

## **TMX Group Inc.**

### **Q3-2008 Management's Discussion and Analysis**

This Management's Discussion and Analysis (MD&A) of TMX Group Inc.'s (TMX Group)<sup>1</sup>, formerly TSX Group Inc.'s, 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 quarter and nine months ended September 30, 2008, compared with the quarter and nine months ended September 30, 2007, or the year ended December 31, 2007, as applicable. This MD&A is dated October 29, 2008 and should be read carefully together with our Q3/08 unaudited interim consolidated financial statements and related notes for the corresponding period as well as our 2007 MD&A and audited annual financial statements, including notes, which are prepared in accordance with Canadian generally accepted accounting principles (GAAP). Each of these documents is filed with Canadian securities regulators and can be accessed through [www.sedar.com](http://www.sedar.com), or our website at [www.tsx.com](http://www.tsx.com). The financial measures included in this MD&A are based on financial statements prepared in accordance with Canadian GAAP, unless otherwise specified. All amounts are in Canadian dollars unless otherwise indicated.

On May 1, 2008, TMX Group and Montréal Exchange Inc. (MX) combined their businesses and, accordingly, the results of MX are included in TMX Group's consolidated results from May 1, 2008. On August 29, 2008, MX acquired an additional 21.9% interest in the Boston Options Exchange Group, LLC (BOX) from the Boston Stock Exchange (BSE), giving MX a majority ownership interest of 53.3% in, and control of, the U.S. equity option exchange. Prior to the completion of this transaction, MX's 31.4% investment in BOX was accounted for under the equity method under which our 31.4% of the earnings from BOX was reported as income from investment in an affiliate. Upon acquisition of control, the results of BOX have been fully consolidated into TMX Group's consolidated results from August 29, 2008, with an adjustment made for the non-controlling interests.

Certain comparative figures have been reclassified in order to conform with the financial presentation adopted in the current year.

Additional information about TMX Group, including our most recent Annual Information Form is available through [www.sedar.com](http://www.sedar.com) and on our website [www.tsx.com](http://www.tsx.com). We are not incorporating information contained on the website in this MD&A.

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<sup>1</sup> Following shareholder approval on June 11, 2008, our Restated Articles of Incorporation were amended to change our name from TSX Group Inc. / Groupe TSX Inc. to TMX Group Inc. / Groupe TMX Inc.

## **Non-GAAP Financial Measures**

Toronto Stock Exchange customers are billed for initial and additional listing fees, and with this system, there is a lag between the time when securities are issued or reserved and the time when these listing fees are paid by Toronto Stock Exchange listed issuers. For TSX Venture Exchange issuers, fees are paid either prior to, or at the time of, listing or reserving securities. In order to reflect these activities, we have adopted the terms issuer services fees billed, initial listing fees billed and additional listing fees billed. These terms replace “*listing fees received*”, “*initial listing fees received*” and “*additional listing fees received*”, which have been used in previous financial reporting. The composition of these measures, however, is unchanged.

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

We present adjusted earnings per share prior to loss on termination of joint venture as an indication of operating performance exclusive of the payment made on April 1, 2008 to ISE Ventures, LLC (ISE Ventures), a wholly-owned subsidiary of International Securities Exchange Holdings, Inc. (ISE), related to terminating our proposed derivatives joint venture. This measure does not have a standardized meaning prescribed by Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers. Management believes this measure allows it to assess operating performance excluding this type of payment.

## **Strategy Update<sup>2</sup>**

### **Derivatives: Completion of Combination with MX**

On May 1, 2008, we completed our business combination with MX to create TMX Group, a leading, integrated, multi-asset class exchange group. The business combination was completed by TMX Group acquiring all of MX’s outstanding common shares for a total consideration of 15.3 million TMX Group common shares and \$428.2 million in cash. For those MX shareholders who elected to receive cash or were deemed to have so elected, this represents an amount, for each MX common share, of \$16.26 in cash and 0.4540 of a TMX Group common share. Those who elected to receive shares of TMX Group received 0.7784 of a TMX Group common share for each MX common share. The consideration was distributed to MX shareholders on May 2, 2008.

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<sup>2</sup> The “**Strategy Update**” section above contains certain forward-looking statements. Please refer to “Forward-Looking Information” for a discussion of risks and uncertainties related to such statements.

MX is the Canadian derivatives exchange and is headquartered in Montreal. MX offers trading in Canadian interest rate, index and equity derivatives. Clearing, settlement and risk management services are provided by MX's wholly-owned clearing house, the Canadian Derivatives Clearing Corporation (CDCC). MX has an approximate 53% ownership interest in BOX, a U.S. automated equity options market for which MX is the technical operator and technology developer.

MX has a 51% ownership in the Montréal Climate Exchange Inc., or MCeX, jointly created with the Chicago Climate Exchange Inc., a market for publicly-traded environmental products in Canada. On May 30, 2008, MCeX launched trading of futures contracts on Canadian carbon dioxide equivalent units.

TMX Group was created with the goal of realizing a number of benefits:

- *Improved positioning in light of global exchange consolidation trends.* The combination creates a substantially larger entity that is better positioned to compete and grow.
- *Greater product offering.* TMX Group offers a broad range of cash and derivatives products, including products based on interest rates, equities, equity indices, foreign exchange, energy and environmental financial products. TMX Group is well positioned to compete against other exchanges, alternative trading systems (ATs) and the over-the-counter (OTC) market in an evolving industry.
- *More diversified revenue base.* The combination allows us to further diversify our revenue base by including revenue from trading and clearing derivatives as well as by distributing MX market data.
- *Combination creates opportunity to achieve meaningful synergies.* The combination is anticipated to create value for our shareholders through TMX Group's enhanced growth profile and opportunity to realize meaningful synergies. We are currently targeting annual cost synergies of \$25.0 million, expected to be achieved by rationalizing premises and data centres, reducing corporate costs and optimizing technology. Synergies will be partially phased in during 2008, and we expect to see most of the synergies being realized during 2009. By the fourth quarter of 2009, we expect to achieve these \$25.0 million of cost synergies on a run rate basis when compared with the business plans of the separate organizations. In addition, we will target revenue synergies by developing new trading, clearing and market data products, leveraging a broader platform across multiple asset classes, targeting cross-selling opportunities over the combined customer base, optimizing clearing models, promoting greater use of derivatives in Canada and expanding the combined customer base globally.
- *Combination creates opportunities to accelerate growth strategies.* By bringing together the strong markets, teams and expertise of both organizations, TMX Group is well positioned to grow trading volumes, including by developing and launching new products, and will have the resources and scale to develop new high-value data

## **Leading Global Resource Exchange Group**

We will continue to expand our unique platform and differentiate ourselves globally by leveraging our strengths in natural resources. At December 31, 2007, 57% of the world's public mining companies and almost 50% of the world's public oil & gas companies were listed on Toronto Stock Exchange and TSX Venture Exchange. Implementation of this strategy will include providing listings, trading and clearing of equities, fixed income, options and futures for natural resource companies and the underlying commodity products. We believe resource companies and investors value our comprehensive integrated resource offerings, deep liquidity, and attractive economics. This strategy will capitalize on Canada's evolving position as a leading energy supplier. Our current base of resource listings, together with our ownership of Natural Gas Exchange Inc. (NGX), provides us with a strong base upon which to build.

