

Interim Consolidated Financial Statements of

## **TMX GROUP INC.**

(formerly TSX Group Inc.)

Quarters ended September 30, 2008 and 2007

(in thousands of dollars)  
(Unaudited)

# TMX GROUP INC.

(formerly TSX Group Inc.)  
Interim Consolidated Balance Sheets  
(In thousands of dollars)  
(Unaudited)

	September 30, 2008	December 31, 2007 (audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 77,618	\$ 53,398
Marketable securities (note 11)	126,122	249,399
Restricted cash (note 1)	1,478	–
Accounts receivable	56,326	48,438
Energy contracts receivable (note 11)	841,038	745,378
Fair value of open energy contracts (note 11)	120,018	74,907
Daily settlements and cash deposits (note 11)	498,155	–
Prepaid expenses	10,533	6,561
Future income tax asset	30,327	22,840
	<b>1,761,615</b>	<b>1,200,921</b>
Premises and equipment	29,900	21,324
Future income tax asset	133,556	131,613
Other assets	20,930	25,869
Investments in affiliates	12,000	11,731
Intangible assets (note 2)	889,783	66,578
Goodwill (note 2)	635,154	65,883
<b>Total Assets</b>	<b>\$ 3,482,938</b>	<b>\$ 1,523,919</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 55,614	\$ 48,175
Energy contracts payable (note 11)	841,038	745,378
Fair value of open energy contracts (note 11)	120,018	74,907
Daily settlements and cash deposits (note 11)	498,155	–
Deferred revenue	32,024	6,484
Deferred revenue – initial and additional listing fees	68,092	61,820
Obligation under capital lease	42	152
Income taxes payable	9,052	9,724
	<b>1,624,035</b>	<b>946,640</b>
Accrued employee benefits payable	12,655	12,113
Future income tax liability (note 2)	220,287	–
Obligation under capital lease	39	71
Other liabilities	19,364	30,331
Deferred revenue – initial and additional listing fees	383,317	362,854
Term loan (note 4)	428,093	–
<b>Total Liabilities</b>	<b>2,687,790</b>	<b>1,352,009</b>
<b>Non-controlling Interests (note 2)</b>	<b>16,035</b>	<b>–</b>
<b>Shareholders' Equity:</b>		
Share capital (note 8)	1,098,664	379,370
Share option plan (note 6)	5,241	5,060
Deficit	(326,830)	(212,520)
Accumulated other comprehensive income (note 1)	2,038	–
<b>Total Shareholders' Equity</b>	<b>779,113</b>	<b>171,910</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 3,482,938</b>	<b>\$ 1,523,919</b>

See accompanying notes to interim consolidated financial statements.

# TMX GROUP INC.

(formerly TSX Group Inc)

Interim Consolidated Statements of Income

(In thousands of dollars, except per share amounts)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>Revenue:</b>				
Issuer services	\$ 38,174	\$ 34,843	\$ 114,130	\$ 97,239
Trading, clearing and related	59,031	41,513	153,784	126,508
Market data	35,319	27,538	97,524	81,916
Business services and other	6,840	2,036	16,356	7,733
<b>Total revenue</b>	<b>139,364</b>	<b>105,930</b>	<b>381,794</b>	<b>313,396</b>
<b>Expenses:</b>				
Compensation and benefits	32,059	23,466	81,363	71,582
Information and trading systems	9,361	6,813	25,191	19,939
General and administration	13,880	10,000	38,092	31,269
Amortization	7,031	4,078	17,258	11,590
<b>Total operating expenses</b>	<b>62,331</b>	<b>44,357</b>	<b>161,904</b>	<b>134,380</b>
<b>Income from operations</b>	<b>77,033</b>	<b>61,573</b>	<b>219,890</b>	<b>179,016</b>
Income from investments in affiliates (note 2)	503	130	1,002	192
Investment income	2,884	4,923	10,701	10,032
Interest expense (note 4)	(4,260)	(15)	(7,055)	(42)
Other acquisition related expenses (note 2)	–	–	(15,902)	–
<b>Income before income taxes</b>	<b>76,160</b>	<b>66,611</b>	<b>208,636</b>	<b>189,198</b>
Income taxes	24,765	23,929	75,268	70,940
<b>Net income before non-controlling interests</b>	<b>51,395</b>	<b>42,682</b>	<b>133,368</b>	<b>118,258</b>
Non-controlling interests (note 2)	451	–	451	–
<b>Net income</b>	<b>\$ 50,944</b>	<b>\$ 42,682</b>	<b>\$ 132,917</b>	<b>\$ 118,258</b>
<b>Earnings per share (note 9):</b>				
Basic	\$ 0.66	\$ 0.63	\$ 1.82	\$ 1.73
Diluted	0.66	0.62	1.82	1.72

See accompanying notes to interim consolidated financial statements.

# TMX GROUP INC.

(formerly TSX Group Inc.)

Interim Consolidated Statements of Comprehensive Income

(In thousands of dollars)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>Net income</b>	<b>\$ 50,944</b>	<b>\$ 42,682</b>	<b>\$ 132,917</b>	<b>\$ 118,258</b>
Other comprehensive income				
Unrealized gain on translating financial statements of a self-sustaining foreign operation (note 1)	3,368	—	4,315	—
Unrealized fair value (loss) on the interest rate swaps designated as cash flow hedges (net of tax) (note 5)	(2,277)	—	(2,277)	—
<b>Comprehensive income</b>	<b>\$ 52,035</b>	<b>\$ 42,682</b>	<b>\$ 134,955</b>	<b>\$ 118,258</b>

See accompanying notes to interim consolidated financial statements.

# TMX GROUP INC.

(formerly TSX Group Inc.)

Interim Consolidated Statements of Changes in Shareholders' Equity

(In thousands of dollars)

(Unaudited)

	Nine months ended September 30	
	2008	2007
<b>Common shares:</b>		
Balance, beginning of period	\$ 379,370	\$ 387,501
Issuance of common shares (note 2)	806,573	–
Shares purchased under normal course issuer bid (note 7)	(95,969)	(9,766)
Proceeds from options exercised	6,959	4,360
Cost of exercised options	1,731	1,150
Balance, end of period	1,098,664	383,245
<b>Share option plan:</b>		
Balance, beginning of period	5,060	3,942
Cost of exercised options	(1,731)	(1,150)
Cost of share option plan	1,390	1,739
Options issued (note 2)	522	–
Balance, end of period	5,241	4,531
<b>Deficit:</b>		
Balance, beginning of period	(212,520)	(164,488)
Transitional adjustment	–	621
Net income	132,917	118,258
Dividends on common shares	(85,591)	(78,113)
Shares purchased under normal course issuer bid (note 7)	(161,636)	(64,038)
Balance, end of period	(326,830)	(187,760)
<b>Accumulated other comprehensive income:</b>		
Balance, beginning of period	–	–
Unrealized gain on translating financial statements of a self-sustaining foreign operation (note 1)	4,315	–
Unrealized fair value (loss) on the interest rate swaps designated as cash flow hedges (net of tax) (note 5)	(2,277)	–
Balance, end of period	2,038	–
<b>Shareholders' equity, end of period</b>	<b>\$ 779,113</b>	<b>\$ 200,016</b>

See accompanying notes to interim consolidated financial statements.

