needs.

Energy is the second major area where we set the global standard. In this sector, we have two sources of strength. Two of our exchanges, TSX Venture Exchange and NGX, are based in Calgary, Alberta to serve our customers there.

Our two equity exchanges have global leadership in the industry, with more energy companies listed than any other exchange or exchange group in the world.

NGX, which we acquired in 2004, is an increasingly important part of our business, representing six per cent of revenues in 2005. Volumes traded and/or cleared in natural gas and electricity contracts on NGX in 2005 increased by 20 per cent over 2004.

These two leadership sectors, along with our strengths in life sciences, information technology and other sectors, have combined to lift TSX Group to a leading position among the world's exchanges.

Our main competition is from the two large U.S. exchanges and to a lesser extent the London Stock Exchange.

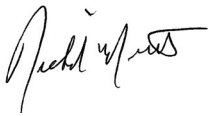
According to the World Federation of Exchanges, when 2005 ended, more money had been raised on TSX and TSX Venture Exchange in initial public offerings than was raised on NASDAQ – U.S. \$12.8 billion versus U.S. \$12.2 billion. We were comparable to the London exchange in total capital raised – the LSE was the source of \$51 billion U.S. in capital, our exchanges \$43.2 billion U.S. – through both initial and secondary offerings. We finished the year third (behind NYSE and LSE) in the world in terms of capital raised on exchanges.

Our equity exchanges were seventh in the world in terms of market capitalization, sixth in the world in terms of turnover in exchange traded funds (ETFs) and for a good part of the year had stronger turnover in ETFs than NYSE. Among global exchanges, we showed one of the strongest gains in market capitalization of listed issuers (25.9 per cent) and in value of share trading (38.1 per cent), (both measured in U.S. dollars).

Against our strongest competitors – NYSE and NASDAQ – we have been making clear gains not only in passing NASDAQ in the amount of capital raised but in overall market share in Canadian-based inter-listed trading.

At TSX Group, we have worked with others in the Canadian capital markets to evolve our markets into aggressive competitors for global capital. We believe that our world leading performance of the last few years cannot be taken for granted in the future. Canada must prepare its capital markets to face these large foreign competitors. Further change in regulation, exchange services and marketplace structure are necessary to ensure Canada's continued success.

As TSX Group, we welcome these developments and look forward to the future opportunities they will create.



RICHARD NESBITT
Chief Executive Officer
TSX Group Inc.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Overview

Recognizing the leadership role that TSX Group has played in shaping corporate governance practices in Canada, our Board of Directors (*Board*) and management continue to be committed to remaining at the forefront of good governance and to ensuring the highest standard of corporate governance. TSX Group's corporate governance policies and practices are designed to support the Board in discharging its responsibilities and to enhance shareholder value. We regularly review these policies and practices.

TSX Group's corporate governance system complies with National Policy 58-201—Corporate Governance Guidelines (*NP 58-201*), National Instrument 58-101—Disclosure of Corporate Governance Practices (*NI 58-101*) and Multilateral Instrument 52-110—Audit Committees (*MI 52-110*). In addition, we continue to review our corporate governance practices with reference to corporate governance guidelines recommended by institutional and other shareholder organizations.

Board Responsibilities

The Board is responsible for TSX Group's governance and stewardship and overseeing its corporate strategy, affairs and management. The Board discharges this responsibility, either directly or, where appropriate, through committees, and by selecting and holding management accountable for TSX Group's operations and for implementing its corporate strategy. The Board sets clear policies and direction for management's responsibilities and authority. Among its many specific duties, the Board annually monitors the performance of the Chief Executive Officer (*CEO*) against corporate objectives (established by the Board with the CEO), and sets the CEO's compensation. The Board also approves strategic plans and corporate objectives that the CEO is responsible for meeting, provides advice and counsel to the CEO, oversees ethical and legal conduct of senior management, and assesses financial performance of TSX Group. In addition, the Board approves the adequacy and form of compensation paid to members of the Board (*Directors*). The Board Charter that describes the Board's responsibilities is available on our website.

At each regularly scheduled Board meeting, Directors and senior management examine, review and discuss a broad range of issues relevant to TSX Group's strategy, business interests and growth initiatives. In addition, management provides the Board with timely and periodic reports on operational and financial performance. During fiscal 2005, the Board held ten regular and four special meetings. Attendance by Directors at these meetings was more than 95 per cent, either in person, by teleconference or by video conference. The Board plans to hold ten meetings in 2006. At each of these meetings, the Board will meet without management and non-independent Directors to ensure it provides independent assessment and oversight. Each of the Finance and Audit Committee, Human Resources Committee and the Governance Committee can, in its discretion, retain an outside advisor or expert. An individual Director or any other committee of the Board can retain an outside advisor or expert with the approval of the Governance Committee.

Board Independence and Composition

The Board has a non-executive Chair and knowledgeable and experienced Directors, and 12 out of 14 members of the Board, including the Chair, are "independent" within the meaning of section 1.4 of MI 52-110 and our recognition order issued by the Ontario Securities Commission (*Recognition Order*). The Recognition Order requires at least 50 per cent of Directors to be "independent", within the meaning of section 1.4 of MI 52-110. Furthermore, pursuant to the Recognition Order, the Board adopted in 2005 more restrictive standards than that imposed by MI 52-110 to determine whether individual members of the Board are independent from TSX Group. Those standards are set out on our website.

The Board also derives strength from the background, qualities, skills and experience of its Directors. The Governance Committee recommends candidates to the Board who are suitable for nomination to the Board on an annual basis. Nominees are selected for qualities such as integrity, business judgment, financial acumen, independence, business, professional or board expertise and capital markets experience. The Board also takes into consideration representation from geographic regions relevant to TSX Group's strategic priorities.

Director Education and Access to Management

We provide new Directors with a Directors' Manual, which serves as a corporate reference, as well as with orientation materials describing our business, strategy, objectives and initiatives, so new Directors understand the nature and operations of our business and the role of the Board and its committees, as well as the contribution individual Directors are expected to make. Furthermore, Directors are invited to spend time at our offices and also have timely and periodic one-on-one meetings with the CEO and key members of the senior management team. The Chair sets the agenda for Board meetings and Directors receive a comprehensive package of information prior to each Board and committee meeting. As well, each committee delivers a report to the full Board on its work after each committee meeting. TSX Group also provides the Directors with a variety of other materials on an *ad hoc* basis, to keep them informed about internal developments as well as developments in, or which affect, our industry. All of these materials and other corporate materials are also accessible by Directors on a permanent, secure intranet.

Board Evaluation

The Board annually evaluates its performance and effectiveness through a Board Assessment Survey and addresses any issues that are raised in the evaluations. The Board conducts a peer review of the Directors, including the Chair of the Board, to assess individual Director performance. The Chair of the Board with each Director, and the chair of the Governance Committee with the Chair, conducts formal one-on-one interviews based on the results of the survey and the peer review.

Code of Conduct

The Board's Code of Conduct (*Board Code*) for Directors, which was updated in February 2006, sets standards for ethical behaviour of the Board. The Board monitors compliance with the Board Code and is responsible for considering and granting waivers from compliance with the Board Code, if any. No waivers have been granted nor have there been any violations of the Board Code. A copy of the Board Code is available on our website.

Committees

The Board has four standing committees with specific areas of responsibility to effectively govern TSX Group: Finance and Audit Committee, Human Resources Committee, Governance Committee and Public Venture Market Committee. All of the members of the Finance and Audit Committee, Human Resources Committee and Governance Committee and more than a majority of the members on the Public Venture Market Committee are independent. All of the committees also consist solely of non-management Directors. The Board believes that the composition of its committees ensures that they operate independently from management to protect all shareholders' interests. The Board also believes that the members of the Finance and Audit Committee are financially literate, given their education and experience. Each standing Board committee has a formal written Charter, approved by the Board. These are reviewed at least annually and are available on our website.

Majority Voting

The Board has adopted a policy that provides that if a director of TSX Group does not receive the support of a majority of the votes cast at an annual meeting of the shareholders, the director will tender his or her resignation to the Board, to be effective when accepted by the Board. The Governance Committee will consider the director's offer to resign and make a recommendation to the Board whether to accept it. The Board will have 90 days following the annual meeting to make its final decision and announce it by way of press release. This guideline is in effect for the 2006 annual shareholders' meeting.

Risk Management

TSX Group recognizes that risk management is integral to its business performance, and we follow a comprehensive integrated risk management program to identify, assess and prioritize principal business risks, and consider the likelihood and potential impact of each risk. We develop strategies to manage each identified risk. In addition, we have a business continuity plan to protect personnel and resources and to enable us to continue critical business functions if a disaster occurs. The Board provides oversight with respect to our risk management program and our strategies to mitigate such risks. Also, we have an internal audit function, which reports to the Finance and Audit Committee, and which independently assesses the adequacy and effectiveness of internal controls and recommends corrective action.