On March 28, 2007, we announced an arrangement to combine NGX's strengths in physical clearing with the advanced transaction matching technology of IntercontinentalExchange Inc. (ICE). Launched on February 9, 2008, this arrangement, whereby NGX provides the marketplace with a clearinghouse for physical gas transactions across North America and ICE offers NGX access to thousands of trading desks, has been an immediate success, and NGX has now established a continental footprint for its gas and electricity contracts.

In September 2007, we took another key step toward expanding our presence in the critical energy space when we purchased an option from Enbridge Inc. (Enbridge) and Circuit Technology Ltd. (Circuit Technology) to acquire all the shares of NetThruPut Inc. (NTP), the leading Canadian electronic platform and clearing facility for crude oil. The option is exercisable after March 15, 2009.

## **Leading North American Exchange for SMEs**

We are a leading exchange for small to medium-sized enterprises (SMEs), and we intend to expand this platform to attract North American and international listings. The SME market globally, and especially in the United States, is large and potentially underserved.

In the highly competitive environment for listings, our business development efforts have taken us world-wide. We have focused on entrenching our position as a preeminent global resource exchange group and a leading international exchange group for SMEs. We are actively pursuing listing opportunities in the key markets of the United States, Australia, South Africa, and South America, as well as in emerging new economic powers such as China and Brazil.

TMX Group added 28 new international listings in the first nine months of 2008 and 4 TSX Venture Exchange international listings graduated to Toronto Stock Exchange.

## **Update on Overview of the Business**

### **Derivatives Markets**

In addition to owning and operating equity, energy and fixed income markets in Canada, we own and operate the Montréal Exchange, Canada's only derivatives exchange. In addition, we own approximately 53% of BOX, a U.S. automated equity options market. Our derivatives markets derive revenue from MX's trading, clearing, market data and business services activities as well as from trading on BOX.

### ***Derivatives Trading***

MX is Canada's only standardized financial derivatives exchange, offering interest rate, index and equity derivatives. Currently, the most important of these products are the Three-Month Canadian Bankers' Acceptance Futures contract (BAX), the Ten-Year Government of Canada Bond Futures contract (CGB) and the S&P Canada 60 Index Futures contract (SXF). We connect participants to our derivatives markets, build business relationships with them and work with them to ensure that our derivatives offerings meet investor needs. Participants are charged fees for buying and selling derivatives products on a per transaction basis, determined principally by contract type and participant status. Since MX trading fee rates are charged on a per transaction basis, this trading revenue is directly correlated to the volume of contracts traded on our derivatives market. Derivatives trading revenue is recognized on the transaction date of the related transaction.

BOX is one of the seven option exchanges in the U.S., offering an electronic equity derivatives market on almost 1,500 options classes. All transaction revenues are recognized as earned. BOX is regulated by the Securities and Exchange Commission (SEC) of U.S. and its products are cleared through the Options Clearing Corporation (OCC).

### ***Derivatives Clearing***

Through CDCC, MX's wholly-owned subsidiary, we generate revenue from clearing and settlement, as well as from options and futures exercise activities. CDCC is the central counterparty and guarantor of all transactions carried out on MX's markets and on some OTC products. In addition, CDCC is the issuer of options traded on MX markets and the clearing house and guarantor for options and futures contracts traded on MX markets and on the OTC market. CDCC reduces investor risk by guaranteeing all contractual commitments made between parties for transactions executed on our markets.

Participants are charged fees for the clearing and settlement of MX products on a per contract basis. These fees are charged at various rates based on the type of customer or member. Clearing and settlement revenues are correlated to the trading volume of such products and therefore fluctuate based on the same factors that affect our derivatives trading volume. Derivatives clearing revenue is recognized on the settlement date of the related transaction.

### ***Derivatives Market Data***

MX sells real-time trading and quotation data (quotes, prices, size and trades) and historical data to market participants on a global basis. Revenue from the sales of MX market data is principally dependant upon the number of data subscriptions, which is driven by MX's network of brokers and the extent of MX's client base, as well as MX's ability to remain a principal market and to respond to innovations in technology that may affect the availability, reliability and price of market data. Market data revenue is also generated by the sale of data to resellers of information as well as the sale of individual quotes via the Internet. As of September 30, 2008, there were over 28,000 subscriptions to MX's market data. Derivatives market data revenue is recognized based on usage as reported by customers and vendors.

BOX also resells its market data. Like the other U.S. options exchanges, it resells such data through a marketplace service known as OPRA (Options Price Reporting Authority), which collects data from the options exchanges and disseminates it to entities which then resell it.

### ***Business Services***

Business services revenue includes revenue from BOX for the four months prior to August 29, 2008. Revenue from BOX from August 29, 2008 to September 30, 2008 is eliminated upon the consolidation of BOX.

MX offers professional services to BOX, which include the technical operation and maintenance of its electronic trading, clearing and surveillance platforms as well as the development of technology solutions for use both internally and by third parties. MX developed a state-of-the-art electronic trading platform, called SOLA®, currently in use at MX and at BOX. MX entered into technical operational services agreements with BOX pursuant to which MX provides the technical operations services related to BOX's trading and surveillance platforms. MX charges BOX for salaries, telecommunication services, computer equipment and other services at rates set out in its agreement with BOX. These transactions are undertaken in the ordinary course of business.

### ***Regulation Activities***

MX is a self-regulatory organization (SRO) that has a major responsibility for maintaining the transparency, credibility and integrity of the exchange-traded derivatives market in Canada. MX's Regulatory Division, which is operated independently of its other operations, is responsible for the regulation of its markets and its trading participants. The Regulatory Division is subject to the sole internal oversight of MX's Special Committee – Regulatory Division. The Special Committee – Regulatory Division, which is appointed by the Board of Directors of MX, is composed of a majority of independent members, none of whom is a member of the Board of Directors of MX or CDCC. The Regulatory Division operates on a non-profit/cost-recovery basis.

Revenues generated by the Regulatory Division are from two sources: (1) regulatory fees, which are principally comprised of market surveillance fees collected by MX on behalf of its

Regulatory Division, and (2) regulatory fine revenues, which are generated from fines levied by our Regulatory Division. Market regulation fees are recognized in the month in which the services are provided.

Any surplus in the Regulatory Division must be redistributed to our participants (excluding regulatory fine revenues, which cannot be redistributed) and any shortfall must be made up by a special assessment by MX's participants or by MX upon recommendation of the Special Committee – Regulatory Division. Regulatory fine revenues are used for specific regulatory purposes and are not refunded to participants. Regulatory fine revenues are reflected in **Trading, Clearing and Related Revenue**.