# TMX GROUP INC.

(formerly TSX Group Inc.)  
Interim Consolidated Statements of Cash Flows  
(In thousands of dollars)  
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
<b>Cash flows from (used in) operating activities:</b>				
Net income	\$ 50,944	\$ 42,682	\$ 132,917	\$ 118,258
Adjustments to determine net cash flows:				
Amortization	7,031	4,078	17,258	11,590
Unrealized (gain) loss on marketable securities	685	(829)	(157)	2,957
(Income) from investments in affiliates	(503)	(130)	(1,002)	(192)
Cost of share option plan	487	578	1,390	1,739
Cost of options issued on acquisition	213	–	355	–
Payment on termination of joint venture (note 2)	–	–	15,152	–
Amortized financing fees	197	–	307	–
Non-controlling interest	451	–	451	–
Future income tax asset	(1,309)	(3,221)	(5,248)	(13,321)
Accounts receivable and prepaid expenses	8,576	7,545	(15)	(13,171)
Other assets	1,306	(1,050)	5,076	(193)
Accounts payable and accrued liabilities	2,008	6,478	(25,233)	(2,614)
Long-term accrued and other liabilities	(4,538)	(35)	(10,425)	(2,825)
Deferred revenue	(13,188)	(2,541)	52,073	79,600
Income taxes payable, net	2,219	1,547	531	(13,373)
	<b>54,579</b>	<b>55,102</b>	<b>183,430</b>	<b>168,455</b>
<b>Cash flows from (used in) financing activities:</b>				
Restricted cash	3	–	(71)	–
Reduction in obligation under capital lease	(12)	(182)	(167)	(612)
Proceeds from exercised options	713	1,016	6,959	4,360
Dividends on common shares	(29,433)	(25,971)	(85,591)	(78,113)
Shares purchased under normal course issuer bid	(123,233)	(73,804)	(257,605)	(73,804)
Proceeds from term loan, net	(231)	–	427,786	–
	<b>(152,193)</b>	<b>(98,941)</b>	<b>91,311</b>	<b>(148,169)</b>
<b>Cash flows from (used in) investing activities:</b>				
Additions to goodwill	–	–	(2,142)	–
Additions to premises and equipment	(1,568)	(2,424)	(4,833)	(4,631)
Additions to intangible assets	(1,597)	(2,105)	(5,648)	(4,030)
Payment on termination of joint venture (note 2)	–	–	(15,152)	–
Marketable securities	115,766	67,968	188,269	15,745
Acquisitions, net of cash acquired (note 2)	(56,022)	–	(411,015)	(8,142)
Purchase of option to acquire NetThruPut Inc.	–	(10,265)	–	(10,265)
	<b>56,579</b>	<b>53,174</b>	<b>(250,521)</b>	<b>(11,323)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(41,035)</b>	<b>9,335</b>	<b>24,220</b>	<b>8,963</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>118,653</b>	<b>36,646</b>	<b>53,398</b>	<b>37,018</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 77,618</b>	<b>\$ 45,981</b>	<b>\$ 77,618</b>	<b>\$ 45,981</b>
<b>Supplemental cash flow information:</b>				
Interest paid	\$ 2,904	\$ 12	\$ 8,044	\$ 39
Interest received	3,233	4,119	9,944	12,211
Income taxes paid	24,636	25,992	81,508	97,337

See accompanying notes to interim consolidated financial statements

# TMX GROUP INC.

(formerly TSX Group Inc.)

Notes to Interim Consolidated Financial Statements

(In thousands of dollars, except per share amounts)

Nine months ended September 30, 2008 and 2007

(Unaudited)

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These unaudited interim consolidated financial statements (the “financial statements”) have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) and the requirements of The Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1751, “Interim Financial Statements”. The financial statements include the accounts of TMX Group Inc. (following shareholder approval on June 11, 2008 to reflect the business acquisition of Montréal Exchange Inc. on May 1, 2008, the restated Articles of Incorporation were amended to change the name TSX Group Inc./Groupe TSX Inc. to TMX Group Inc./Groupe TMX Inc.) and its subsidiaries, collectively referred to as the “Company”. These financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements of the Company for the year ended December 31, 2007 contained in our 2007 Annual Report.

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

These financial statements follow the same accounting policies and their methods of application as the Company’s consolidated financial statements for the year ended December 31, 2007 except as described in note 1 below.

## 1. Changes in Accounting Policies:

### (a) Basis of presentation:

The consolidated financial statements include the accounts of the Company’s wholly-owned subsidiaries, TSX Inc. (“TSX”), Montréal Exchange Inc. (“MX”) from May 1, 2008 (note 2), Natural Gas Exchange Inc. (“NGX”), Shorcan Brokers Limited (“Shorcan”), The Equicom Group Inc. (“Equicom”) from June 1, 2007, CDEX Inc. (“CDEX”) from August 14, 2007, and the wholly-owned or controlled subsidiaries of TSX, MX, TSX Venture Exchange Inc. (“TSX Venture”), and NGX.

### (b) Capital maintenance and financial instruments:

Effective January 1, 2008, the Company adopted the new recommendations of the CICA Handbook Section 1535, “Capital Disclosures”, which establishes standards for disclosing an entity’s objectives, policies and processes for managing capital, Section 3862,

# TMX GROUP INC.

(formerly TSX Group Inc.)

Notes to Interim Consolidated Financial Statements (continued)

(In thousands of dollars, except per share amounts)

Nine months ended September 30, 2008 and 2007

(Unaudited)

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“Financial Instruments – Disclosure” and Section 3863, “Financial Instruments – Presentation”.

The adoption of these new recommendations had no significant impact on the Company’s financial accounting policies, however additional financial disclosure related to the nature and risks arising from financial instruments have been included in notes 11, 12 and 13.

## **(c) MX acquisition:**

As a result of the Company’s acquisition of MX on May 1, 2008 (note 2), the accompanying consolidated financial statements of the Company include certain accounting policies and disclosures not previously included in the Company’s consolidated financial statements and accompanying notes for the year ended December 31, 2007 as follows:

### (i) Other comprehensive income or loss:

Other comprehensive income or loss includes the unrealized gain or loss on the foreign currency translation of Boston Options Exchange Group LLC (“BOX”), a self-sustaining foreign operation, and the unrealized fair value gain or loss on the interest rate swaps (note 5).

### (ii) Cash and cash equivalents:

Cash and cash equivalents consist of liquid investments having an original maturity of three months or less and are carried at their estimated fair values with changes in their fair values being recorded in net income in the period in which they occur. Estimated fair values are determined based on quoted market values.

### (iii) Restricted cash:

MX operates a separate regulatory division, responsible for the approval of participants and market regulation, and which operates on a cost recovery basis. Restricted cash represents the surplus of this regulatory division. An equivalent and off-setting amount is included in accounts payable and accrued liabilities.

### (iv) MX revenue recognition:

- Derivatives trading revenue is recognized on the transaction date of the related transaction.

# TMX GROUP INC.

(formerly TSX Group Inc.)

Notes to Interim Consolidated Financial Statements (continued)

(In thousands of dollars, except per share amounts)

Nine months ended September 30, 2008 and 2007

(Unaudited)

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- Derivatives clearing revenue is recognized on the settlement date of the related transaction.
- Revenue from arrangements provided on a time and materials basis is recognized as the services are provided at the contractual stated price.
- Revenue from licence fees and maintenance services for licences is recognized on a straight-line basis over the term of the contract.
- Derivatives market data revenue is recognized based on usage as reported by customers and vendors. BOX's revenue from the Options Price Reporting Authority (OPRA) is received quarterly based on its pro-rata share of industry trade (not contract) volume. Estimates of OPRA's quarterly revenue are made and accrued each month.
- Market regulation fees are recognized in the month in which the services are provided.