Communication

TSX Group and the Board are committed to open and proactive communication. Our investor relations staff provides information to current and potential investors and responds to their inquiries. We broadcast quarterly earnings conference calls live and archive these calls on our website. We also make recordings available via telephone to interested investors, the media and members of the public for three months after each call. Audio webcasts of such recordings are also available on our website for six months after each call. We promptly make available presentations from investor conferences on our website. We also make material disclosure documents available on our website.

Additional Information

For a full report on our corporate governance practices, please refer to our Management Information Circular, which may be accessed through www.sedar.com or through our website at www.tsx.com. The Circular also contains our corporate governance practices with respect to NI 58-101, information about Directors, and the composition, responsibilities and activities of the Board's standing committees. All information about corporate governance practices in our Annual Report and in the Management Information Circular was adopted and approved by our Board.

2005 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, 2005, compared with the year ended December 31, 2004. This MD&A is dated February 1, 2006. It should be read carefully together with our 2005 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.

NON-GAAP FINANCIAL MEASURES

Certain measures used in this MD&A, specifically listing fees received, initial listing fees received, additional listing fees received, total revenue based on initial and additional listing fees received, as well as revenue, net income and earnings per share (basic and diluted) without giving effect to the implementation of EIC-141 do not have standardized meanings prescribed by Canadian GAAP. We present these measures to provide an indication of how initial and additional listing activity in the period presented and the fees received for these activities impact the financial performance and cash flow of the business. In addition, net income excluding amortization does not have a standardized meaning prescribed by Canadian GAAP. These measures are unlikely to be comparable to similar measures presented by other issuers.

VISION

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

We intend to leverage our competitive advantages and strengths, which provide the foundation for our corporate strategy.

We believe our principal competitive advantages are:

- Pre-eminent domestic position operating two national equity exchanges
- Marketplace operations skills and capabilities
- Trading and data technology capability
- Brand and reputation for operating exchanges with integrity
- Data platform and capabilities.

Our advantages are supplemented by our main strengths:

- Strong balance sheet
- Track record of execution
- Efficient market model
- Clearing expertise in the energy market
- Customer focus.

OVERVIEW OF THE BUSINESS

We own and operate two national stock exchanges, Toronto Stock Exchange and TSX Venture Exchange, which are the primary venues for capital formation and liquidity in Canada. The total market capitalization of the 3,758 issuers listed on our equity exchanges at December 31, 2005 was almost \$1.9 trillion, making our combined equity exchanges the third largest in North America and the seventh largest in the world. The total value of securities traded on our two equity exchanges in 2005 was approximately \$1.1 trillion.

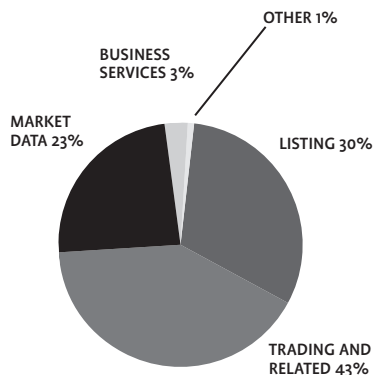
We also own Natural Gas Exchange (NGX) which operates a North American exchange for the trading and clearing of natural gas and electricity contracts. During 2005, 8.8 million terajoules in natural gas and electricity contracts were traded and/or cleared on NGX.

We also own 45% of CanDeal.ca.Inc. (CanDeal), an institutional fixed income trading system. During 2005, CanDeal traded \$147.9 billion in fixed income securities.

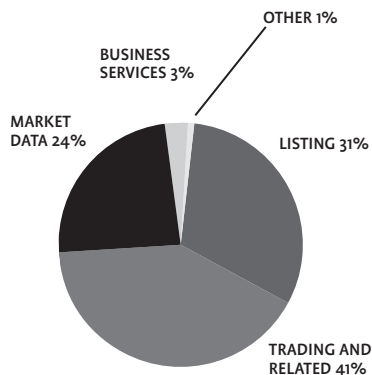
Core Business of TSX Group

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

2005 revenue of \$ 290.0 million
(% of total revenue)

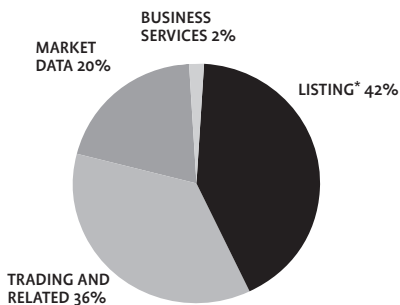


2004 revenue of \$ 243.4 million
(% of total revenue)

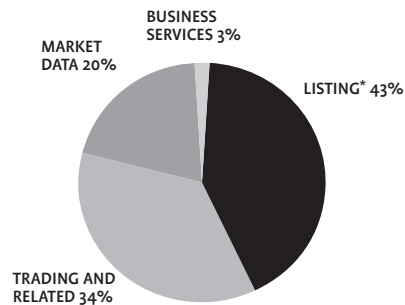


In October, 2005, we changed the way we account for fees charged for initial listings and additional financing, and retroactively applied this treatment so that these fees are now amortized over a ten year period as described later in this MD&A. We believe that initial and additional listing fees received* is an important measure of our business as it reflects current activity and the actual cash flow received from initial and additional listings. We therefore continue to provide information on initial and additional listing fees received*.

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



2004 revenue of \$ 295.6 million*
(% of total revenue based on initial and additional listing fees received*)



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

Listings – Toronto Stock Exchange and TSX Venture Exchange

Our listings operations take place through either Toronto Stock Exchange, our senior market or TSX Venture Exchange, our junior market. TSX Venture Exchange also offers a board for issuers that have fallen below TSX Venture Exchange's ongoing listing standards, referred to as NEX¹.

- At December 31, 2005, 1,537 issuers with an aggregate market capitalization of \$1.8 trillion were listed on Toronto Stock Exchange.
- At December 31, 2005, 2,221 issuers with an aggregate market capitalization of \$34.0 billion were listed on TSX Venture Exchange.
- In 2005, revenue from listing fees on the two exchanges represented \$87.7 million, or 30% of our revenue. Revenue from listing fees was \$72.9 million on Toronto Stock Exchange and \$14.8 million on TSX Venture Exchange. Listing fees received* from our issuers in 2005 was \$146.3 million.
- In 2004, revenue from listing fees on the two exchanges represented \$75.0 million, or 31% of our revenue. Revenue from listing fees was \$63.4 million on Toronto Stock Exchange and \$11.6 million on TSX Venture Exchange. Listing fees received* from our issuers in 2004 was \$127.2 million.

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.

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. 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 deferred revenue-initial and additional listing fees on the consolidated balance sheet (see **Deferred Revenue – Initial and Additional Listing Fees**).

Additional Listing Fees

Issuers listed on one of our equity exchanges pay fees in connection with 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. For accounting purposes, we recognize additional listing fees on a straight line basis over a ten year period. Unamortized balances are recorded as deferred revenue-initial and additional listing fees on the consolidated balance sheet (see **Deferred Revenue – Initial and Additional Listing Fees**).

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 2006

In December, 2005, we announced changes to the 2006 fee structure for issuers listed on Toronto Stock Exchange and TSX Venture Exchange. This followed a review of listing fees on other major global exchanges. There will be both increases and decreases to fees paid by listed issuers. It is anticipated that, in aggregate, listing fees received* will increase by about five to seven percent on an annual basis as a result of these changes².

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

¹ Unless otherwise indicated, market statistics and financial information includes information for NEX.

² The "Changes to Listing Fees for 2006" 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 - TSX Markets and NGX

TSX Markets

Our trading operations for both Toronto Stock Exchange and TSX Venture Exchange are conducted by 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 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.
- In 2004, trading and related fees paid by POs relating to both exchanges represented \$88.8 million, or 37% of our revenue. Trading and related revenue was \$76.1 million on Toronto Stock Exchange and \$12.7 million on TSX Venture Exchange.

Trading occurs through continuous electronic auction markets or 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”), in which we have an approximate 18% interest, with the balance being held by the major Canadian chartered banks and by the Investment Dealers Association of Canada (“IDA”).

For trades of securities listed on Toronto Stock Exchange, other than certain interlisted securities described below under *Toronto Stock Exchange - Interlisted trading and pricing changes*, POs pay fees to TSX Markets based on the value of each trade up to a fixed cap per trade. Fees are charged to the PO which enters an order that is matched against an existing order. TSX Markets offers discounts to POs that achieve certain minimum total monthly trading value on Toronto Stock Exchange to further encourage trading on that exchange. In addition to offering discounts based on monthly trading value, TSX Markets offers alternative discounts to POs based on achieving a minimum number of trades for a month.

For trades of securities listed on TSX Venture Exchange, POs pay a percentage fee based on a combination of the value and volume of each trade, subject to minimum and maximum fee levels.

Toronto Stock Exchange - Interlisted trading and pricing changes

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.