## **MX Initiatives**

### *Canadian Derivatives Clearing Corporation (CDCC)*

On June 16, 2008, the MX Information Technology Services team released the first stages of SOLA® Clearing, the most recent addition to SOLA® software products. SOLA® Clearing is now operating in a parallel testing environment and is expected to go into commercial production before the end of 2008. SOLA® Clearing is intended to provide increased performance and functionality to CDCC and its members.

### *BOX*

On August 29, 2008, MX increased its holdings in BOX when it completed an acquisition giving it a majority ownership interest of 53.3% in, and control of, BOX. MX acquired a 21.9% ownership position from another senior BOX partner, the BSE, as agreed in December 2007. Under the terms of the agreement with the BSE, MX paid US\$52.5 million in cash for the 21.9% partnership interest in BOX held by the BSE. This transaction was financed with existing cash resources. The principal business activity of BOX is to provide an electronic equity options market, for which MX is the technical operator and technology developer.

### *Montréal Climate Exchange Inc. (MCeX)*

On May 30, 2008, MCeX, the first regulated environmental market in Canada officially launched trading of a new futures contract on Canada carbon dioxide equivalent (CO<sub>2</sub>e) units. Our goal is to lead the growth in Canadian environmental markets and deliver market solutions to help Canadian industries efficiently manage greenhouse gas emissions. MX has a 51% interest in MCeX.

## **Equity Trading: Update to Regulation Services Provider for Toronto Stock Exchange and TSX Venture Exchange**

Market Regulation Services Inc. (RS), the regulation services provider to each of Toronto Stock Exchange and TSX Venture Exchange underwent a corporate reorganization whereby on June 1, 2008, it combined with the Investment Dealers Association of Canada (IDA) to form the Investment Industry Regulatory Organization of Canada (IIROC). Prior to June 1, 2008, RS was owned 50% by TSX Inc. and 50% by the IDA. Effective June 1, 2008, IIROC is the SRO that provides regulation services to both Toronto Stock Exchange and TSX Venture Exchange, monitoring and enforcing compliance with the Universal Market Integrity Rules.

TSX Inc. has no share ownership interest in IIROC; it is however, entitled to nominate one of the 15 directors of IIROC.

We provide IIROC with technology and related services necessary for it to conduct its review and real time monitoring of trading on Canadian equity marketplaces. IIROC pays us a fee for these services in accordance with an agreement which also details service levels.

## **Quarter Ended September 30, 2008 Compared with Quarter Ended September 30, 2007**

Net income was \$50.9 million, or 66 cents per common share on a basic and diluted basis for Q3/08, compared with net income of \$42.7 million, or 63 cents per common share (62 cents on a diluted basis) for the same period in 2007. Net income for Q3/08 increased by 19% over Q3/07, reflecting revenue related to the business operations of MX which were combined with TMX Group on May 1, 2008, revenue from the operations of BOX from August 29, 2008 as well as increased issuer services and market data revenue. The impact of the higher revenue was somewhat offset by an increase in overall expenses, including interest expense.

### **Revenue**

Revenue in Q3/08 was \$139.4 million, up \$33.5 million, or 32% as compared with \$105.9 million in Q3/07 primarily reflecting \$23.3 million in revenue related to the business operations of MX which were combined with TMX Group on May 1, 2008, revenue related to the operations of BOX from August 29, 2008, as well as increased issuer services and market data revenue.

## Issuer Services Revenue

The following is a summary of issuer services revenue reported and issuer services fees billed\* (reconciled below in this section) in Q3/08 and Q3/07.

(in millions of dollars)

	<i>Reported</i>				<i>Billed*</i>			
	<b>Q3/08</b>	<b>Q3/07</b>	<b>\$ increase</b>	<b>% increase</b>	<b>Q3/08</b>	<b>Q3/07</b>	<b>\$ increase/ (decrease)</b>	<b>% increase/ (decrease)</b>
<i>Initial listing fees</i>	\$ 4.1	\$ 3.5	\$ 0.6	17%	\$ 4.3	\$ 7.2	(\$ 2.9)	(40%)
<i>Additional listing fees</i>	\$ 13.1	\$ 11.4	\$ 1.7	15%	\$ 17.2	\$ 23.2	(\$ 6.0)	(26%)
<i>Sustaining listing fees**</i>	\$ 17.5	\$ 16.8	\$ 0.7	4%	\$ 17.5	\$ 16.8	\$ 0.7	4%
<i>Other issuer services</i>	<u>\$ 3.5</u>	<u>\$ 3.1</u>	<u>\$ 0.4</u>	13%	<u>\$ 3.5</u>	<u>\$ 3.1</u>	<u>\$ 0.4</u>	13%
<i>Total listing fees</i>	<u>\$ 38.2</u>	<u>\$ 34.8</u>	<u>\$ 3.4</u>	10%	<u>\$ 42.5</u>	<u>\$ 50.3</u>	<u>(\$ 7.8)</u>	(16%)

Initial and additional listing fees are non-refundable fees paid by listed issuers for the listing or reserving of securities. These fees are recorded as “deferred revenue – initial and additional listing fees” and recognized on a straight-line basis over an estimated service period of ten years.

In the case of Toronto Stock Exchange, listed issuers are billed for initial and additional listing fees, and with this system, there is a lag between the time when securities are issued or reserved and the time when these listing fees are paid by Toronto Stock Exchange listed issuers. For TSX Venture Exchange issuers, fees are paid either prior to or at the time of listing or reserving securities. The following is a reconciliation of initial and additional listing fees billed\* to initial and additional listing fees reported:

<b><i>Initial Listing Fees</i></b> (in millions of dollars)	<b>Q3/08</b>	<b>Q3/07</b>
Initial listing fees billed*	\$ 4.3	\$ 7.2
Initial listing fees billed* and deferred to future periods	(\$ 4.2)	(\$ 7.1)
Recognition of initial listing fees billed* and previously included in deferred revenue	<u>\$ 4.0</u>	<u>\$ 3.4</u>
Initial listing fee revenue reported	<u>\$ 4.1</u>	<u>\$ 3.5</u>

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

\*\* Sustaining listing fees billed, as shown in this table, represents the amount recognized for accounting purposes during the quarter. 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.