(v) Foreign currency translation:

MX holds a majority ownership interest in BOX, a company located in the United States, which is considered to be a self-sustaining foreign operation. Accordingly, this investment is translated into Canadian dollars at the rate of exchange in effect at the balance sheet date, and the resulting unrealized exchange gain or loss is included in accumulated other comprehensive income in shareholders' equity.

**(d) Future accounting changes:**

(i) Goodwill and intangible assets:

In February 2008, the CICA issued CICA Handbook Section 3064 – Goodwill and Intangible Assets, which replaces CICA Handbook Section 3062 – Goodwill and Other Intangible Assets as well as CICA Handbook Section 3450 – Research and Development. This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. As this standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the Company will adopt this new standard effective January 1, 2009 (the first day of the Company's 2009 fiscal year) retrospectively with a restatement of prior periods. The Company is currently examining the impact this new standard will have on its financial statements and disclosures.

(ii) International Financial Reporting Standards ("IFRS"):

# TMX GROUP INC.

(formerly TSX Group Inc.)

Notes to Interim Consolidated Financial Statements (continued)

(In thousands of dollars, except per share amounts)

Nine months ended September 30, 2008 and 2007

(Unaudited)

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In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company’s reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. The Company is currently assessing the impact of the transition to IFRS. If the Company decides to proceed with early adoption of IFRS, which would not be prior to January 1, 2010, the Company would be required to obtain exemptive relief from Canadian Securities regulators.

## 2. Business acquisitions:

a) On May 1, 2008, the Company acquired 100% of the outstanding common shares of MX. The principal business activity of MX is to provide markets for the buying and selling of derivative products. Its subsidiary, Canadian Derivatives Clearing Corporation (“CDCC”), is the issuer, clearing house and guarantor for options and futures contracts traded at MX as well as certain other over-the-counter (OTC) products. In addition to CDCC, as at May 1, 2008, MX also held a 51% interest in Montréal Climate Exchange Inc. (“MCeX”), which was created in partnership with the Chicago Climate Exchange Inc., a 50% interest in Canadian Resources Exchange Inc. (“CAREX”) (note 2c), a joint venture created with NYMEX Holdings Inc. (now CMEG NYMEX Holdings Inc. or “CME”) and a 31.4% interest in BOX (note 2b), a U.S. automated equity options market for which MX is the technical operator. The aggregate estimated purchase price consisted of:

Common shares of TMX Group (15,316,608 shares issued)	\$806,573
Cash	428,200
Estimated direct transaction costs	8,129
Estimated restructuring costs	11,355
Fair value of MX share options exchanged	1,417
<b>Aggregate estimated purchase price</b>	<b>\$1,255,674</b>

The acquisition was accounted for under the purchase method and the results of operations have been included in the consolidated statement of income from the date of acquisition.

The purchase price and the purchase price allocation are estimated at this time and will be finalized in the upcoming months as the estimates for direct transaction costs and restructuring costs become final. The estimated restructuring costs primarily relate to employee termination

# TMX GROUP INC.

(formerly TSX Group Inc.)

Notes to Interim Consolidated Financial Statements (continued)

(In thousands of dollars, except per share amounts)

Nine months ended September 30, 2008 and 2007

(Unaudited)

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costs, and the costs associated with the consolidation of the Company's technology data centres.

The TMX Group shares issued as part of the transaction were valued at \$52.66 per share. The \$52.66 per share represents the volume weighted average market price of TMX Group common shares over a reasonable period before and after December 10, 2007, the day the acquisition of MX was announced. The estimated purchase price has been allocated to the fair values of the assets acquired and liabilities assumed as follows:

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	<b>Net assets acquired</b>
Cash and cash equivalents	\$81,307
Marketable securities	49,192
Restricted cash	1,407
Daily settlements and cash deposits	193,117
Other current assets	11,357
Premises and equipment	7,186
Investment in affiliate	75,895
Other assets	190
Future income tax asset	3,786
Intangible assets	796,977
Goodwill	460,207
<b>Net tangible and intangible assets acquired</b>	<b>1,680,621</b>
Less liabilities assumed:	
Current liabilities	19,118
Daily settlements and cash deposits	193,117
Future income tax liability	212,712
<b>Total net assets acquired</b>	<b>\$1,255,674</b>

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# TMX GROUP INC.

(formerly TSX Group Inc.)

Notes to Interim Consolidated Financial Statements (continued)

(In thousands of dollars, except per share amounts)

Nine months ended September 30, 2008 and 2007

(Unaudited)

The Company recognized \$1,270,156 of goodwill and intangible assets as part of the acquisition. The details of these assets are as follows:

<b>Description</b>	<b>Amortization Period</b>	<b>Amount</b>
Goodwill	n/a	\$460,207
<b>Indefinite life intangible assets:</b>		
Derivative products	Not amortized	630,926
Trade names	Not amortized	28,214
Regulatory designation	Not amortized	2,000
<b>Definite life intangible assets:</b>		
MX trading participants	30 years	126,466
BOX trading participants (included in investment in affiliate)	30 years	12,972
Capitalized software	5 years	7,942
Open interest	6 months	1,429
<b>Total goodwill and intangible assets</b>		<b>\$1,270,156</b>

During the three months and nine months ended September 30, 2008, the Company recognized amortization expense of \$2,049 and \$3,779 respectively (three months and nine months ended September 30, 2007 - \$Nil).

The goodwill acquired is not deductible for tax purposes.

Other acquisition related expenses represent non-recurring costs associated with the acquisition of MX. During the three months and nine months ended September 30, 2008, the Company recognized \$0 and \$15,902 respectively in non-recurring costs, which includes a loss on termination of joint venture of \$15,152.

In connection with the acquisition of MX, the Company provided ISE Ventures, LLC ("Ventures") with a notice of a competing transaction as required under the terms of the CDEX shareholders' agreement, which was created to operate DEX<sup>TM</sup>, a new derivatives exchange. As the parties were unable to agree to an alternative business arrangement, originally by January 10, 2008 and subsequently extended to March 31, 2008 through an amending agreement, the Company acquired 100% ownership of CDEX and paid Ventures \$15,152 on April 1, 2008.

# TMX GROUP INC.

(formerly TSX Group Inc.)

Notes to Interim Consolidated Financial Statements (continued)

(In thousands of dollars, except per share amounts)

Nine months ended September 30, 2008 and 2007

(Unaudited)

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**b)** On August 29, 2008, MX acquired an additional 21.9% interest in BOX, giving it a majority ownership interest of 53.3% in, and control of, BOX.

Prior to this transaction, MX held 31.4% of the common shares and did not control BOX. The investment was previously accounted for under the equity method, according to which the initial cost of the investment was adjusted to include MX's proportionate share of post-acquisition net earnings or losses, less dividends and distributions.

As a consequence of the additional investment, BOX is now being accounted for under the purchase method.

Prior to August 29, 2008, the results of operations were included as income from investments in affiliates in the consolidated statement of income. From August 29, 2008, the day on which control was acquired, the results have been fully consolidated within the consolidated statement of income, with an adjustment made for minority interests.