Toronto Stock Exchange's share of trading in Canadian Based Interlisted issues (CBIs), based on value traded, increased from \$533.0 billion in 2004 to \$640.1 billion in 2005. Our share of trading in these interlisted stocks increased from 47% in 2004 to 49% in 2005.

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, on a one year trial basis, a volume based trading fee structure on issues that are interlisted on Toronto Stock Exchange and either NASDAQ or AMEX. The volume based fee structure better aligns our trading fees with the prevailing model in U.S. marketplaces, with the goal of capturing more interlisted trading volume. The new fee structure affected approximately 139 issues at December 31, 2005 and replaced the value based fee model for these issues. When liquidity is added to the central limit order book, each booked and subsequently executed passive order receives a credit of \$0.00275 per share to a maximum of \$50. When liquidity is removed from the central limit order book, each executed active order is charged \$0.004 per share to a maximum of \$100. Trades under this new fee model are not eligible for existing discounts based on value or number of transactions, except with reference to the cross printing facility (qualification and credits for participation in this facility remain unchanged).

Trading fees for all other issues listed on Toronto Stock Exchange remain under the current value based fee system. Fee reductions for trading these issues were implemented in two phases: as of October 1, 2005, the charge of 1/50th of 1% on the value of executed active orders was reduced to 1/55th of 1%, and on January 1, 2006, a further reduction to 1/60th of 1% took place. The maximum fee per trade continues to be \$50.

We anticipate that these changes to the trading fee structure should result in increased trading volumes and improve our competitive position. It is possible that the decrease in trading fees could reduce trading and related revenue by about eight to ten percent on an annual basis if offsetting benefits are not realized. However, lower transaction costs tend to augment liquidity by increasing the attractiveness of Toronto Stock Exchange as a trading venue.³

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. 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.

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 were introduced, which among other things, permitted the creation of alternative trading systems (“ATSs”) as competing marketplaces. Part of our strategy is to provide a competitive response to ATS marketplaces and other exchanges as well as 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 eExecution™, or FOX™, a system designed to assist POs to more effectively and efficiently manage capital risk, and to consolidate order flow across trading desks.
- 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.⁴
- Multiple Broker Give-Up, designed to allow investors to distribute their trading relationships among multiple POs.
- 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).

Regulation

Market integrity is an essential element of any marketplace. Historically, Toronto Stock Exchange and TSX Venture Exchange monitored and enforced market integrity directly. In order to make this regulatory function independent from its business operations, in 2001, we proposed the creation of a separate corporate entity, Market Regulation Services Inc. (“RS”), that would administer a set of universal market integrity rules for all 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 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, RS was retained to provide regulation services to Toronto Stock Exchange and TSX Venture Exchange under the ATS Rules as agent for each of them. RS monitors and enforces compliance with those requirements by the POs, their directors, officers, employees and affiliates and performs other regulatory functions as delegated to RS by our equity exchanges.

³ The “Toronto Stock Exchange - Interlisted trading and pricing changes” 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.

⁴ S&P is a trade-mark owned by The McGraw-Hill Companies, Inc. and is used under license.

NGX

In March, 2004 we acquired NGX, a Canadian-based energy exchange that provides customers with an electronic platform for the trading and clearing of natural gas and electricity contracts. NGX generates trading and clearing revenue by applying fees to all transactions based on the contract volume traded and/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, 2005 was \$16.8 million, or 6% of our 2005 revenue.
- NGX's revenue from trading and clearing activities for the ten months ended December 31, 2004 was \$10.8 million, or 4% of our 2004 revenue.

Market Data - TSX Datalinx

Through TSX Datalinx, we sell our real-time trading and quotation 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 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.
- In 2004, market data revenue represented \$58.8 million, or 24% of our revenue. Market data revenue was \$45.2 million on Toronto Stock Exchange, \$13.2 million on TSX Venture Exchange and \$0.4 million on NGX.

Real-Time Data

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 80 Canadian and global market data vendors that sell feeds and desktop information services. These information services allow end users to view the real-time market activity of several exchanges and marketplaces, as well as provide supporting reference data, corporate actions and news. These services also enable the end user to transfer the data to applications that allow further manipulation and analysis.

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 stocks traded on the Canadian Trading and Quotation System Inc. (CNQ), an exchange for micro-cap stocks, and CanDeal, of which TSX Inc. owned approximately 45% as of December 31, 2005. In 2005, we continued to work with existing partners and explore opportunities with other content providers. This has resulted in a number of new products including real time interbank foreign exchange rates, TSX/CP Equities News and the addition of Perimeter Financial Corp. data. This expanded content set has enhanced the delivery of relevant and timely Canadian capital markets information targeted to our global client base. In 2005, we also started to provide a direct feed of market data to certain customers in order to address their requirements for reduced latency.

Subscribers for TSX Datalinx data generally pay fixed monthly rates, which differ depending on the number of end users and the depth of information accessed. In addition, some subscribers are charged a fee 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. Market data vendors are charged a fixed monthly access fee for each connection to TSX Datalinx. Sales of real-time data represented approximately 95% of TSX Datalinx revenue in both 2005 and 2004.

In 2003, TSX Group and Canada NewsWire Ltd. ("CNW") announced the creation of CNX Marketlink⁵, which provides an investor communications and disclosure network for publicly listed companies for press release dissemination. We receive a portion of the revenue from the sale of CNX Marketlink products.

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

⁵ CNX Marketlink is a trade-mark of CNW Group Ltd. and is used under license.

Historical Market Data 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.

Historical data products are generally sold 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 historical data publications for each exchange, a Daily Record and a Monthly Review, both of which are sold on a subscription basis.

In 2005, we introduced a Daily Trade and Quote product with Nexa Technologies. The product includes trade and quote data and was developed for quantitative investment professionals who require research-ready historical equity data to design, test and validate trading strategies and order execution systems.

Index Products

We have long supported indices to facilitate the measurement of equity market performance. The first Canadian indices were introduced by Toronto Stock Exchange in 1934 and were subsequently modified to reflect a substantial increase in listings. The Toronto 35 was introduced in 1987 and 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 through the well-known S&P brand.

Several new indices were introduced 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 S&P/TSX Composite (formerly the TSE 300 Composite Index®) is the most quoted index for the Canadian equity marketplace, appearing with a high degree of frequency in business media and thereby strengthening brand awareness of TSX Group. In addition, a fixed-income index, based on multi-dealer pricing was launched in 2005, in which S&P calculates the index, and TSX distributes the data. TSX Datalinx has an arrangement with S&P under which license fees received from organizations that create products, such as mutual funds and exchange-traded funds (ETFs), based on the S&P/TSX indices, are shared. In general, these license fees are based on a percentage of funds under management in respect of those products.

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 technological services for a fee in support of its institutional fixed-income trading system.

- In 2005, business services revenue represented \$7.9 million, or 3% of our revenue.
- In 2004, business services revenue represented \$8.4 million, or 3% of our revenue.

REVIEW OF OPERATIONS – 2005

Change in Accounting Policy – Recognition of Initial and Additional Listing Fee Revenue

In October 2005, we announced a restatement of our financial statements to reflect a change in accounting policy related to recognition of revenue from initial and additional listing fees to comply with the Canadian Institute of Chartered Accountants' Emerging Issues Committee Abstract-141 ("EIC-141"). EIC-141 specifies that certain non-refundable fees be deferred and recognized systematically over future accounting periods. EIC-141 was effective for fiscal years commencing on or after January 1, 2004. Before the adoption of EIC-141, non-refundable fees were recognized at the time such fees were received.

The effect of this change is that we now recognize revenue from initial and additional listing fees amortized on a straight-line basis over an estimated service period of ten years. For a description of the basis for determining this service period, see **Deferred Revenue – Initial and Additional Listing Fees**. Unamortized balances are recorded as deferred revenue—initial and additional listing fees on the consolidated balance sheet. These fees are received at the completion of a transaction and are non-refundable. The implementation of EIC-141 had no impact on cash flows from operating activities. The accounting policy relating to sustaining listing fees is unchanged.

Year Ended December 31, 2005 compared with Year Ended December 31, 2004

The following is a summary of financial results:

(in millions of dollars, except per share amounts)

		2005		2004	% Increase/ (decrease)
<i>Revenue</i>	\$	290.0	\$	243.4	19%
<i>Expenses</i>	\$	139.2	\$	144.5	(4%)
<i>Net income</i>	\$	103.4	\$	68.5	51%
<i>Earnings per share:</i>					
<i>Basic</i>	\$	1.52	\$	1.01	50%
<i>Diluted</i>	\$	1.51	\$	1.00	51%

- *Revenue* increased in each of the three primary revenue streams of listings, trading and data.
- *Expenses* decreased largely due to lower general and administrative costs, partially offset by an increase in information and trading systems costs.
- *Net income* increased due to higher revenue and lower general and administrative costs.

The following is a summary of financial results based on initial and additional listing fees received without giving effect to EIC-141*.