<i>Additional Listing Fees</i> (in millions of dollars)	<b>Q3/08</b>	<b>Q3/07</b>
Additional listing fees billed*	\$ 17.2	\$ 23.2
Additional listing fees billed* and deferred to future periods	(\$ 16.7)	(\$ 22.8)
Recognition of additional listing fees billed* and previously included in deferred revenue	<u>\$ 12.6</u>	<u>\$ 11.0</u>
Additional listing fee revenue reported	<u>\$ 13.1</u>	<u>\$ 11.4</u>

- *Initial and additional listing fees reported* increased due to capital market activity and listing fee price increases during the period from October 1, 1998 to September 30, 2008 compared with the period from October 1, 1997 to September 30, 2007. *Initial and additional listing fees billed\** in Q3/08, as compared with Q3/07, reflect a decline in the value of securities issued and reserved, somewhat offset by changes to the pricing model for each equity exchange that were effective January 1, 2008.
- Issuers listed on Toronto Stock Exchange and TSX Venture Exchange pay annual sustaining listing fees primarily based on their market capitalization at the end of the prior calendar year, subject to minimum and maximum fees. The increase in *sustaining listing fees* was due to fee increases on TSX Venture Exchange that were effective January 1, 2008, and the overall higher market capitalization of listed issuers at the end of 2007 compared with the end of 2006, partially offset by a decrease in *sustaining listing fees* from issuers listed on Toronto Stock Exchange.
- *Other issuer services* includes revenue of \$3.2 million from The Equicom Group Inc. (Equicom) in Q3/08, compared with \$3.1 million in Q3/07.

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

## Trading, Clearing and Related Revenue

(in millions of dollars)

	Q3/08	Q3/07	\$ increase/ (decrease)	% increase/ (decrease)
<i>Cash markets:</i>				
• <i>Toronto Stock Exchange</i>	\$ 26.0	\$ 25.3	\$ 0.7	3%
• <i>TSX Venture Exchange</i>	<u>\$ 5.6</u>	<u>\$ 6.8</u>	<u>(\$ 1.2)</u>	(18%)
	\$ 31.6	\$ 32.1	(\$ 0.5)	(2%)
• <i>Shorcan</i>	<u>\$ 2.8</u>	<u>\$ 3.5</u>	<u>(\$ 0.7)</u>	(20%)
<i>Cash markets revenue</i>	\$ 34.4	\$ 35.6	(\$ 1.2)	(3%)
<i>Energy markets revenue</i>	\$ 7.6	\$ 5.9	\$ 1.7	29%
<i>Derivatives markets revenue</i>	<u>\$ 17.0</u>	=	<u>\$ 17.0</u>	=
<i>Total trading, clearing and related revenue</i>	<u>\$ 59.0</u>	<u>\$ 41.5</u>	<u>\$ 17.5</u>	<u>42%</u>

### **Cash Markets**

- *Cash markets* equity trading revenue from Toronto Stock Exchange increased due to a 12% increase in the volume of securities traded in Q3/08 over Q3/07 (25.7 billion securities in Q3/08 versus 22.9 billion securities in Q3/07), partially offset by the impact of changes in our pricing model, which were effective November 1, 2007, as well as changes in trading activity, patterns and product mix.
- *Cash markets* equity trading revenue from TSX Venture Exchange decreased as a result of a 28% decrease in the volume of securities traded in Q3/08 over Q3/07 (8.0 billion securities in Q3/08 versus 11.1 billion securities in Q3/07), somewhat offset by the impact of changes in our pricing model, which were effective November 1, 2007, as well as changes in trading activity, patterns and product mix.
- The decrease in revenue from Shorcan Brokers Limited (Shorcan) primarily reflects a decrease in trading in Government of Canada and provincial bonds in Q3/08 versus Q3/07.

## **Equities Trading Fee Revisions<sup>3</sup>**

We are changing our trading fee structure, effective January 1, 2009.

The fee changes are designed to provide savings for market participants and are intended to attract additional participants and volume to our marketplaces by introducing further incentives for adding liquidity to Toronto Stock Exchange and TSX Venture Exchange central limit order books. In addition, revised pricing models for Toronto Stock Exchange market makers and exchange traded funds are expected to improve liquidity and promote trading growth in these areas.

Given that many of the changes are structured to respond to customer needs, it is expected that the impact of the proposed changes will be to improve TMX Group's competitive position in North America. Based on historical trading activity, patterns, and product mix, changes to the trading fee structure could reduce trading revenue by approximately \$11 to \$14 million on an annual basis if offsetting benefits, including increased volumes, are not realized. However, actual trading revenue will depend on future trading activity, patterns and product mix.

### ***Energy Markets***

- In Q3/08, the volumes of natural gas and electricity contracts traded or cleared on NGX increased by 29% over Q3/07 (3.6 million terajoules in Q3/08 versus 2.8 million terajoules in Q3/07). This excludes the Alberta Watt Exchange Limited (Watt-Ex) volumes, which represent electric operating reserve procurement for the Alberta Electric System Operator.
- The increased volumes reflect the successful launch of our arrangement with ICE on February 9, 2008, which provided us with access to substantially more customers and included the launch of new products in Canada and the US.
- The increase in revenue also reflects price increases that were effective in January 2008.

### ***Derivatives Markets***

- Derivatives markets revenue includes \$13.7 million in trading revenue from MX (which was combined with TMX Group on May 1, 2008) and BOX (following the increase in our ownership interest from 31.4% to 53.3% on August 29, 2008). In addition, we received \$3.3 million in clearing revenue related to MX.

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<sup>3</sup> The "Equities Trading Fee Revisions" section above contains certain forward looking statements. Please refer to "Forward Looking Information" for a discussion of risks and uncertainties related to such statements.

- MX volumes decreased by 1% (9.9 million contracts traded in Q3/08 versus 10.0 million contracts traded in Q3/07).
- BOX volumes increased by 100% (18.2 million contracts traded in September 2008 versus 9.1 million contracts traded in September 2007).

## Market Data Revenue

(in millions of dollars)

Q3/08	Q3/07	\$ increase	% increase
\$ 35.3	\$ 27.5	\$ 7.8	28%

- *Market data* revenue increased partly due to a 6% increase in the number of professional and equivalent real-time market data subscriptions to TSX Datalinx products (over 165,000 at September 30, 2008 versus over 155,000 at September 30, 2007). This increase reflects increased sales to both Canadian and U.S. customers.
- *Market data* revenue also includes \$3.4 million in market data revenue related to MX, acquired on May 1, 2008 and BOX, following the increase in our ownership interest from 31.4% to 53.3% on August 29, 2008. There were over 28,000 MX market data subscriptions at September 30, 2008 and at September 30, 2007.
- The increase was also attributable to higher direct feed revenues, increased revenue recoveries related to under-reported usage of real-time quotes and fee changes that were effective January 1, 2008.

## Changes to Market Data Pricing for 2009<sup>4</sup>

There will be changes to MX and TSX Datalinx market data prices effective January 1, 2009. This decision followed a review of market data fees on other major global exchanges. Based on subscriptions at June 30, 2008, it is anticipated that total market data revenue would have increased by approximately \$4 to \$6 million on an annual basis. However, future product mix and usage may vary, which could impact market data revenue.

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<sup>4</sup> The “Changes to Market Data Pricing for 2009” section above contains certain forward looking statements. Please refer to “Forward Looking Information” for a discussion of risks and uncertainties related to such statements.