The aggregate estimated purchase price for the 21.9% of the common shares consisted of:

Cash (US\$52,533 at an exchange rate of 1.0626)	\$55,821
Estimated direct transaction costs	2,124
<b>Aggregate estimated purchase price</b>	<b>57,945</b>

The purchase price and the purchase price allocation are estimated at this time and will be finalized in the upcoming months as the estimates for direct transaction costs become final.

# TMX GROUP INC.

(formerly TSX Group Inc.)

Notes to Interim Consolidated Financial Statements (continued)

(In thousands of dollars, except per share amounts)

Nine months ended September 30, 2008 and 2007

(Unaudited)

The estimated purchase price has been allocated to the respective fair values of the assets acquired and liabilities assumed as follows:

	<b>Net assets acquired</b>
Cash and cash equivalents	\$1,032
Marketable securities	15,619
Other current assets	6,354
Capital assets	5,324
Intangible assets – development costs	7,165
Intangible assets – trading participants	37,750
<b>100 % of the tangible and intangible assets</b>	<b>73,244</b>
Less liabilities:	
Current liabilities	2,221
Future income tax liability	14,417
<b>100% of the net tangible and intangible assets</b>	<b>56,606</b>
21.9% of the net tangible and intangible assets acquired	12,380
Goodwill	45,565
<b>Total net assets acquired</b>	<b>57,945</b>

This acquisition was part of a two step acquisition. The first step of the acquisition occurred on May 1, 2008, when the Company acquired 31.4% of BOX at a fair value of \$75,895. The second step of the acquisition occurred on August 29, 2008 when the Company acquired an additional 21.9% interest in BOX and acquired control of the company.

As a result of the second step of the acquisition and the change in control, the Company reclassified the goodwill and intangible assets previously recognized within the investment in affiliate on May 1, 2008 when the first step of the acquisition was completed. As a result, an additional \$61,185 of goodwill was reflected in the Consolidated Balance Sheet of the Company.

# TMX GROUP INC.

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Notes to Interim Consolidated Financial Statements (continued)

(In thousands of dollars, except per share amounts)

Nine months ended September 30, 2008 and 2007

(Unaudited)

The Company recognized \$135,549 of goodwill and intangible assets as part of the acquisition. The details of these assets are as follows:

<b>Description</b>	<b>Amortization Period</b>	<b>Amount</b>
Goodwill	n/a	106,750
<b>Definite life intangible assets:</b>		
BOX trading participants	30 years	21,634
Capitalized software	5 years	7,165
<b>Total goodwill and intangible assets</b>		<b>135,549</b>

During the three months and nine months ended September 30, 2008, the Company recognized amortization expenses of \$198 in respect of these intangible assets (three months and nine months ended September 30, 2007 - \$Nil).

The goodwill acquired is not deductible for tax purposes.

c) In March 2007, MX and CME announced the creation of CAREX, a new business venture dedicated to the Canadian energy market. Following the Company's combination with MX, MX entered into discussions with CME about terminating the business venture. These discussions ultimately resulted in MX acquiring 100% of CAREX on September 26, 2008 for \$925.

Prior to this transaction, MX owned 50% of CAREX, a joint venture that was accounted for using proportionate consolidation. As a consequence of the additional investment, CAREX is now being accounted for under the purchase method, and the results of operations have been fully consolidated within the consolidated statement of income from September 26, 2008.

As of May 1, 2008, the Company planned to wind-up the operations of CAREX and to dispose of the net assets of the entity. As a result, the net assets of CAREX were fair valued as part of the acquisition of MX. The fair value of the net assets as of May 1, 2008 was equivalent to the liquidation value of the assets.

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### 3. Segmented information:

The Company operates in three reportable segments: the Cash Markets (“Cash”) segment, the Energy Markets (“Energy”) segment and the Derivatives Markets (“Derivatives”) segment. In the Cash segment, the Company owns and operates Canada’s two national stock exchanges, Toronto Stock Exchange and TSX Venture Exchange; Shorcan, a fixed income inter-dealer broker; and Equicom, an investor relations and corporate communications services provider. The Energy segment provides a marketplace for the trading and clearing of natural gas and electricity contracts through NGX. The Derivatives segment provides markets for trading derivatives, clearing options and futures contracts and certain over-the-counter products through MX and its subsidiaries, CDCC, BOX, MCEX, and CAREX.

#### Three months ended September 30, \*

	Cash	Energy	Derivatives	Total
<b>2008</b>				
Issuer services	38,174	-	-	38,174
Trading, clearing and related	34,452	7,594	16,985	59,031
Market data	31,955	-	3,364	35,319
Business services and other	3,808	69	2,963	6,840
<b>Total revenues</b>	<b>108,389</b>	<b>7,663</b>	<b>23,312</b>	<b>139,364</b>
<b>Net income</b>	<b>41,912</b>	<b>2,165</b>	<b>6,867</b>	<b>50,944</b>
<b>Goodwill</b>	<b>46,746</b>	<b>21,279</b>	<b>567,129</b>	<b>635,154</b>
<b>Total assets</b>	<b>452,502</b>	<b>1,020,854</b>	<b>2,009,582</b>	<b>3,482,938</b>
<b>2007</b>				
Issuer services	34,843	-	-	34,843
Trading, clearing and related	35,656	5,857	-	41,513
Market data	27,370	168	-	27,538
Business services and other	2,596	(560)	-	2,036
<b>Total revenues</b>	<b>100,465</b>	<b>5,465</b>	<b>-</b>	<b>105,930</b>
<b>Net income</b>	<b>41,404</b>	<b>1,278</b>	<b>-</b>	<b>42,682</b>
<b>Goodwill</b>	<b>44,592</b>	<b>21,279</b>	<b>-</b>	<b>65,871</b>
<b>Total assets</b>	<b>664,469</b>	<b>615,420</b>	<b>-</b>	<b>1,279,889</b>

\* Includes results from dates of acquisitions in the year

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## Nine months ended September 30, \*

	Cash	Energy	Derivatives	Total
<b>2008</b>				
Issuer services	114,130	-	-	114,130
Trading, clearing and related	106,335	21,459	25,990	153,784
Market data	92,135	70	5,319	97,524
Business services and other	10,343	123	5,890	16,356
<b>Total revenue</b>	<b>322,943</b>	<b>21,652</b>	<b>37,199</b>	<b>381,794</b>
<b>Net income</b>	<b>116,853</b>	<b>5,330</b>	<b>10,734</b>	<b>132,917</b>
<b>Goodwill</b>	<b>46,746</b>	<b>21,279</b>	<b>567,129</b>	<b>635,154</b>
<b>Total assets</b>	<b>452,502</b>	<b>1,020,854</b>	<b>2,009,582</b>	<b>3,482,938</b>
<b>2007</b>				
Issuer services	97,239	-	-	97,239
Trading, clearing and related	110,966	15,542	-	126,508
Market data	81,420	496	-	81,916
Business services and other	8,060	(327)	-	7,733
<b>Total revenue</b>	<b>297,685</b>	<b>15,711</b>	<b>-</b>	<b>313,396</b>
<b>Net income</b>	<b>115,467</b>	<b>2,791</b>	<b>-</b>	<b>118,258</b>
<b>Goodwill</b>	<b>44,592</b>	<b>21,279</b>	<b>-</b>	<b>65,871</b>
<b>Total assets</b>	<b>664,469</b>	<b>615,420</b>	<b>-</b>	<b>1,279,889</b>