(in millions of dollars, except per share amounts)

		2005		2004	% Increase/ (decrease)
<i>Revenue*</i>	\$	348.6	\$	295.6	18%
<i>Expenses</i>	\$	139.2	\$	144.5	(4%)
<i>Net income*</i>	\$	137.7	\$	98.4	40%
<i>Earnings per share*:</i>					
<i>Basic</i>	\$	2.02	\$	1.45	39%
<i>Diluted</i>	\$	2.01	\$	1.44	40%

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

Revenue

Listing Revenue

The following is a summary of listing fees reported and listing fees received* in 2005 and 2004. We present the latter measures as an indication of how initial and additional listing activity and the fees received for these activities impact the financial performance and cash flow of the business:

(in millions of dollars)

	Reported			Received*		
	2005	2004	% Increase	2005	2004	% Increase
<i>Initial listing fees</i>	\$ 9.3	\$ 7.1	31%	\$ 28.0	\$ 24.7	13%
<i>Additional listing fees</i>	\$ 29.8	\$ 24.5	22%	\$ 69.7	\$ 59.1	18%
<i>Sustaining listing fees**</i>	\$ 48.6	\$ 43.4	12%	\$ 48.6	\$ 43.4	12%
<i>Total listing fees</i>	\$ 87.7	\$ 75.0	17%	\$ 146.3	\$ 127.2	15%

- *Initial listing fees* and *additional listing fees* reported increased due to capital market activity and fee increases during the period from April 1, 1995 to December 31, 2005 compared with the period from April 1, 1994 to December 31, 2004.
- *Initial listing fees received** increased due to an increase in new issuers listed on Toronto Stock Exchange (223 in 2005 versus 204 in 2004) and an increase in new issuers listed on TSX Venture Exchange (165 in 2005 versus 142 in 2004). The impact from the increase in the number of new issuers was somewhat offset by a decrease of 2% in the total value of initial financings on Toronto Stock Exchange and TSX Venture Exchange during 2005 compared with 2004 (\$15.5 billion raised in 2005 versus \$15.8 billion in 2004).
- *Additional listing fees received** increased due to the higher value of additional financings on Toronto Stock Exchange and TSX Venture Exchange in 2005 compared with 2004 (\$36.8 billion raised in 2005 versus \$34.9 billion in 2004). Excluding one offering in 2004 of \$3.2 billion, which did not generate listing fees because the related shares had been reserved in an earlier transaction, the value of additional financings on Toronto Stock Exchange and TSX Venture Exchange increased by 16% in 2005 versus 2004.
- *Sustaining listing fees* increased due to the overall higher market capitalization of issuers at end of 2004 compared with the end of 2003

Trading and Related Revenue

(in millions of dollars)

	2005	2004	% Increase
<i>Capital Markets</i>	\$ 108.7	\$ 88.8	22%
<i>Energy Markets</i>	\$ 16.8	\$ 10.8	56%
<i>Total trading and related fees</i>	\$ 125.5	\$ 99.6	26%

*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.

Capital Markets

- The total value of securities traded in 2005 on Toronto Stock Exchange and TSX Venture Exchange increased by 29% over 2004 (\$1,090.9 billion in 2005 versus \$844.8 billion in 2004).
- The number of transactions in 2005 on Toronto Stock Exchange and TSX Venture Exchange increased by 36% over 2004 (58.6 million in 2005 versus 43.1 million in 2004).
- The increase was slightly offset by a pricing change on Toronto Stock Exchange effective October 1, 2005.

Energy Markets

- The volumes traded and/or cleared in natural gas and electricity contracts on NGX in 2005 increased by 38% over 2004 (8.8 million terajoules in 2005 versus 6.4 million terajoules in the ten month period from March 1, 2004 to December 31, 2004).
- 2005 included a full year of revenue versus ten months of revenue following the acquisition of NGX on March 1, 2004.

Market Data Revenue

(in millions of dollars)

	2005	2004	% Increase
	\$ 67.4	\$ 58.8	15%

- *Market Data Revenue* increased due to a 10% increase in the number of professional and equivalent real-time data subscriptions (over 118,000 at the end of 2005 versus over 107,000 at the end of 2004) partly due to increased sales to U.S. customers.
- The increase was also attributable to price increases that were effective September 1, 2004 and May 1, 2005.
- The increase was somewhat offset by the impact of certain users converting to an alternate fee model under which the fees for usage based quotes are capped.
- The increase was also reduced by the negative impact of the appreciation of the Canadian dollar against the U.S. dollar in 2005 versus 2004.

Business Services Revenue

(in millions of dollars)

	2005	2004	% (Decrease)
	\$ 7.9	\$ 8.4	(6%)

- *Business Services Revenue* decreased due to a change in the pricing for technology services provided to Market Regulation Services Inc., reflecting cost savings from migrating to a more cost efficient technology solution.
- Market Regulation Services Inc. paid us \$6.9 million in 2005 for technology related services as compared with \$7.3 million in 2004.

Expenses

Compensation and Benefits

(in millions of dollars)

	2005	2004	% (Decrease)
	\$ 72.5	\$ 73.6	(1%)

- *Compensation and Benefits* costs decreased due to a gain of \$4.5 million under a hedging program related to long-term based incentives. The gain was realized in the fourth quarter of 2005. These incentives were forfeited by employees who left TSX Group over the period in which the hedge was in effect.
- The decrease was also due to a reduction in the number of employees (510 employees at December 31, 2005 versus 553 employees at December 31, 2004).
- The decrease was somewhat offset by higher performance incentive accruals, partially due to share price appreciation.
- The decrease was also somewhat offset by higher costs related to annual salary increases, and by the inclusion of costs pertaining to NGX employees for a full year in 2005 compared with ten months in 2004 following the acquisition of NGX on March 1, 2004.

Information and Trading Systems

(in millions of dollars)

	2005	2004	% Increase
	\$ 17.4	\$ 15.8	10%

- *Information and Trading Systems* costs increased due to higher hardware lease costs relating in part to expansion of trading system capacity required to maintain availability to accommodate the substantial growth in the number of orders and transactions.

General and Administrative

(in millions of dollars)

	2005	2004	% (Decrease)
	\$ 35.8	\$ 42.1	(15%)

- *General and Administrative* costs decreased due to reduced spending related to marketing activities.
- During 2004, we settled arbitration proceedings with a supplier for \$3.6 million.
- The decrease was somewhat offset by the inclusion of NGX expenses for the full year in 2005 compared with ten months in 2004.
- We paid Market Regulation Services Inc. \$3.5 million for regulation services in 2005 (\$3.1 million in 2004). The increase was as a result of services related to higher listing activity.

Amortization

(in millions of dollars)

	2005	2004	% Increase
	\$ 13.5	\$ 13.0	4%

- *Amortization* increased primarily due to the write-off of leasehold improvements related to the sublease of the TSX Conference Centre.

Loss from Investment in Affiliate

(in millions of dollars)

	2005	2004	% (Decrease)
	\$ 0.7	\$ 1.2	(42%)

- *Loss from Investment in Affiliate* represents our share of CanDeal's loss for 2005 based on a 45% interest in CanDeal at December 31, 2005.
- The loss decreased due to a combination of CanDeal's increased revenue and a reduction in its operating costs, somewhat offset by the write-off of software related to CanDeal's transition to the Thomson TradeWeb® technology platform.

Investment Income

(in millions of dollars)

	2005	2004	% Increase
	\$ 6.9	\$ 4.8	44%

- *Investment income* increased primarily due to a greater amount of cash and marketable securities available for investment in 2005 over 2004.

Income Taxes

(in millions of dollars)

	2005	2004	Effective tax rate (%)	
			2005	2004
	\$ 53.6	\$ 34.0	34%	33%

LIQUIDITY, CAPITAL RESOURCES AND DEFERRED REVENUE

Cash and Marketable Securities

(in millions of dollars)

	2005		2004		Increase
	\$ 276.2		\$ 171.6		\$ 104.6

- The increase was primarily due to \$167.1 million in cash from operations in 2005.
- Cash was used to pay two dividends of \$0.20 per common share, and two dividends of \$0.25 per common share, or \$61.2 million in aggregate in 2005.

Total Assets

(in millions of dollars)

	2005		2004		Increase
	\$ 1,557.2		\$ 1,036.3		\$ 520.9

- *Total Assets* increased by \$395.9 million due to higher energy contracts receivables of \$1,004.3 million at the end of 2005 related to the clearing operations of NGX compared with \$608.4 million at the end of 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).
- *Total Assets* also increased as a result of increased cash and marketable securities, accounts receivable and the long-term portion of the future tax asset.

Deferred Revenue – Initial and Additional Listing Fees

(in millions of dollars)

	2005		2004		Increase
	\$ 278.8		\$ 220.2		\$ 58.6

- *Deferred revenue – initial and additional listing fees* increased 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.
- Before we adopted EIC-141, there was no deferred revenue related to initial listing fees and additional listing fees. This deferred revenue represents non-refundable initial and additional listing fees received from listed issuers, and is recognized 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 future tax asset related to these fees.