## Business Services and Other Revenue

(in millions of dollars)

Q3/08	Q3/07	\$ increase	% increase
\$ 6.8	\$ 2.0	\$ 4.8	240%

- *Business services* revenue includes \$3.0 million in revenue related to the business operations of MX, of which \$2.5 million was attributable to technology and other related services provided to BOX for the period from July 1, 2008 to August 28, 2008, prior to BOX becoming a subsidiary of MX. Revenue from BOX from August 29, 2008 to September 30, 2008 is eliminated on the consolidation of BOX.
- The increase was also due to unrealized foreign exchange gains on U.S. dollar receivables due to the positive impact of the depreciation of the Canadian dollar against the U.S. dollar in Q3/08, compared with unrealized foreign exchange losses on U.S. dollar receivables due to the negative impact of the appreciation of the Canadian dollar against the U.S. dollar in Q3/07.

## Expenses

Operating expenses in Q3/08 were \$62.3 million, an increase of \$17.9 million, or 40%, as compared with \$44.4 million in Q3/07. The increase was primarily due to the inclusion of \$15.7 million of expenses related to the business operations of MX, following the combination with TMX Group on May 1, 2008 and the operations of BOX from August 29, 2008.

## Compensation and Benefits

(in millions of dollars)

Q3/08	Q3/07	\$ increase	% increase
\$ 32.1	\$ 23.5	\$ 8.6	37%

- *Compensation and benefits* costs increased primarily due to the inclusion of \$6.4 million in costs related to the business operations of MX and BOX.
- The increase was also due to higher organizational transition costs.
- We capitalized \$0.2 million of internal development costs related to the TSX Quantum gateway and \$1.2 million related to SOLA in Q3/08 compared with \$1.4 million related to the TSX Quantum trading engine in Q3/07.
- There were 850 employees at September 30, 2008, which included 225 MX employees and 24 BOX employees, versus 610 at September 30, 2007. This increase in employees was partially offset by a net reduction of nine employees.

## Information and Trading Systems

(in millions of dollars)

<b>Q3/08</b>	<b>Q3/07</b>	<b>\$ increase</b>	<b>% increase</b>
\$ 9.4	\$ 6.8	\$ 2.6	38%

- *Information and trading systems* costs included \$1.7 million in costs related to the business operations of MX and BOX.
- *Information and trading systems* costs also increased due to ongoing expenses primarily related to NGX's initiative with ICE.

## General and Administration

(in millions of dollars)

<b>Q3/08</b>	<b>Q3/07</b>	<b>\$ increase</b>	<b>% increase</b>
\$ 13.9	\$ 10.0	\$ 3.9	39%

- *General and administration* costs included \$4.4 million in costs related to the business operations of MX and BOX.
- *General and administration* costs were partially offset by a decrease in fees paid to external advisors.

## Amortization

(in millions of dollars)

<b>Q3/08</b>	<b>Q3/07</b>	<b>\$ increase</b>	<b>% increase</b>
\$ 7.0	\$ 4.1	\$ 2.9	71%

- *Amortization* costs included \$3.3 million in costs related to MX and BOX.

## Income from Investments in Affiliates

(in millions of dollars)

Q3/08	Q3/07	\$ increase
\$ 0.5	\$ 0.1	\$ 0.4

- *Income from investments in affiliates* includes \$0.5 million representing MX's share of BOX income based on a 31.4% interest in BOX from July 1, 2008 to August 29, 2008. BOX volumes increased by 9% from July 1, 2008 to August 29, 2008 compared with July 1, 2007 to August 29, 2007 (30.6 million contracts traded from July 1, 2008 to August 29, 2008 versus 28.1 million contracts traded from July 1, 2007 to August 29, 2007).
- Our 47% share of the income from CanDeal.ca Inc. (CanDeal) was *nil*, compared with \$0.1 million in Q3/07.

## Investment Income

(in millions of dollars)

Q3/08	Q3/07	\$ (decrease)	% (decrease)
\$ 2.9	\$ 4.9	(\$ 2.0)	(41%)

- *Investment income* decreased due to a decrease in cash available for investment. In addition, there were lower returns on short-term bond fund investments during Q3/08 versus Q3/07.
- The decrease was partially offset by the inclusion of \$1.9 million of *investment income* earned by MX in Q3/08.

## Interest Expense

(in millions of dollars)

Q3/08	Q3/07	\$ increase	% increase
\$ 4.3	\$ 0.0	\$ 4.3	-

- *Interest expense* increased as a result of financing a portion of the purchase price related to the business combination with MX. On April 30, 2008, we drew down \$430.0 million in Canadian funds on a three-year term facility related to financing the cash consideration of the purchase price for MX (*see Long-term Debt*).

## Income Taxes

(in millions of dollars)

		Effective tax rate (%)	
Q3/08	Q3/07	Q3/08	Q3/07
\$ 24.8	\$ 23.9	33%	36%

- The effective tax rate of 33% in Q3/08 was lower than the effective tax rate of 36% in Q3/07 primarily due to a lower federal tax rate and lower adjustments to the value of the future income tax asset.

## Nine Months Ended September 30, 2008 Compared with Nine Months Ended September 30, 2007

Net income was \$132.9 million or \$1.82 per common share on a basic and diluted basis for the first nine months of 2008, compared with net income of \$118.3 million, or \$1.73 per common share (\$1.72 on a diluted basis) for the same period in 2007, representing an increase of 12%. This increase was largely due to higher revenue as a result of the combination with MX, partially offset by higher overall expenses, higher income taxes, and acquisition related expenses, primarily relating to a \$15.2 million payment to ISE Ventures with respect to the termination of our derivatives joint venture. The impact of this charge, which is not being deducted for income tax purposes, somewhat offset the positive impact of increased revenue in the first nine months of 2008 compared with the first nine months of 2007. Adjusted earnings per share prior to loss on termination of joint venture\* for the first nine months of 2008 was \$2.03 per common share (\$2.02 on a diluted basis).

The following is a reconciliation of earnings per share to adjusted earnings per share prior to loss on termination of joint venture\* :

### Reconciliation for Nine Months Ended September 30, 2008 and September 30, 2007

	Nine months ended			
	Sept. 30/08		Sept. 30/07	
	Basic	Diluted	Basic	Diluted
<i>Earnings per share</i>	\$1.82	\$1.82	\$1.73	\$1.72
<i>Adjustment related to loss on termination of joint venture</i>	<u>\$0.21</u>	<u>\$0.20</u>	=	=
<i>Adjusted earnings per share prior to loss on termination of joint venture*</i>	<u>\$2.03</u>	<u>\$2.02</u>	<u>\$1.73</u>	<u>\$1.72</u>

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

## Revenue

Revenue was \$381.8 million for the first nine months of 2008, up \$68.4 million, or 22% compared with \$313.4 million for the first nine months of 2007 reflecting \$37.2 million in revenue related to the business operations of MX which were combined with TMX Group on May 1, 2008, revenue from the operations of BOX from August 29, 2008 and increased issuer services and market data revenue. In addition, revenue in the first nine months of 2008 included \$11.1 million from Equicom, acquired June 1, 2007, compared with \$4.2 million in the first nine months of 2007.