\* Includes results from dates of acquisitions in the year

#### 4. Credit facilities:

As a result of the acquisition of MX, the Company has entered into the following credit facilities:

	Interest rate	Year of maturity	Authorized	Amount drawn at September 30, 2008
TMX Group non-revolving three year term facility	30 day B.A. + 45 bps	2011	\$430,000	\$430,000
TMX Group revolving three year term facility	-	2011	50,000	-
MX operating line of credit	-	N/A	3,000	-
CDCC revolving standby credit facility	-	N/A	30,000	-
<b>Total credit facilities</b>			<b>\$513,000</b>	<b>\$430,000</b>

In connection with the acquisition of MX, the Company established a non-revolving three-year term credit facility of \$430,000 and a revolving three-year credit facility of \$50,000. The

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Company may draw on these facilities in Canadian dollars by way of prime rate loans and/or Bankers' Acceptances ("B.A.") or in U.S. dollars by way of LIBOR loans and/or U.S. base rate loans. On April 30, 2008, the Company drew \$430,000. As of September 30, 2008, the Company has prepaid \$1,907 of financing fees, which leaves a net credit facility liability of \$428,093. These financing fees will be amortized over the remaining term of the loan.

MX has an outstanding letter of credit for \$2,120 issued against the MX operating line of credit. This letter of credit has been issued as a guarantee to the trustee under the MX employee future benefit plan in respect of accrued future employee benefits.

The credit facilities are unsecured and include certain covenants that the Company must maintain (note 13). The Company was in compliance with these covenants at September 30, 2008.

During the three months ended September 30, 2008, the Company recognized interest expense on the facilities of \$4,105 (three months ended September 30, 2007 - \$Nil) which included \$197 of amortized financing fees. For the nine months ended September 30, 2008, the Company recognized interest expense on the facilities of \$6,897 (nine months ended September 30, 2007 - \$Nil) which included \$307 of amortized financing fees.

## 5. Interest rate swaps:

The Company has entered into a series of interest rate swap agreements to partially manage its exposure to interest rate fluctuations on the non-revolving three year term facility, effective August 28, 2008. The interest rate swaps in place as of the balance sheet date are as follows:

Swap number	Notional value	Maturity date	Interest rate the Company will receive	Interest rate the Company will pay	Fair value unrealized gain/(loss) at September 30, 2008	Fair value unrealized gain/(loss) at September 30, 2007
#1	\$100,000	August 31, 2009	30 day B.A.	3.496%	(\$458)	\$ -
#2	\$100,000	August 31, 2010	30 day B.A.	3.749%	(1,316)	-
#3	\$100,000	April 18, 2011	30 day B.A.	3.829%	(1,650)	-
<b>Total</b>	<b>\$300,000</b>				<b>(\$3,424)</b>	<b>\$ -</b>

The Company has designated these interest rate swaps as cash flow hedges, in accordance with section 3865 of the CICA Handbook. These instruments are intended to partially hedge the interest rate risk that is present within the non-revolving term loan that was put in place in connection with the combination with MX and drawn down on April 30, 2008 (notes 2a, 4, 11,

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12). The Company's objective is to limit a portion of interest rate variability associated with the non-revolving term loan through the use of interest rate swaps over the term of the loan.

During the period, the Company has determined that the hedges were effective and has paid and recognized as interest expense within the Consolidated Statements of Income \$155, representing the net amount owing on the interest rate swaps. In addition, the Company recognized within the Consolidated Statement of Other Comprehensive Income an unrealized fair value loss on the swaps of \$3,424 (\$2,277 net of tax).

## 6. Share option plan:

The Company established a share option plan in 2002, the year of its initial public offering. All employees of the Company and those of its designated subsidiaries at or above the director level are eligible to be granted share options under the share option plan.

On May 1, 2008, in connection with the acquisition of MX, the Company issued share options to holders of MX share options using an exchange ratio of 0.7784 for each MX share option exchanged. The Company issued 162,194 share options (the "replacement options") in exchange for 208,400 MX share options. The replacement options granted will vest based 50% on the passage of time and 50% on achieving certain performance criteria over a four year period of time. Only those replacement options not subject to performance criteria have been included in the aggregate purchase price (note 2).

According to the terms of the Company's plan, under no circumstances may any one person's share options and all other share compensation arrangements exceed 5% of the outstanding common shares issued of the Company. 4,252,296 common shares of the Company remain reserved for issuance upon exercise of share options granted under the plan, representing approximately 5% of the outstanding common shares of the Company. The fair value of each share option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2008: dividend yield of 2.9 percent; expected volatility of 23.6 percent; risk-free interest rate of 4.1 percent and expected life of 7 years.

Options granted will expire in 2011, 2012, 2013, 2014 and 2015.

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## Share options:

	Three months ended September 30, 2008		Three months ended September 30, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of the period	982,923	\$ 39.90	1,039,441	\$ 31.26
Granted	150,000	36.46	6,464	42.80
Forfeited	(75,736)	49.95	(9,548)	50.29
Exercised	(31,446)	22.70	(49,012)	20.73
<b>Outstanding, end of the period</b>	<b>1,025,741</b>	<b>\$ 39.18</b>	<b>987,345</b>	<b>\$ 31.67</b>

	Nine months ended September 30, 2008		Nine months ended September 30, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of the period	973,522	\$ 31.64	1,096,650	\$ 25.17
Granted	526,228	44.71	219,948	52.48
Forfeited	(142,161)	50.52	(77,081)	45.55
Exercised	(331,848)	20.97	(252,172)	17.24
<b>Outstanding, end of the period</b>	<b>1,025,741</b>	<b>\$ 39.18</b>	<b>987,345</b>	<b>\$ 31.67</b>

At September 30, 2008, 427,021 options were fully vested and exercisable at strike prices in the range of \$2.21 to \$54.50. During the three months and nine months ended September 30, 2008, the Company recognized compensation costs of \$487 and \$1,390 respectively in relation to its share option plan (three months ended September 30, 2007 - \$578, nine months ended September 30, 2007 - \$1,739).

## 7. Normal course issuer bid:

In connection with the Company's normal course issuer bid ("NCIB") approved on August 1, 2007, the Company completed the repurchase of the remaining shares under its pre-defined automatic purchase plan with its designated broker. From May 2, 2008 to July 22, 2008, the

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Company purchased 4,441,189 common shares at an aggregate cost of \$185,170 of which \$64,713 was charged to share capital and the excess of the cost of the NCIB over the stated value of the common shares of \$120,457 was charged to deficit.

In addition, on August 14, 2008, the Company received approval from Toronto Stock Exchange to repurchase up to 7,595,585 of its common shares under a new NCIB. Common shares purchased under the NCIB are cancelled, and purchases may be made over a one year period ending August 17, 2009, or such earlier date as the Company completes its purchases. In connection with this plan, the Company entered into a new pre-defined automatic purchase plan with its designated broker. From August 18, 2008, to September 30, 2008, the Company purchased 2,082,060 common shares at an aggregate cost of \$72,435 of which \$31,256 was charged to share capital and the excess of the cost of the NCIB over the stated value of the common shares of \$41,179 was charged to deficit.