Shareholders' Equity

(in millions of dollars)

	2005		2004		Increase
	\$ 177.8		\$ 129.5		\$ 48.3

- *Shareholders' Equity* increased primarily due to net income of \$103.4 million, offset by dividend payments in 2005 of \$61.2 million. Net income from NGX was \$4.2 million in 2005 and \$1.4 million in 2004.
- As a result of legislation passed by the Ontario Legislature on December 14, 1999, effective April 3, 2000, Toronto Stock Exchange continued from a not-for-profit corporation to a for-profit taxable business corporation, The Toronto Stock Exchange Inc. (subsequently renamed TSX Inc.). At the time of the continuance, any accumulated excess in revenue over expenses was internally restricted as it was not intended that any part of the surplus be distributed to shareholders. As at December 31, 2005, this amount was \$63.4 million compared with \$64.5 million at December 31, 2004.
- At both December 31, 2005 and February 1, 2006, there were 68,093,018 common shares issued and outstanding. There were 5,600,000 common shares originally reserved for issuance under a share option plan of which 312,436 common shares were issued on the exercise of stock options in 2005. At December 31, 2005 there were 1,248,462 options outstanding and at February 1, 2006, there were 1,237,238 options outstanding.

Cash Flows from Operating Activities

(in millions of dollars)

	2005		2004		Increase/ (decrease)
Cash Flows from Operating Activities	\$ 167.1		\$ 127.0		\$ 40.1

Cash Flows from Operating Activities were \$40.1 million higher in 2005 compared with 2004 due to:

Net income excluding amortization*	\$ 116.8		\$ 81.5		\$ 35.3
Increase in deferred revenue primarily related to receipt of initial and additional listing fees	\$ 58.8		\$ 53.5		\$ 5.3
Net (decrease) in other items	\$ (8.5)		\$ (8.0)		\$ (0.5)

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

Cash Flows Used in Investing Activities

(in millions of dollars)

	2005		2004	Increase/ (Decrease)
Cash Flows Used in Investing Activities	\$ 98.2	\$	81.2	\$ 17.0
<p><i>Cash Flows Used in Investing Activities</i> were \$ 17.0 million higher in 2005 compared with 2004 due to:</p>				
Capital expenditures primarily related to technology investments and leasehold improvements	\$ 4.7	\$	9.3	\$ (4.6)
Increase in purchase of marketable securities	\$ 93.6	\$	44.7	\$ 48.9
Purchase of NGX in 2004	-	\$	27.2	\$ (27.2)
Other	\$ (0.1)		-	\$ (0.1)

Dividends

The recognition order of TSX Inc. contains certain financial viability tests that must be met. If TSX Inc. fails to meet these tests for a period of more than three months, its Chief Executive Officer must immediately deliver a letter advising the Ontario Securities Commission (OSC) staff of the reasons for the continued ratio deficiencies and the steps being taken to rectify the situation. In these circumstances, TSX Inc. will not, without the prior approval of the Director of the OSC pay dividends until the deficiencies have been eliminated for at least six months or a shorter period of time as agreed to by OSC staff.

Financial Instruments

Our financial instruments include cash and marketable securities. We hold units in a money market fund and a short term bond and mortgage fund. 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. Credit risk is managed by restricting investments to counterparties with a credit rating of A or higher as determined by the Dominion Bond Rating Service.

Derivative Financial Instruments

We purchased total return forward contracts to partially hedge against the impact of market price fluctuations of our shares on the cost of restricted share units and deferred share units that are awarded to directors and employees. Specifically in 2003, a program was established to effectively hedge non-performance based compensation costs related to share appreciation rights. Any increase in our share price results in an increase in the liability to our employees and directors and a corresponding increase in the return on the hedged units. The reverse situation arises in the case of a price decline. In the event a designated hedged item is forfeited, matures or becomes ineffective prior to the termination of the relative derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income. A counterparty creates a hedge and delivers the cash proceeds net of borrowing costs to us at maturity. As part of this hedging arrangement, at the end of 2004, we pledged assets with a market value of \$11.9 million but retained beneficial ownership. Under the arrangement that was in place, at December 31, 2005 no assets were pledged. To manage counterparty risk, our arrangement is with a Schedule I Canadian chartered bank.

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)

Lease Commitments	Total	Less than 1 year	1 – 3 years	4+ years
<i>Capital Lease Obligations</i>	\$ 1,893	\$ 942	\$ 951	\$ –
<i>Operating Leases</i>	55,345	12,893	18,630	23,822
<i>Total Lease Commitments</i>	57,238	13,835	19,581	23,822

SELECTED ANNUAL INFORMATION

(in thousands of dollars, except per share amounts)

	2005	2004	2003
<i>Revenue</i>	\$ 289,964	\$ 243,430	\$ 196,503
<i>Net income</i>	\$ 103,353	\$ 68,490	\$ 59,880
<i>Total Assets</i>	\$ 1,557,225	\$ 1,036,294	\$ 321,219
<i>Long-term liabilities</i>	\$ 30,508	\$ 24,286	\$ 23,510
<i>Deferred revenue – initial and additional listing fees</i>	\$ 278,775	\$ 220,155	\$ 168,032
<i>Earnings per share:</i>			
<i>Basic</i>	\$ 1.52	\$ 1.01	\$ 0.89
<i>Diluted</i>	\$ 1.51	\$ 1.00	\$ 0.88
<i>Cash dividends declared per common share</i>	\$ 0.90	\$ 0.58	\$ 2.85**

**Includes a special dividend of \$2.50 per common share paid December 31, 2003.

Revenue, net income and earnings per share

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.

2004

- For the year ended December 31, 2004, net income was \$68.5 million, or \$1.01 per common share (\$1.00 on a diluted basis), on total revenue of \$243.4 million, representing an increase of \$8.6 million, or 14%, compared with \$59.9 million, or \$0.89 per common share (\$0.88 on a diluted basis) for the year ended December 31, 2003.
- The 2004 results reflect significantly higher revenue across all of the primary revenue streams, partially offset by an increase in expenses and income taxes and lower investment income.

Total Assets

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). 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 (\$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.

2004

- During 2004, total assets of \$1,036.3 million increased by \$715.1 million over \$321.2 million in 2003 primarily as a result of the inclusion of energy contracts receivables of \$608.4 million related to the clearing operations of NGX. Offsetting liabilities in the form of energy contract payables were \$607.5 million at December 31, 2004. In addition, \$31.6 million was recorded in 2004 to reflect the goodwill and intangible asset associated with the purchase of NGX. As well, cash and marketable securities at the end of 2004 increased by \$54.0 million over the total at the end of 2003.

Deferred revenue-initial and additional listing fees

- Deferred revenue-initial and additional listing fees increased from 2003 through 2005 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. 31/05	Sept 30/05	June 30/05	Mar. 31/05	Dec. 31/04	Sept 30/04	June 30/04	Mar. 31/04
Revenue	\$ 76,264	\$ 75,333	\$ 68,621	\$ 69,746	\$ 63,786	\$ 59,472	\$ 59,342	\$ 60,830
Net Income	27,813	28,717	23,748	23,075	18,600	15,587	16,187	18,116
Earnings per share:								
Basic	0.41	0.42	0.35	0.34	0.27	0.23	0.24	0.27
Diluted	0.40	0.42	0.35	0.34	0.27	0.23	0.24	0.26

2004

- In the second quarter of 2004, *revenue* and *net income* were lower compared with *revenue* and *net income* in the first quarter of 2004 due to reduced trading activity.
- *Net income* for the third quarter of 2004 declined when compared with *net income* for both the first and second quarters of 2004 primarily due to higher general and administrative costs. Trading activity increased in September, 2004 and continued into the fourth quarter, resulting in significantly increased trading revenue.
- *Net income* for the fourth quarter of 2004 increased compared with *net income* for each of the first three quarters of 2004 primarily due to increased *revenue* related to increased listing activity and lower general and administrative costs.

2005

- *Revenue* in the first quarter of 2005 improved over *revenue* in the fourth quarter of 2004 due to higher trading, listing and market data revenue related to market activity. This increased *revenue* was the primary driver of the increase in *net income* for the first quarter of 2005 compared with *net income* for the fourth quarter of 2004.
- *Revenue* in the second quarter of 2005 declined slightly from *revenue* in the first quarter of 2005 primarily due to lower trading revenue. *Net income* for the second quarter of 2005 improved over *net income* for the first quarter of 2005 primarily due to lower compensation and benefits expenses.
- *Revenue* in the third quarter of 2005 improved over the *revenue* in the second quarter of 2005 primarily due to higher trading, listing and market data revenue. *Net income* for the third quarter of 2005 improved over *net income* for the second quarter of 2005 primarily due to increased *revenue* combined with lower general and administrative expenses.
- *Revenue* in the fourth quarter of 2005 improved over *revenue* in the third quarter of 2005 primarily due to higher listing and market data revenue somewhat offset by lower trading revenue. *Net income* for the fourth quarter of 2005 declined over *net income* from the third quarter of 2005 primarily due to higher expenses.