## Issuer Services Revenue

The following is a summary of issuer services revenue reported and issuer services fees billed\* (reconciled below in this section) in the first nine months of 2008 and the first nine months of 2007.

(in millions of dollars)

	<i>Reported</i>				<i>Billed*</i>			
	Nine months ended				Nine months ended			
	Sept. 30/08	Sept. 30/07	\$ increase	% increase	Sept. 30/08	Sept. 30/07	\$ increase/ (decrease)	% increase/ (decrease)
<i>Initial listing fees</i>	\$ 11.9	\$ 10.1	\$ 1.8	18%	\$ 15.4	\$ 22.3	(\$ 6.9)	(31%)
<i>Additional listing fees</i>	\$ 37.9	\$ 32.2	\$ 5.7	18%	\$ 61.1	\$ 81.7	(\$ 20.6)	(25%)
<i>Sustaining listing fees**</i>	\$ 52.1	\$ 50.7	\$ 1.4	3%	\$ 52.1	\$ 50.7	\$ 1.4	3%
<i>Other issuer services</i>	<u>\$ 12.2</u>	<u>\$ 4.2</u>	<u>\$ 8.0</u>	190%	<u>\$ 12.2</u>	<u>\$ 4.2</u>	<u>\$ 8.0</u>	190%
<i>Total listing fees</i>	<u>\$114.1</u>	<u>\$97.2</u>	<u>\$ 16.9</u>	17%	<u>\$ 140.8</u>	<u>\$ 158.9</u>	<u>(\$ 18.1)</u>	(11%)

Initial and additional listing fees are non-refundable fees paid by listed issuers for the listing or reserving of securities. These fees are recorded as “deferred revenue – initial and additional listing fees” and recognized on a straight-line basis over an estimated service period of ten years.

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

\*\* Sustaining listing fees billed, as shown in this table, represents the amount recognized for accounting purposes during the period. 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.

In the case of Toronto Stock Exchange, listed issuers are billed for initial and additional listing fees, and with this system, there is a lag between the time when securities are issued or reserved and the time when these listing fees are paid by Toronto Stock Exchange listed issuers. For TSX Venture Exchange issuers, fees are paid either prior to, or at the time of, listing or reserving securities. The following is a reconciliation of initial and additional listing fees billed\* to initial and additional listing fees reported:

	<b>Nine months ended</b>	
	<b>Sept. 30/08</b>	<b>Sept. 30/07</b>
<b><i>Initial Listing Fees</i></b> (in millions of dollars)		
Initial listing fees billed*	\$ 15.4	\$ 22.3
Initial listing fees billed* and deferred to future periods	(\$ 15.1)	(\$ 22.0)
Recognition of initial listing fees billed* and previously included in deferred revenue	<u>\$ 11.6</u>	<u>\$ 9.8</u>
Initial listing fee revenue reported	<u>\$ 11.9</u>	<u>\$ 10.1</u>
	<b>Nine months ended</b>	
	<b>Sept. 30/08</b>	<b>Sept. 30/07</b>
<b><i>Additional Listing Fees</i></b> (in millions of dollars)		
Additional listing fees billed*	\$ 61.1	\$ 81.7
Additional listing fees billed* and deferred to future periods	(\$ 60.0)	(\$ 80.4)
Recognition of additional listing fees billed* and previously included in deferred revenue	<u>\$ 36.8</u>	<u>\$ 30.9</u>
Additional listing fee revenue reported	<u>\$ 37.9</u>	<u>\$ 32.2</u>

- *Initial and additional listing fees reported* increased due to capital market activity and listing fee price increases during the period from April 1, 1998 to September 30, 2008 compared with the period from April 1, 1997 to September 30, 2007. *Initial and additional listing fees billed\** in the first nine months of 2008, as compared with the first nine months of 2007, reflect a decline in the value of securities issued and reserved, somewhat offset by changes to the pricing model for each equity exchange that were effective January 1, 2008.
- Issuers listed on Toronto Stock Exchange and TSX Venture Exchange pay annual sustaining listing fees primarily based on their market capitalization at the end of the prior calendar year, subject to minimum and maximum fees. The increase in

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

*sustaining listing fees* was due to fee increases on TSX Venture Exchange that were effective January 1, 2008, and the overall higher market capitalization of listed issuers at the end of 2007 compared with the end of 2006, partially offset by a decrease in *sustaining listing fees* from issuers listed on Toronto Stock Exchange.

- *Other issuer services* includes revenue of \$11.1 million from Equicom, compared with \$4.2 million in the first nine months of 2007. Equicom was acquired June 1, 2007 and provides investor relations and related corporate communications services to public issuers in Canada.

## Trading, Clearing and Related Revenue

(in millions of dollars)

	Nine months ended		\$ increase/ (decrease)	% increase/ (decrease)
	Sept. 30/08	Sept. 30/07		
<i>Cash markets:</i>				
• <i>Toronto Stock Exchange</i>	\$ 74.3	\$ 77.4	(\$ 3.1)	(4%)
• <i>TSX Venture Exchange</i>	<u>\$ 22.8</u>	<u>\$ 23.4</u>	<u>(\$ 0.6)</u>	(3%)
	\$ 97.1	\$ 100.8	(\$ 3.7)	(4%)
• <i>Shorcan</i>	<u>\$ 9.2</u>	<u>\$ 10.2</u>	<u>(\$ 1.0)</u>	(10%)
<i>Cash markets revenue</i>	\$ 106.3	\$ 111.0	(\$ 4.7)	(4%)
<i>Energy markets revenue</i>	\$ 21.5	\$ 15.5	\$ 6.0	39%
<i>Derivatives markets revenue</i>	<u>\$ 26.0</u>	-	<u>\$ 26.0</u>	-
<i>Total trading, clearing and related revenue</i>	<u>\$ 153.8</u>	<u>\$ 126.5</u>	<u>\$ 27.3</u>	22%

### *Cash Markets*

- *Cash markets* equity trading revenue from Toronto Stock Exchange decreased as a result of changes in our pricing model, which were effective November 1, 2007, as well as changes in trading activity, patterns and product mix. The impact was partially offset by a 7% increase in the volume of securities traded on Toronto Stock Exchange in the first nine months of 2008 over the first nine months of 2007 (76.2 billion securities in the first nine months of 2008 versus 71.4 billion securities in the first nine months of 2007).
- *Cash markets* equity trading revenue from TSX Venture Exchange decreased due to a 12% decrease in the volume of securities traded in the first nine months of 2008 over the first nine months of 2007 (33.3 billion securities in the first nine months of 2008 versus 38.0 billion securities in the first nine months of 2007). This was partially

offset by the impact of changes in our pricing model, which were effective November 1, 2007, as well as changes in trading activity, patterns and product mix.

- The decrease in revenue from Shorcan primarily reflects a decrease in trading in Government of Canada and provincial bonds in the first nine months of 2008 versus the first nine months of 2007.