## 8. Share capital:

The following transactions occurred with respect to the Company's common shares:

	Three months ended September 30, 2008		Nine months ended September 30, 2008	
	Number of common shares	\$	Number of common shares	\$
Beginning of the period	78,847,322	\$	66,278,370	\$ 379,370
		1,146,098		
Issued (note 2)	-	-	15,316,608	806,573
Repurchased and cancelled (note 7)	(3,475,191)	(48,325)	(6,523,249)	(95,969)
Options exercised	31,446	891	331,848	8,690
<b>End of the period</b>	<b>75,403,577</b>	<b>\$</b>	<b>75,403,577</b>	<b>\$ 1,098,664</b>
		<b>1,098,664</b>		

## 9. Earnings per share:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income	\$ 50,944	\$ 42,682	\$ 132,917	\$ 118,258
Weighted average number of common shares outstanding	77,025,461	68,103,741	73,017,868	68,412,679
Basic earnings per share	\$0.66	\$0.63	\$1.82	\$1.73
Diluted weighted average number				

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of common shares outstanding	<b>77,119,217</b>	68,495,979	<b>73,142,735</b>	68,896,557
Diluted earnings per share	<b>\$0.66</b>	\$0.62	<b>\$1.82</b>	\$1.72

## 10. Employee future benefits:

Total retirement benefit cost for the three months ended September 30, 2008 was \$1,477 (three months ended September 30, 2007 - \$1,625) and for the nine months ended September 30, 2008 was \$4,308 (nine months ended September 30, 2007 – \$5,395).

## 11. Financial instruments:

The Company has classified the significant impacts of its financial instruments as follows:

### (a) Financial instruments – carrying values and fair values:

Asset/(Liability)	September 30, 2008				
	Held for trading		Loans and receivables/ (other financial liabilities)	Carrying amount	Fair value
	Classified	Designated			
Cash and cash equivalents		77,618		<b>\$77,618</b>	<b>\$77,618</b>
Marketable securities		126,122		<b>126,122</b>	<b>126,122</b>
Restricted cash		1,478		<b>1,478</b>	<b>1,478</b>
Accounts receivable – trade			63,129	<b>63,129</b>	<b>63,129</b>
Accounts receivable - other			591	<b>591</b>	<b>591</b>
Total return swaps	(3,970)			<b>(3,970)</b>	<b>(3,970)</b>
Interest rate swaps *	(3,424)			<b>(3,424)</b>	<b>(3,424)</b>
Energy contracts receivable			841,038	<b>841,038</b>	<b>841,038</b>
Fair value of open energy contracts		120,018		<b>120,018</b>	<b>120,018</b>
Daily settlements and cash deposits			498,155	<b>498,155</b>	<b>498,155</b>
Option to acquire NetThruPut Inc.	10,265			<b>10,265</b>	<b>10,265</b>
Accounts payable and accrued liabilities			(55,614)	<b>(55,614)</b>	<b>(55,614)</b>
Energy contracts payable			(841,038)	<b>(841,038)</b>	<b>(841,038)</b>

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Fair value of open energy contracts	(120,018)	<b>(120,018)</b>	<b>(120,018)</b>
Daily settlements and cash deposits	(498,155)	<b>(498,155)</b>	<b>(498,155)</b>
Term loan payable, net	(428,093)	<b>(428,093)</b>	<b>(428,093)</b>

\* Classified as a cash flow hedge (note 5)

September 30, 2007					
Asset/Liability	Held for trading		Loans and receivables/ (other financial liabilities)	Carrying amount	Fair value
	Classified	Designated			
Cash and cash equivalents		45,981		\$45,981	\$45,981
Marketable securities		267,107		267,107	267,107
Restricted cash		-		-	-
Accounts receivable – trade			44,628	44,628	44,628
Accounts receivable - other			1,245	1,245	1,245
Total return swaps	1,118			1,118	1,118
Interest rate swaps	-			-	-
Energy contracts receivable			479,573	479,573	479,573
Fair value of open energy contracts		81,113		81,113	81,113
Daily settlements and cash deposits				-	-
Option to acquire NetThruPut Inc.	10,265			10,265	10,265
Accounts payable and accrued liabilities			(37,683)	(37,683)	(37,683)
Energy contracts payable			(479,573)	(479,573)	(479,573)
Fair value of open energy contracts		(81,113)		(81,113)	(81,113)
Daily settlements and cash deposits				-	-
Term loan payable, net				-	-

**(b) Marketable securities:**

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The investment portfolio includes pooled fund investments managed by an external investment fund manager. Market values for securities held by the pooled funds are determined by reference to quoted market prices. There is no contracted maturity date for the investments.

Marketable securities also include the investment portfolio of MX, which is managed by an external advisor, which includes federal, provincial and corporate bonds as well as bank backed asset backed debt securities.

The Company has designated its marketable securities as held-for-trading. At September 30, 2008, these investments have been measured at fair value and the unrealized losses of \$685 recognized during the three months ended September 30, 2008, and the unrealized gains of \$157 recognized during the nine months ended September 30, 2008, have been reflected in net income in the consolidated financial statements (three months ended September 30, 2007 – unrealized gains of \$829; nine months ended September 30, 2007 – unrealized losses of \$2,957).

## (c) Total return swaps:

The Company has entered into a series of total return swaps (“TRSs”) which synthetically replicate the economics of the Company purchasing the Company’s shares as a partial fair value 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 designated subsidiaries. The Company marks to market the fair value of the TRSs as an adjustment to income, and simultaneously marks to market the liability to holders of the share units as an adjustment to income. The fair value of the TRSs is based upon the excess or deficit of the volume weighted average price of the Company’s shares for the last five trading days of the month compared with the Company’s share price at the date of entering into the TRSs. The fair value of the TRSs and the obligation to unit holders are reflected on the balance sheet. The contracts are settled in cash upon maturity.

The following tables represent the TRSs which are outstanding at:

### September 30, 2008:

	Remaining term to maturity (notional amount)			Fair value		
	Under 1 year	1 to 3 years	Total	Gain	Loss	Net
Equity Swap Contract #10	\$ 664	\$ –	\$ 664	\$ –	\$ (216)	\$ (216)
Equity Swap Contract #13	–	854	854	–	(335)	(335)
Equity Swap Contract #17	–	407	407	–	(72)	(72)
Equity Swap Contract #18	4,321	–	4,321	–	(878)	(878)
Equity Swap Contract #19	5,516	–	5,516	–	(1,479)	(1,479)

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Equity Swap Contract #20	3,695	-	3,695	-	(990)	(990)
	\$ 14,196	\$ 1,261	\$ 15,457	\$ -	\$ (3,970)	\$ (3,970)

September 30, 2007:

	Remaining term to maturity (Notional amount)			Fair value		
	Under 1 year	1 to 3 years	Total	Gain	Loss	Net
Equity Swap Contract #5	\$ 694	\$ -	\$ 694	\$ 466	\$ -	\$ 466
Equity Swap Contract #10	-	664	664	-	(9)	(9)
Equity Swap Contract #13	-	854	854	-	(96)	(96)
Equity Swap Contract #14	5,310	-	5,310	-	(277)	(277)
Equity Swap Contract #15	2,453	-	2,453	195	-	195
Equity Swap Contract #16	10,548	-	10,548	839	-	839
	\$ 19,005	\$ 1,518	\$ 20,523	\$ 1,500	\$ (382)	\$ 1,118

The unrealized losses of \$4,324 recognized for the three month period ended September 30, 2008 and the unrealized losses of \$7,948 recognized for the nine month period ended September 30, 2008 have been reflected in net income in the consolidated financial statements (three month period ended September 30, 2007 - unrealized gains \$2,194; nine months ended September 30, 2007 - unrealized gains \$1).