CRITICAL ACCOUNTING ESTIMATES

- We did not make any critical accounting estimates during 2004 or 2005.

STRATEGY AND OUTLOOK⁶

We have identified a number of trends that have important implications for our strategy and outlook. Technology is enabling and accelerating change by providing capital markets with the tools to improve efficiency and to pursue new avenues of growth. This is clearly evident as exchanges become fully electronic, as increased processing power is available at a lower cost, and access widens with rapid internet adoption as well as wireless connectivity. Innovation is driving growth in new areas as well. This can be seen in the rapid acceleration into electronic trading of additional asset classes (fixed income and derivatives), the development of increasingly sophisticated investment products (ETFs, income trusts and structured products) and the proliferation of more complex trading practices (program, quantitative, basket and algorithmic trading). Opportunities are developing to standardize Over the Counter (“OTC”) products, which is often a precursor to trading on electronic exchanges.

Our corporate objectives are to achieve profitable growth and to maximize shareholder returns by capitalizing on our competitive advantages and strengths (as outlined under our **Vision**) and pursuing the principal strategies described below, organically and through acquisitions, strategic alliances and investments. Our goal is to achieve long-term annual earnings per share growth in the ten to twelve per cent range although growth rates will vary both on a quarterly and annual basis.

Enhance the Core Business

To maintain our pre-eminent position in the Canadian equity capital market, 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.

Listings

We have re-organized the listings operations of Toronto Stock Exchange and TSX Venture Exchange to maximize our use of resources and expand our focus on growth. This includes consolidation of the business development function into one team to improve efficacy of sales efforts. This team will focus on:

- Promoting Toronto Stock Exchange and TSX Venture Exchange as listings destinations.
- Developing influencers that will also promote Toronto Stock Exchange and TSX Venture Exchange as listing venues.
- Identifying targets and converting inquiries into listings.
- Reducing the hurdles to listing.

Toronto Stock Exchange, specifically, will:

- Continue to focus on listing alternative equity products, such as structured products, income trusts, and ETFs, which expand its reach into the investment marketplace.
- Offer value-added products by developing a web-based foundation and partnering 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 expansion of its Capital Pool Company program and execution of 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.

⁶The “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.

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.
- We are keenly aware of the importance of speed of execution due to the rapid growth of algorithmic trading and will continue 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 those introduced in 2004 and 2005 (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.

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.
- Providing 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 OTC, fixed income, foreign exchange, and other premium data.
- Building on our agreement with CP to provide fact based, non-biased journalist generated news.

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

We are currently active domestically in fixed income, primarily through our approximate 45% stake in CanDeal. By leveraging its quality trading platform, CanDeal has achieved significant growth since its inception. CanDeal intends to continue expansion of its product and service offering, grow the number of liquidity providers, attract more institutional customers, and provide access beyond Canada through its recently announced technology and co-marketing agreement with Thomson TradeWeb®.

We will also provide ancillary services domestically to bolster our presence in the fixed income market.

Energy

We entered the energy trading and clearing business in March 2004 through our purchase of NGX. NGX will continue to focus on developing its existing share in physical and financial contracts in natural gas and electricity by launching new products, signing up new customers, and implementing trading system and clearing enhancements.

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 US market participants for trading all Toronto Stock Exchange listed securities. We will pursue multiple initiatives across all business areas:

- We will seek to capture an increasing proportion of trading in CBIs by meeting 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 the relationship between U.S. data sales agents and market data vendors with the goal of increasing data sales. Access to real-time TSX data is critical to capturing CBI trading.
- We will seek to attract U.S. listings on our exchanges and focus on those areas where we provide a competitive advantage including targeting issuers having a small to medium market capitalization, mature businesses that wish to access markets using the income trust structure and issuers in the natural resource sector.

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 companies by capitalizing on our international reputation of having a leading marketplace for those companies. Based on the most recent data, as of September 30, 2005 we had approximately 38% market share of the world's global mining financings and approximately 62% of all publicly traded mining companies were listed on one of our equity exchanges. We also listed the greatest number of oil & gas companies 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 enquiries by prospective listings.
- Alternative Equity Products: We will also leverage internationally our domestic success listing alternative equity products, such as structured products, income trusts, and ETFs. We will also look to attract sponsor-backed investments, especially in markets where awareness of the flourishing income trust market is high.

U.S. Energy

NGX continues to focus on expanding its U.S.-based gas contracts by leveraging its competitive advantage of offering an integrated electronic trading and clearing solution. Starting with the western physical markets, expansion will be staged region by region, where liquidity will be developed and trading relationships built.

FORWARD-LOOKING STATEMENTS, RISKS AND UNCERTAINTIES

This MD&A, in particular the sections under the headings **Strategy and Outlook**, **Changes to Listing Fees for 2006** and *Toronto Stock Exchange – Interlisted trading and pricing changes* contains forward-looking statements, which are not historical facts but are based on certain assumptions and reflect our current expectations. 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 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 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, New Technologies And Other Sources

We face competition from other exchanges as well as from ATSS, Electronic Communication Networks (ECNs) and the OTC market. 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 face competition from foreign exchanges, such as AIM, for listings of Canadian-based issuers and trading in their securities. Our exchanges are smaller than some of the exchanges in the United States that we compete with. If we are unable to continue to provide competitive trade execution, the value 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 announced that it plans to launch a facility 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.

OTC Market

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.

Technological Developments

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 data revenue if we cannot enforce our proprietary rights in the future.

Our Trading and Market Data Operations Depend Primarily on a Small Number of Clients and Vendors

During 2005, approximately 59% of our trading revenue on Toronto Stock Exchange and approximately 64% 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 2005, approximately 24% of our trading operations revenue was derived from trading in the securities of the ten most actively traded listed issuers on our equity exchanges. 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 Depend on the Economy of Canada

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

Approximately 95% of our listed issuers as of December 31, 2005 were Canadian-based companies. The performance of these issuers has an effect on the volume and value 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 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 and trading volumes.

We May Not Be Successful in Implementing our Strategy

We intend to invest significant resources to develop our corporate strategy so that we can 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 companies 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.

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 2009.

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.

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 fee structure, and features and operations of, or changes to our systems. These approvals or procedures may increase our costs and delay our plans for implementation.

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 in Ontario of civil liability for misrepresentations in our continuous disclosure documents and statements, 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.

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 number of transactions, volume and value 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 to 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);
- 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 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.

We may be able to indirectly influence the volume and value 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.

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. 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. Competition for such personnel is intense, particularly as market conditions continue to improve. There can be no assurance that we will be successful in retaining and attracting the personnel we require.

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 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 exchange or an ATS 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.

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.

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. 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. We may need to make additional capital investment to upgrade this architecture. To grow, we will need to continuously improve our information technology systems so that we can handle increases and changes in trading activity and faster processing times. This will require ongoing capital investment for our systems, which may require us to expend significant capital resources in the future.

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.

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.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted as of December 31, 2005, by and under the supervision of our management, including the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as defined in Multilateral Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*, are effective to ensure that information required to be disclosed in reports that we file or submit under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

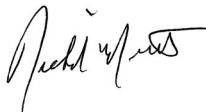
February 1, 2006

MANAGEMENT STATEMENT

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements, management's discussion and analysis, and other information in this annual report. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and, in the opinion of management, fairly reflect the financial position, results of operations and changes in the financial position of TSX Group Inc. Financial information contained throughout this Annual Report is consistent with the consolidated financial statements.

Acting through the Finance and Audit Committee, comprised of non-management directors, all of whom are independent directors within the meaning of Multilateral Instrument 52-110 – Audit Committees, the Board of Directors oversees management's responsibility for financial reporting and internal control systems. The Finance and Audit Committee is responsible for reviewing the consolidated financial statements and management's discussion and analysis and recommending them to the Board of Directors for approval. To discharge its duties the Committee meets with management and external auditors to discuss audit plans, internal controls over accounting and financial reporting processes, auditing matters and financial reporting issues.

The TSX Group's external auditors appointed by the shareholders, KPMG LLP, are responsible for auditing the consolidated financial statements and expressing an opinion thereon. The external auditors have full and free access to, and meet periodically with, management and the Finance and Audit Committee to discuss the audit.