### *Energy Markets*

- In the first nine months of 2008, the volumes of natural gas and electricity contracts traded or cleared on NGX increased by 36% over the first nine months of 2007 (11.0 million terajoules in the first nine months of 2008 versus 8.1 million terajoules in the first nine months of 2007). This excludes the Watt-Ex volumes, which represent electric operating reserve procurement for the Alberta Electric System Operator.
- The increased volumes reflect the launch of our arrangement with ICE on February 9, 2008 which provided us with access to substantially more customers and included the launch of new products in Canada and the US.
- The increase in revenue also reflects price increases that were effective in January 2008.
- In the first nine months of 2008, on a net basis, NGX deferred \$0.9 million more revenue than in the first nine months of 2007, which somewhat offset the increase in revenue.

### *Derivatives Markets*

- Derivatives markets revenue includes \$20.5 million in trading revenue from MX (which was combined with TMX Group on May 1, 2008) and BOX (following the increase in our ownership interest from 31.4% to 53.3% on August 29, 2008). In addition, we received \$5.5 million in clearing revenue related to MX.
- MX volumes decreased by 10% (16.5 million contracts traded from May 1, 2008 – September 30, 2008 versus 18.3 million contracts traded from May 1, 2007 – September 30, 2007).
- BOX volumes increased by 100% (18.2 million contracts traded in September 2008 versus 9.1 million contracts traded in September 2007).

## Market Data Revenue

(in millions of dollars)

Nine months ended			
Sept. 30/08	Sept. 30/07	\$ increase	% increase
\$ 97.5	\$ 81.9	\$ 15.6	19%

- *Market data* revenue increased partly due to a 6% increase in the number of professional and equivalent real-time market data subscriptions to TSX Datalinx products (over 165,000 at September 30, 2008 versus over 155,000 at September 30, 2007). This increase reflects increased sales to both Canadian and U.S. customers.
- *Market data* revenue included \$5.3 million in revenue related to the business operations of MX from May 1, 2008 and BOX, following the increase in our ownership interest from 31.4% to 53.3% on August 29, 2008. There were over 28,000 MX market data subscriptions at September 30, 2008 and at September 30, 2007.
- The increase was also attributable to higher direct feed revenues, increased revenue recoveries related to under-reported usage of real-time quotes and fee changes that were effective January 1, 2008.
- The increase was partially offset by the impact of the appreciation of the Canadian dollar against the U.S. dollar for the period from January 1, 2008 to September 30, 2008 compared with January 1, 2007 to September 30, 2007.

## Business Services and Other Revenue

(in millions of dollars)

Nine months ended			
Sept. 30/08	Sept. 30/07	\$ increase	% increase
\$ 16.4	\$ 7.7	\$ 8.7	113%

- *Business Services* revenue includes \$5.9 million in revenue related to the business operations of MX from May 1, 2008, of which \$5.0 million was attributable to technology and other related services provided to BOX from May 1, 2008 to August 28, 2008, prior to BOX becoming a subsidiary of MX. Revenue from BOX from August 29, 2008 to September 30, 2008 is eliminated on the consolidation of BOX.
- The increase was also due to unrealized foreign exchange gains on U.S. dollar receivables due to the positive impact of the depreciation of the Canadian dollar against the U.S. dollar in the first nine months of 2008, compared with unrealized foreign exchange losses on U.S. dollar receivables due to the negative impact of the appreciation of the Canadian dollar against the U.S. dollar in the first nine months of 2007.

## Expenses

Operating expenses in the first nine months of 2008 were \$161.9 million, an increase of \$27.5 million, or 20%, as compared with \$134.4 million in the first nine months of 2007. The increase was primarily due to the inclusion of \$25.4 million of expenses related to the business operations of MX, following the combination with TMX Group on May 1, 2008 and the operations of BOX from August 29, 2008. In addition, there were \$8.7 million of expenses related to the business operations of Equicom, acquired June 1, 2007, in the first nine months of 2008 compared with \$3.8 million in the first nine months of 2007. The overall increase was somewhat offset by lower compensation and benefits costs related to the long-term incentive plan, pension costs and organizational transition expenses.

## Compensation and Benefits

(in millions of dollars)

Nine months ended			
Sept. 30/08	Sept. 30/07	\$ increase	% increase
\$ 81.4	\$ 71.6	\$ 9.8	14%

- *Compensation and benefits* costs increased primarily due to the inclusion of \$10.6 million in costs related to MX and BOX. There were \$4.4 million in costs related to the business operations of Equicom, acquired on June 1, 2007, in the first nine months of 2008 compared with \$2.1 million in the first nine months of 2007.
- The increase was partially offset by lower organizational transition costs, lower expenses associated with the long-term incentive plan and lower pension costs.
- We capitalized \$2.4 million of internal development costs related to the TSX Quantum trading engine and gateway and \$2.0 million related to SOLA in the first nine months of 2008 compared with \$3.2 million related to the TSX Quantum trading engine in the first nine months of 2007.
- There were 850 employees at September 30, 2008, which included 225 MX employees and 24 BOX employees, versus 610 at September 30, 2007. This increase in employees was partially offset by a net reduction of nine employees.

## Information and Trading Systems

(in millions of dollars)

### Nine months ended

Sept. 30/08	Sept. 30/07	\$ increase	% increase
\$ 25.2	\$ 19.9	\$ 5.3	27%

- *Information and trading systems* costs included \$2.6 million in costs related to MX and BOX. There were also \$0.2 million in costs associated with the business of Equicom, which was acquired June 1, 2007, in the first nine months of 2008 compared with \$0.1 million in the first nine months of 2007.
- *Information and trading systems* costs also increased due to ongoing expenses primarily related to NGX's initiative with ICE.

## General and Administration

(in millions of dollars)

### Nine months ended

Sept. 30/08	Sept. 30/07	\$ increase	% increase
\$ 38.1	\$ 31.3	\$ 6.8	22%

- *General and administration* costs included \$6.9 million in costs related to MX and BOX. There were also \$4.0 million in costs associated with the business operations of Equicom, which was acquired June 1, 2007, in the first nine months of 2008 compared with \$1.6 million in the first nine months of 2007.
- *General and administration* costs increased as a result of paying higher fees to RS and IIROC for regulation services, which were more than offset by a decrease in fees paid to external advisors and lower capital expense.

## Amortization

(in millions of dollars)

### Nine months ended

Sept. 30/08	Sept. 30/07	\$ increase	% increase
\$ 17.3	\$ 11.6	\$ 5.7	49%

- *Amortization* costs increased reflecting amortization of \$5.3 million related to MX and BOX, and increased amortization from intangible assets primarily related to TSX Quantum. There were also \$0.8 million in depreciation and amortization costs

associated with the business operations of Equicom, which was acquired June 1, 2007, in the first nine months of 2008 compared with \$0.3 million in the first nine months of 2007.