## (d) Interest rate swaps:

The Company has entered into a series of interest rate swap agreements, which commenced on August 28, 2008, to partially manage its exposure to interest rate fluctuations on the non-revolving three year term facility (notes 4 and 5).

The Company marks to market the fair value of the interest rate swaps. Unrealized losses of \$3,424 (\$2,277 net of tax) have been recognized within other comprehensive income for the three month and nine month periods ended September 30, 2008 (three month and nine month periods ended September 30, 2007 - \$nil). Interest paid of \$155 has been recognized in net income for the three month and nine month periods ended September 30, 2008 (three month and nine month periods ended September 20, 2007 - \$nil).

## (e) NGX energy contracts:

NGX energy contracts receivable and payable positions are recognized for all contracts where physical delivery has occurred or financial settlement amounts have been determined prior to

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the period end but payments have not yet been made. There is no impact on the consolidated statement of income.

The fair value at the balance sheet date of the undelivered physically settled trading contracts and the forward financially settled trading contracts is recognized in the consolidated assets and liabilities as open energy contracts. There is no impact on the consolidated statement of income.

**(f) CDCC daily settlements and cash deposits:**

Amounts due from and to clearing members as a result of marking open futures positions to market and settling option transactions each day are required to be collected from or paid to clearing members prior to the commencement of trading the next day. The amounts due from and due to clearing members are recognized in the consolidated assets and liabilities as daily settlements and cash deposits. There is no impact on the consolidated statement of income.

**(g) Option to acquire NetThruPut Inc.**

On September 6, 2007, the Company entered into an agreement with Enbridge Inc. ("Enbridge") and Circuit Technology Limited ("Circuit") granting it the option to acquire all the shares of NetThruPut Inc. ("NTP"), at a time after March 15, 2009, for a price between \$40,000 and \$95,000, subject to certain closing conditions. This agreement also provides Enbridge and Circuit with the right to sell all the shares of NTP under the same terms to the Company, subject to certain closing conditions. The fair value of this option at September 30, 2008 is considered to approximate its carrying value.

**12. Risk management:**

**(a) Credit risk:**

Credit risk is the risk of financial loss to the Company associated with a counterparty's failure to fulfill its financial obligations and arises principally from the Company's investments in marketable securities, total return swaps and interest rate swaps, accounts receivable and the clearing and/or brokerage operations of Shorcan, NGX and CDCC.

**(i) Investments in marketable securities**

The Company, excluding MX, manages its exposure to credit risk arising from investments in marketable securities by limiting the investment in short-term bond and mortgage funds to a

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maximum of 70% of the investment portfolio. Corporate bonds must have a minimum credit rating of BBB by DBRS Limited. Mortgages may not comprise more than 40% of the portfolio and must be either multi-residential conventional first mortgages or multi-residential government guaranteed mortgages. The Company does not have any investments in non-bank asset-backed commercial paper. At September 30, 2008 the investment portfolio was comprised of 43% in short-term bond and mortgage funds and 57% in money market funds (September 30, 2007 – 34%:66%).

MX manages its exposure to credit risk arising from investments in marketable securities by limiting total short term investment in bonds to a maximum of 30% in Schedule "A" Canadian chartered banks ("Bank bonds") with the balance in Federal and Provincial bonds, while limiting total medium term investment in corporate bonds to a maximum of 35% with the balance in Federal and Provincial bonds. Corporate bonds must have a minimum credit rating of AAA by DBRS Limited. At September 30, 2008 the MX investment portfolio was comprised of 6% in Bank bonds, 81% in Federal and Provincial bonds and, 13% in Corporate Bonds. At September 30, 2008, MX did not have any investments in non-bank asset-backed commercial paper.

(ii) Total Return Swaps

The Company limits its exposure to credit risk on TRSs by contracting with a major Canadian chartered bank.

(iii) Interest rate swaps

The Company limits its exposure to credit risk on the interest rate swaps by contracting with a major Canadian chartered bank.

(iv) Accounts receivable

The Company's exposure to credit risk resulting from uncollectable accounts is influenced by the individual characteristics of its customers, many of whom are banks and financial institutions. There is no concentration of credit risk attributable to transactions with a single customer. In addition, customers that fail to maintain their account in good standing risk loss of listing or trading privileges.

(v) Clearing and/or brokerage operations

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The Company is exposed to credit risk in the event that customers, in the case of Shorcan, or contracting parties, in the case of NGX, or clearing members, in the case of CDCC, fail to settle on the contracted settlement date.

Shorcan's risk is limited by its status as an agent, in that it does not purchase or sell securities for its own account. As agent, in the event of a failed trade, Shorcan has the right to withdraw its normal policy of anonymity and advise the two counterparties to settle directly.

NGX requires each contracting party to provide sufficient collateral, in the form of cash or letters of credit, to exceed its outstanding credit exposure as determined by NGX in accordance with its margining methodology. The cash collateral deposits and letters of credit are held by a major Canadian chartered bank. This collateral may be accessed by NGX in the event of default by a contracting party. NGX measures total potential exposure for both credit and market risk for each contracting party on a real-time basis as the aggregate of:

- (a) Outstanding energy contracts receivable;
- (b) "Variation Margin", comprised of the aggregate "mark-to-market" exposure for all forward purchase and sale contracts with an adverse value from the perspective of the customer; and
- (c) "Initial Margin", an amount that estimates the worst expected loss that a contract might incur under normal market conditions during a liquidation period.

As a result of these calculations of contracting party exposure at September 30, 2008, NGX held cash collateral deposits of \$449,062 (September 30, 2007 - \$271,801) and letters of credit of \$2,491,605 (September 30, 2007 - \$1,734,850). These amounts are not included in the Company's consolidated balance sheet.

CDCC is exposed to the risk of default of its clearing members. CDCC is the central counterparty and guarantor of all transactions carried out on MX's markets and on the OTC market, when the transaction is cleared through CDCC. It primarily supports the risk of one or more counterparties, meeting strict financial and regulatory criteria, defaulting on their obligations, in which case the obligations of that counterparty would become the responsibility of CDCC. This risk is greater if market conditions are unfavourable at the time of the default.

CDCC's principal risk management practice is the collection of risk-based margin deposits in the form of cash, letters of credit, equities and liquid government securities. Should a clearing member fail to meet a daily margin call or otherwise not honour their obligations under open

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futures and options contracts, margin deposits would be available to apply against the costs incurred to liquidate the clearing member's positions.

CDCC's margining system is complemented by a stress reporting system. This process evaluates the financial strength of a clearing member to meet margin requirements that might result from a sudden adverse change in the market. Clearing members who fail to meet the criteria are required to deposit a stress margin.

CDCC also maintains a clearing fund through deposits of cash and securities from all clearing members. The aggregate level of clearing funds required from all clearing members must cover the worst loss that CDCC could face if one counterparty is failing under various extreme but plausible market conditions. Each clearing member contributes to the clearing fund in proportion to its margin requirements. If, by a clearing member's default, further funding is necessary to complete a liquidation, CDCC has the right to require other clearing members to contribute additional amounts equal to their previous contribution to the clearing fund.

CDCC's margin collateral deposits and clearing fund deposits are held by approved depositories under irrevocable agreements. This collateral may be accessed by CDCC in the event of default by a clearing member. As a result of these calculations of clearing member exposure at September 30, 2008, CDCC held margin collateral deposits of \$3,511,938 and clearing fund deposits of \$296,060. These amounts are not included in the Company's consolidated balance sheet.