RICHARD NESBITT
Chief Executive Officer
February 1, 2006



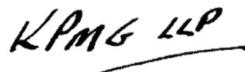
MICHAEL PTASZNIK
Chief Financial Officer
February 1, 2006

AUDITORS' REPORT TO THE SHAREHOLDERS

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

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS
Toronto, Canada
January 30, 2006

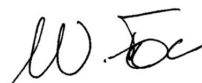
CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004 (in thousands of dollars)

	2005	2004
Assets		
Current assets:		
Cash	\$ 28,485	\$ 17,424
Marketable securities (notes 3, 4 and 9)	247,747	154,126
Accounts receivable	24,511	19,751
Energy contracts receivable (notes 9 and 10)	1,004,320	608,383
Prepaid expenses	2,691	2,470
Future tax asset (note 21)	4,571	5,694
	<u>1,312,325</u>	<u>807,848</u>
Premises and equipment (note 5)	25,776	31,484
Future tax asset (note 21)	139,018	111,873
Other assets (note 6)	13,026	14,808
Investment in affiliate (note 8)	11,439	12,132
Intangible assets (note 11)	30,700	33,208
Goodwill (note 11)	24,941	24,941
	<u>\$ 1,557,225</u>	<u>\$ 1,036,294</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 34,116	\$ 31,852
Energy contracts payable (notes 9 and 10)	1,004,320	607,537
Deferred revenue	3,006	2,828
Current portion of obligation under capital lease (note 12)	833	533
Income taxes payable	27,872	19,587
	<u>1,070,147</u>	<u>662,337</u>
Long term liabilities:		
Accrued employee benefits liability (note 7)	8,524	7,220
Obligation under capital lease (note 12)	903	1,282
Other liabilities (note 14)	21,081	15,784
	<u>30,508</u>	<u>24,286</u>
Deferred revenue-initial and additional listing fees (note 15)	278,775	220,155
Shareholders' equity (note 16):		
Share capital	380,925	375,765
Share option plan	2,669	1,662
Deficit	(205,799)	(247,911)
	<u>177,795</u>	<u>129,516</u>
Commitments and contingent liability (notes 12 and 24)	<u>\$ 1,557,225</u>	<u>\$ 1,036,294</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Wayne Fox, Chair



J. Spencer Lanthier, Director

CONSOLIDATED STATEMENTS OF INCOME

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

	2005	2004
Revenue:		
Listing	\$ 87,724	\$ 75,022
Trading and related	125,532	99,629
Market data	67,430	58,793
Business services (note 22)	7,910	8,367
Other	1,368	1,619
	<u>289,964</u>	<u>243,430</u>
Expenses:		
Compensation and benefits	72,510	73,639
Information and trading systems	17,443	15,798
General and administration	35,762	42,118
Amortization	13,477	12,976
	<u>139,192</u>	<u>144,531</u>
Income from operations	150,772	98,899
Loss from investment in affiliate	(693)	(1,210)
Investment income	6,876	4,772
Income before income taxes	156,955	102,461
Income taxes (note 21)	53,602	33,971
Net income	<u>\$ 103,353</u>	<u>\$ 68,490</u>
Earnings per share (note 20):		
Basic	\$ 1.52	\$ 1.01
Diluted	<u>\$ 1.51</u>	<u>\$ 1.00</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2005 and 2004 (in thousands of dollars)	2005	2004
Common shares:		
Balance, beginning of year	\$ 375,765	\$ 372,004
Proceeds on options exercised	4,144	2,981
Cost of exercised options	1,016	780
Balance, end of year	<u>380,925</u>	<u>375,765</u>
Share option plan:		
Balance, beginning of year	1,662	1,018
Cost of exercised options	(1,016)	(780)
Cost of share option plan	2,023	1,424
Balance, end of year	<u>2,669</u>	<u>1,662</u>
Deficit:		
Balance, beginning of year, as previously presented	(247,911)	(155,735)
Retroactive impact of change in accounting policy (note 1.b)	-	(121,384)
Balance, beginning of year, as restated	<u>(247,911)</u>	<u>(277,119)</u>
Net income	103,353	68,490
Dividends on common shares	(61,241)	(39,282)
Balance, end of year	<u>(205,799)</u>	<u>(247,911)</u>
Shareholders' equity, end of year	<u>\$ 177,795</u>	<u>\$ 129,516</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2005 and 2004 (in thousands of dollars)	2005	2004
Cash flows from (used in) operating activities:		
Net income	\$ 103,353	\$ 68,490
Items not involving cash:		
Amortization	13,477	12,976
Loss from investment in affiliate	693	1,210
Cost of share option plan	2,023	1,424
Loss on disposal of equipment	7	227
Decrease (increase) in future tax asset	(26,022)	(20,623)
	<u>93,531</u>	<u>63,704</u>
Change in non-cash operating items:		
Increase in energy contracts receivable	(395,937)	(211,826)
Increase in accounts receivable and prepaid expenses	(4,981)	(5,471)
Decrease (increase) in other assets	1,782	(2,443)
Increase in accounts payable and accrued liabilities	2,264	5,091
Increase in energy contracts payable	396,783	210,819
Increase (decrease) in long term other liabilities	6,601	(13)
Increase in deferred revenue	58,798	53,481
Increase in income taxes payable	8,285	13,679
	<u>167,126</u>	<u>127,021</u>
Cash flows from (used in) financing activities:		
Reduction in obligation under capital lease	(770)	(288)
Proceeds on options exercised	4,144	2,981
Dividends on common shares	(61,241)	(39,282)
	<u>(57,867)</u>	<u>(36,589)</u>
Cash flows from (used in) investing activities:		
Additions to premises and equipment	(4,677)	(9,347)
Proceeds on disposal of equipment	100	18
Purchase of NGX Canada Inc., net of cash acquired (note 2)	-	(27,183)
Decrease (increase) in marketable securities	(93,621)	(44,726)
	<u>(98,198)</u>	<u>(81,238)</u>
Increase in cash	11,061	9,194
Cash, beginning of year	17,424	8,230
Cash, end of year	<u>\$ 28,485</u>	<u>\$ 17,424</u>
Supplemental cash flow information:		
Interest paid	\$ 489	\$ 502
Interest received	\$ 8,174	\$ 4,880
Income taxes paid	<u>\$ 74,230</u>	<u>\$ 42,441</u>

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

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

(b) Change in accounting policy:

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

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

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

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

(c) Investments:

The investment portfolio includes pooled fund investments.

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

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

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

(d) Derivative financial instruments:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

(e) Amortization:

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

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

(f) Revenue recognition:

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

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

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

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

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

(g) Development expenditures:

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

(h) Income taxes:

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

(i) Employee future benefits:

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

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

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

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

(j) Intangible assets:

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

(k) Goodwill:

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

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

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

(l) Use of estimates:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(m) Earnings per share:

Earnings per share are calculated using the treasury stock method.

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

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

(n) Related party transactions:

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

(o) Share based compensation:

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

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

2. PURCHASE OF NGX CANADA INC.:

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

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

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

As at March 1, 2004:	
Cash	\$ 12,989
Current assets	396,794
Premises and equipment	1,116
Future tax asset	386
Intangible asset	12,620
Goodwill	18,978

	442,883
Current liabilities	398,153
Income taxes payable	4,558

Purchase price	\$ 40,172

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

3. MARKETABLE SECURITIES:

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

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

4. DERIVATIVE FINANCIAL INSTRUMENTS:

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

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

As at December 31, 2005:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

As at December 31, 2004:

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

5. PREMISES AND EQUIPMENT:

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

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

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

6. OTHER ASSETS:

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

7. EMPLOYEE FUTURE BENEFITS:

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

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

Defined benefit plans:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Plan assets consist of:

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

8. INVESTMENT IN AFFILIATE:

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

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

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

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

9. NGX COLLATERAL ARRANGEMENTS AND CLEARING BACKSTOP FUND:

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

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

10. NGX CLEARING RISK:

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

11. GOODWILL AND INTANGIBLE ASSETS:

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

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

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

12. LEASE COMMITMENTS:

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

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

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

Years ending December 31:

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

The obligations under capital leases are as follows:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Years ending December 31:

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

13. SEGMENTED INFORMATION

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

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

* Results from date of acquisition

14. OTHER LIABILITIES:

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

15. DEFERRED REVENUE-INITIAL AND ADDITIONAL LISTING FEES:

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

16. SHAREHOLDERS' EQUITY:

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

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

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

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

Details of capital transactions are as follows:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

17. EMPLOYEE SHARE PURCHASE PLAN:

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

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

18. SHARE OPTION PLAN:

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

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

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

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

Options granted will expire in 2011, 2012 and 2013.