## (vi) Guarantees

NGX maintains an unsecured clearing backstop fund of U.S. \$100,000. The Company is the guarantor, on an unsecured basis, of this fund.

MX maintains \$30,000 in revolving standby credit facilities in the event of default by a clearing member of CDCC. Borrowings under these facilities would be required to be collateralized.

Neither facility has been drawn upon at September 30, 2008.

## (b) Market risk:

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Company's income or the value of its holdings of financial instruments.

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## (i) Foreign currency risk

The Company is exposed to foreign currency risk on revenue, cash and cash equivalents, marketable securities and accounts receivable principally denominated in U.S. dollars. At September 30, 2008, cash and cash equivalents and accounts receivable, excluding BOX, include US\$13,101 (September 30, 2007 – US\$10,969), which are exposed to changes in the U.S. – Canadian dollar exchange rate. The approximate impact of a 1% rise in the Canadian dollar compared to the US dollar on these exposed balances at September 30, 2008 is a \$138 decrease in net income. The approximate impact of a 1% decline in the Canadian dollar compared to the US dollar on these exposed balances at September 30, 2008 is a \$138 increase in net income. In addition, the net assets of BOX are denominated in US dollars, and the effect of exchange rate movements on the Company's share of the net assets is included in other comprehensive income.

## (ii) Interest rate risk

The Company is exposed to interest rate risk on its marketable securities, TRSs and non-revolving term loan payable.

The Company has limited its exposure to interest rate risk on the non-revolving term loan by entering into three interest rate swap agreements (note 5).

External investment fund managers have been engaged by the Company to manage the asset mix and the risks associated with its marketable securities. At September 30, 2008 the Company held \$126,122 in these funds (September 30, 2007 - \$267,107). The approximate impact on the carrying value of these investments of a 1% rise and a 1% fall in interest rates is (\$1,798) and \$1,843 respectively.

## (iii) Equity price risk

The Company is exposed to equity price risk arising from its utilization of TRSs. The fair value of the TRSs is based upon the excess or deficit of the volume weighted average price of the Company's shares for the last five trading days of the month compared with the Company's share price at the date of entering into the TRSs. The change in the fair value of the TRSs is offset by the change in the obligation to restricted share units and deferred share units holders.

## (iv) Other market price risk

The Company is exposed to other market price risk from the activities of Shorcan, NGX and CDCC if a customer, contracting party or clearing member, as the case may be, fails to take or

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deliver either securities, derivative products or energy products on the contracted settlement date where the contracted price is less favourable than the current market price.

Shorcan's risk is limited by its status as an agent, in that it does not purchase or sell securities for its own account, the short period of time between trade date and settlement date, and the defaulting customers liability for any difference between the amounts received upon sale of the securities and the amount paid to acquire the securities.

Both NGX's and CDCC's measure of total potential exposure, as described previously, includes measures of market risk which are factored into the collateral required from each contracting party or clearing member.

The Company is also exposed to other market price risk on a portion of its sustaining fees revenue, which is based on quoted market values of listed issuers as at December 31 of the previous year.

## **(c) Liquidity risk:**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its revolving and non-revolving credit facilities (note 4) and capital (note 13).

## **13. Capital maintenance:**

In accordance with Section 1535 "Capital Disclosures" of the CICA Handbook, the Company's primary objectives in managing capital, which it defines as including its share capital and various credit facilities, include:

- (i) Maintaining sufficient capital for operations, to ensure market confidence and to meet capital maintenance requirements imposed on its subsidiaries:
  - (a) In respect of TSX, as required by the Ontario Securities Commission ("OSC") to maintain certain regulatory ratios as defined in the OSC recognition order, as follows:
    - (i) a current ratio not less than 1.1:1;
    - (ii) a debt to cash flow ratio not greater than 4:1; and

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- (iii) a financial leverage ratio consisting of adjusted total assets to adjusted shareholders' equity not greater than 4:1

The Company has complied with these externally imposed capital requirements;

- (b) In respect of TSX Venture, as required by various provincial securities commissions to maintain adequate financial resources;

The Company has complied with these externally imposed capital requirements;

- (c) In respect of NGX to:

- (i) maintain adequate financial resources as required by the Alberta Securities Commission; and

- (ii) maintain a current ratio of no less than 1:1 and a tangible net worth of not less than \$9,000 as required by a major Canadian chartered bank

The Company has complied with these externally imposed capital requirements;

- (d) In respect of MX, as required by the Autorité des marchés financiers ("AMF") to maintain certain regulatory ratios as defined in the AMF recognition order, as follows:

- (i) a working capital ratio not less than 1.5:1;

- (ii) a cash flow to total debt ratio of more than 20%; and

- (iii) a financial leverage ratio consisting of total assets to shareholders' equity of less than 4:1

The Company has complied with these externally imposed capital requirements;

- (e) In respect of Shorcan by the Investment Industry Regulatory Organization ("IIROC") which requires Shorcan to maintain a minimum level of shareholders' equity of \$500;

The Company has complied with these externally imposed capital requirements;

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(ii) Providing sufficient capital to meet the covenants imposed in connection with credit facilities (note 4) that require the Company to maintain:

(a) a maximum debt to adjusted EBITDA ratio of 3.5:1;

(b) a minimum consolidated net worth based on a contracted formula; and

(c) a debt incurrence test of not more than 3:1

The Company has complied with these externally imposed capital requirements;

(iii) Retaining sufficient capital to invest and continue to grow our business; and

(iv) Returning capital to shareholders through dividends paid to shareholders and purchasing shares for cancellation pursuant to normal course issuer bids.

## 14. Regulatory services:

On June 1, 2008, Market Regulation Services Inc. ("RS"), a private corporation jointly owned by the Company and the Investment Dealers Association of Canada ("IDA") and operated on a not-for-profit basis providing regulatory services to Canadian equity marketplaces, combined with the IDA to form the Investment Industry Regulatory Organization of Canada ("IIROC"). As a result of the combination, the Company relinquished any ownership interest but remains entitled to nominate one of the fifteen member board of directors subject to certain pre-determined conditions. Prior to June 1, 2008, RS was a related party to the Company. For the period up to June 1, 2008, \$4,457 of Business services and other revenue was earned for technology service provided to RS (three months ended September 30, 2007 – \$1,775, nine months ended September 30, 2007 - \$5,407) and \$2,500 was paid to RS for services provided by RS (three months ended September 30, 2007 – \$517, nine months ended September 30, 2007 - \$2,717).

## 15. Related party transactions:

In 2001, MX signed an agreement with BOX to provide, for a fee, the technology and related services required for its electronic trading system. In addition, beginning in February 2004, MX became a supplier to BOX and charges at the exchange amount, being the amount established and agreed to by BOX, salaries, telecommunication services, computer equipment, and other services. On August 29, 2008, BOX became a subsidiary of the Company (note 2).

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Amounts invoiced for the three and nine months ended September 30, 2008, covering the period before BOX became a subsidiary, are \$2,493 and \$4,963 respectively (three and nine months ended September 30, 2007 - \$nil). These transactions were undertaken in the normal course of business. Starting August 29, 2008, due to the change in control, these amounts are eliminated upon consolidation.

## **16. Comparative figures:**

Certain comparative figures have been reclassified to conform to the financial presentation adopted in the current period.