Share options:

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

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

19. LONG-TERM INCENTIVE PLAN:

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

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

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

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

20. EARNINGS PER SHARE:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

21. INCOME TAXES:

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

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

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

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

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

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

22. REGULATORY SERVICES:

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

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

23. FINANCIAL INSTRUMENTS:

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

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

(b) Foreign currency risk:

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

24. CONTINGENT LIABILITY:

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

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

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

THREE-YEAR REVIEW - FINANCIAL INFORMATION*

(in thousands of dollars)

	2005	2004¹	2003
Revenue:			
Listing	\$ 87,724	\$ 75,022	\$ 61,072
Trading and related	125,532	99,629	71,882
Market data	67,430	58,793	52,589
Business services	7,910	8,367	9,148
Other	1,368	1,619	1,812
	<u>\$ 289,964</u>	<u>\$ 243,430</u>	<u>\$ 196,503</u>
Expenses	<u>139,192</u>	<u>144,531</u>	<u>134,998</u>
Income from operations	\$ 150,772	\$ 98,899	\$ 61,505
Loss from investment in affiliate	(693)	(1,210)	(1,182)
Investment income	6,876	4,772	10,151
Income taxes	(53,602)	(33,971)	(10,594)
Net income	<u>\$ 103,353</u>	<u>\$ 68,490</u>	<u>\$ 59,880</u>
Operating cash flow	\$ 167,126	\$ 127,021	\$ 81,962
Working capital	242,178	145,511	104,427
Total assets	1,557,225	1,036,294	321,219
Shareholders' equity	<u>177,795</u>	<u>129,516</u>	<u>95,903</u>

¹ The financial results of Natural Gas Exchange have been consolidated into these results from and after March 1, 2004.

* Certain comparative figures have been reclassified to conform with the financial presentation adopted in the current year and reflect the adoption of the Canadian Institute of Chartered Accountants' Emerging Issues Committee Abstract-141 – *Revenue Recognition* ("EIC-141").

THREE-YEAR REVIEW – MARKET STATISTICS*

(Unaudited)

	2005	2004	2003
Toronto Stock Exchange:			
Volume (millions)	64,167.3	61,278.0	55,562.9
Value (\$ billions)	1,075.2	833.9	648.7
Transactions (000s)	55,158.3	40,267.0	30,894.0
Issuers Listed	1,537	1,421	1,340
New Issuers Listed:			
Number of Initial Public Offerings	137	115	67
Number of Graduates from TSX Venture/NEX	46	58	47
New Equity Financing: (\$ millions)			
Initial Public Offering Financings (\$ millions)	15,226.0	15,633.2	11,271.5
Secondary Offering Financings ¹ (\$ millions)	14,956.6	22,201.0	18,195.8
Supplementary Financings (\$ millions)	15,980.2	8,681.4	8,116.2
Market Cap of Listed Issuers (\$ billions)	1,830.7	1,546.9	1,287.7
S&P/TSX Composite Index Close	11,272.3	9,246.7	8,220.9
TSX Venture Exchange²:			
Volume (millions)	21,545.7	17,087.2	13,474.4
Value (\$ millions)	15,696.3	10,940.2	6,557.7
Transactions (000s)	3,477.0	2,877.1	2,088.2
Issuers Listed	2,221	2,209	2,276
New Issuers Listed:			
Number of Initial Public Offerings	165	142	76
New Equity Financing: (\$ millions)			
Initial Public Offering Financings (\$ millions)	257.5	194.2	120.4
Secondary Offering Financings ¹ (\$ millions)	5,906.4	4,011.4	2,269.5
Market Cap of Listed Issuers (\$ billions)	34.0	25.3	21.2
S&P/TSX Venture Composite Index Close	2,236.6	1,825.5	1,751.3

* Certain comparative figures have been restated.

¹ Secondary Offering Financings includes prospectus offerings on both a treasury and secondary basis.

² TSX Venture Exchange market statistics do not include data for debt securities. Market capitalization for 2004 and 2005 includes issues that did not trade during the month of December, while market capitalization for 2003 excludes issues that did not trade during December. 'New Issuers Listed' and 'S&P/TSX Venture Composite Index Close' statistics exclude data for issuers on NEX. All other TSX Venture Exchange market statistics include data for issuers on NEX, which is a board that was established on August 18, 2003 for issuers that have fallen below TSX Venture's listing standards (201 issuers at December 31, 2005, 261 issuers at December 31, 2004 and 285 issuers at December 31, 2003).

BOARD OF DIRECTORS

As of March 15, 2006

WAYNE C. FOX (CHAIR)

Corporate Director
Committees: Governance, Human Resources
Director since: 1997

IAN S. BROWN

Corporate Director
Committees: Public Venture Market (Chair)
Director since: 2001

TULLIO CEDRASCHI

President and Chief Executive Officer
CN Investment Division
Committees: Governance, Human Resources (Chair)
Director since: 2001

RAYMOND GARNEAU

Corporate Director
Committees: Governance, Human Resources
Director since: 2003

JOHN A. HAGG

Corporate Director
Committees: Human Resources, Public Venture Market
Director since: 2001

HARRY A. JAAKO

Chairman, Co-CEO and Principal
Discovery Capital Corporation
Committees: Finance & Audit, Public Venture Market
Director since: 2001

J. SPENCER LANTHIER

Corporate Director
Committees: Finance & Audit (Chair), Governance
Director since: 2000

JEAN MARTEL

Senior Partner
Lavery, de Billy
Committees: Finance & Audit, Public Venture Market
Director since: 1999

OWEN McCREERY

Consultant and Corporate Director
Committees: Finance & Audit
Director since: 2002

JOHN P. MULVIHILL

Chairman
Mulvihill Capital Management Inc.
Committees: Governance (Chair)
Director since: 1996

RICHARD W. NESBITT

Chief Executive Officer
TSX Group
Director since: 2005

KATHLEEN M. O'NEILL

Corporate Director
Committees: Finance & Audit, Governance
Director since: 2005

GERRI B. SINCLAIR

Strategic Consultant
Committees: Human Resources, Public Venture Market
Director since: 2005

ERIC C. TRIPP

Co-President, Investment Banking Group
BMO Nesbitt Burns Inc.
Committees: Public Venture Market
Director since: 1999

SENIOR MANAGEMENT OF TSX GROUP AND ITS SUBSIDIARIES

As of March 15, 2006

RICHARD W. NESBITT*
Chief Executive Officer
TSX Group

JOHN MCKENZIE
Vice President,
Corporate Strategy and Development
TSX Group

DAVID M. ABLETT
Vice President
Public and Corporate Affairs
TSX Group

HARRY A. MCLEAN
Vice President, Operations and Service Delivery
TSX Technologies

JOHN B. CIESLAK*
Executive Vice President
Chief Information Officer and Administration Officer
TSX Group

RICHARD NADEAU*
Senior Vice President
Toronto Stock Exchange

KEVAN B. COWAN
Senior Vice President
TSX Venture Exchange
Senior Vice President, Business Development
Toronto Stock Exchange

RIK PARKHILL*
President
TSX Markets

CHRISTINE A. ELLISON
Vice President
Human Resources
TSX Group

SHARON C. PEL*
Senior Vice President,
Legal and Business Affairs
TSX Group

ROBERT M. FOTHERINGHAM
Vice President, Trading
TSX Markets

MICHAEL S. PTASZNIK*
Senior Vice President and
Chief Financial Officer
TSX Group

BRENDA L. HOFFMAN*
Vice President, Development,
Information and Trading Technology
TSX Technologies

ERIC SINCLAIR*
Senior Vice President
TSX Datalinx

LINDA M. O. HOHOL*
President
TSX Venture Exchange

PETER KRENKEL*
President
NGX

*Member of the Senior Management Team

SHAREHOLDER INFORMATION

STOCK LISTING

Toronto Stock Exchange
Share Symbol "X"

AUDITOR

KPMG LLP
Toronto, ON

REGISTERED OFFICE AND HEAD OFFICE OF TSX GROUP

The Exchange Tower
130 King Street West
Toronto, ON
M5X 1J2

HEAD OFFICE OF TSX VENTURE EXCHANGE

300 – 5th Avenue SW
10th Floor
Calgary, AB
T2P 3C4

HEAD OFFICE OF NGX

140 – 4th Avenue SW
Suite 2330
Calgary, AB
T2P 3N3

REGIONAL OFFICES

MONTREAL

1000 Sherbrooke Street West
Suite 1100
Montreal, QC
H3A 3G4

VANCOUVER

650 West Georgia Street
Suite 2700
Vancouver, BC
V6B 4N9

WINNIPEG

One Lombard Place
Suite 600
Winnipeg, MB
R3B 0X3

SHARE TRANSFER AGENT

Requests for information regarding share transfers should be directed to the Transfer Agent:

CIBC Mellon Trust Company
PO Box 7010
Adelaide Street Postal Station
Toronto, ON
M5C 2W9
Tel: (416) 643-5500 (Toronto Area)
1-800-387-0825 (North America)
Fax: (416) 643-5501
E-mail: inquiries@cibcmellon.com

INVESTOR CONTACT INFORMATION

Investor Relations may be contacted at:
Tel: (416) 947-4277 (Toronto Area)
1-888-873-8392 (North America)
Fax: (416) 947-4727
E-mail: shareholder@tsx.com

ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting of shareholders will be held at 2 p.m. (Eastern Daylight Time) on April 26, 2006 at:

TSX CONFERENCE CENTRE

Auditorium
The Exchange Tower
130 King Street West
Toronto, ON
M5X 1J2

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