### Income from Investments in Affiliates

(in millions of dollars)

#### Nine months ended

Sept. 30/08	Sept. 30/07	\$ increase
\$ 1.0	\$ 0.2	\$ 0.8

- *Income from investments in affiliates* includes \$0.7 million representing MX's share of BOX income based on a 31.4% interest in BOX from May 1, 2008 to August 29, 2008. BOX volumes increased by 26% from May 1, 2008 to August 29, 2008, compared with May 1, 2007 to August 29, 2007 (59.9 million contracts traded from May 1, 2008 to August 29, 2008 versus 47.6 million contracts traded from May 1, 2007 to August 29, 2007).
- *Income from investments in affiliates* also includes \$0.3 million, representing TSX Inc.'s share of CanDeal income for the first nine months of 2008 based on a 47% interest in CanDeal, compared with \$0.2 million for the first nine months of 2007.

### Investment Income

(in millions of dollars)

#### Nine months ended

Sept. 30/08	Sept. 30/07	\$ increase	% increase
\$ 10.7	\$ 10.0	\$ 0.7	7%

- *Investment income* increased due to the inclusion of \$2.7 million of *investment income* earned by MX since May 1, 2008.
- The increase was largely offset by lower investment income due to a decrease in cash available for investment and lower returns on short-term bond fund investments during the first nine months of 2008 compared with the first nine months of 2007.

## Interest Expense

(in millions of dollars)

### Nine months ended

Sept. 30/08	Sept. 30/07	\$ increase	% increase
\$ 7.1	\$ 0.0	\$ 7.1	-

- *Interest expense* increased as a result of financing a portion of the purchase price related to the business combination with MX. On April 30, 2008, we drew down \$430.0 million in Canadian funds on a three-year term facility related to financing the cash consideration of the purchase price for MX (*see Long-term Debt*).

## Other Acquisition Related Expenses

(in millions of dollars)

### Nine months ended

Sept. 30/08	Sept. 30/07	\$ increase
\$ 15.9	\$ -	\$ 15.9

- In August 2007, TMX Group and ISE Ventures announced the execution of a shareholders' agreement for CDEX Inc. (CDEX), which was created to operate DEX, a new Canadian derivatives exchange scheduled to begin operations in March 2009. In connection with the agreement to combine with MX, we provided ISE Ventures with a notice of a competing transaction as required under the terms of the CDEX shareholders' agreement, and subsequently paid ISE Ventures \$15.2 million on April 1, 2008, which was accrued in Q1/08.
- When we acquired NGX in 2004, TMX Group entered into an arrangement with MX and paid MX \$5.0 million. We amortized this amount over five years, the remaining term in the 1999 Memorandum of Agreement with MX, or \$1.0 million per annum. As a result of the May 1, 2008 business combination, we have now expensed the remaining balance in *Other Assets* of \$0.7 million.

## Income Taxes

(in millions of dollars)

Nine months ended		Effective tax rate (%)	
Sept. 30/08	Sept. 30/07	Sept. 30/08	Sept. 30/07
\$ 75.3	\$ 70.9	36%	37%

- The effective tax rate for the first nine months of 2008 was lower than that for 2007 partially due to a lower federal tax rate.
- The effective tax rate in the first nine months of 2008 was higher than our statutory rate of 33% primarily due to making a payment of \$15.2 million to ISE Ventures, which is not being deducted for tax purposes.
- The effective tax rate in the first nine months of 2007 was somewhat higher than our statutory tax rate of 35% for 2007 partially due to adjustments to the value of the future income tax asset.

## Non-controlling Interest

Upon the acquisition of control of BOX on August 29, 2008, with a 53.3% share, the results of BOX have been fully consolidated into our consolidated statements of income. The non-controlling interests represent the other BOX shareholders' 46.7% share of net income.

## Comprehensive Income

As a result of our combination with MX on May 1, 2008, our consolidated financial statements include Statements of Comprehensive Income not previously included in our consolidated financial statements and accompanying notes for the year ended December 31, 2007.

Comprehensive Income was \$52.0 million for Q3/08 and is comprised of Net Income of \$50.9 million and Other Comprehensive Income of \$1.1 million.

Other comprehensive income includes:

- The unrealized gain on the foreign currency translation of BOX, a self-sustaining foreign operation, which amounted to \$3.4 million for Q3/08; and
- the unrealized fair value loss on the interest rate swaps designated as cash flow hedges, which amounted to \$2.3 million for Q3/08.

Comprehensive Income was \$135.0 million for the first nine months of 2008 and is comprised of Net Income of \$132.9 million and Other Comprehensive Income of \$2.0 million.

Other comprehensive income includes:

- The unrealized gain on the foreign currency translation of BOX, a self-sustaining foreign operation, which amounted to \$4.3 million the first nine months of 2008; and
- the unrealized fair value loss on the interest rate swaps designated as cash flow hedges, which amounted to \$2.3 million for the first nine months of 2008.

Our Accumulated Other Comprehensive Income of \$2.0 million as at September 30, 2008 is included as a component of **Shareholders' Equity**.

### **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 an official 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 MX.

Amounts invoiced for the three months ended September 30, 2008 and from May 1, 2008 to August 29, 2008, covering the period before BOX became a subsidiary, are \$2.5 million and \$5.0 million. These transactions were undertaken in the normal course of business.

### **Segment Analysis**

#### *Cash Markets –Equities and Fixed Income*

	<b>Q3/08</b>	<b>Q3/07</b>	<b>\$ increase</b>	<b>% increase</b>
Revenue	108.4	100.5	7.9	8%
Net Income	41.9	41.4	0.5	1%

The increase in revenue primarily reflects higher issuer services and market data revenue partially offset by a decline in trading revenue related to TSX Venture Exchange and Shorcan. The increase in net income reflects the increased revenue, somewhat offset by higher overall expenses including interest expense of \$4.3 million.

	<b>Nine months ended</b>			
	<b>Sept. 30/08</b>	<b>Sept. 30/07</b>	<b>\$ increase</b>	<b>% increase</b>
Revenue	322.9	297.7	25.2	8%
Net Income	116.9	115.5	1.4	1%

The increase in revenue primarily reflects higher issuer services and market data revenue partially offset by a decline in both equity and fixed income trading revenue. Net income increased as a result of higher revenue, somewhat offset by higher interest expense of \$7.1 million and higher income taxes as well as by the \$15.2 million payment to ISE Ventures with respect to the termination of our derivatives joint venture.

	<b>September 30, 2008</b>	<b>September 30, 2007</b>	<b>\$ increase/ (decrease)</b>
Goodwill	46.7	44.6	2.1
Total Assets	452.5	664.5	(212.0)

The decrease in Total Assets at September 30, 2008 primarily reflects decreased cash and marketable securities due to the repurchase of common shares under our normal course issuer bid (NCIB).

### ***Energy Markets – NGX***

	<b>Q3/08</b>	<b>Q3/07</b>	<b>\$ increase</b>	<b>% increase</b>
Revenue	7.7	5.5	2.2	40%
Net Income	2.2	1.3	0.9	69%

The increase in revenue primarily reflects increased volumes following the successful launch of our arrangement with ICE on February 9, 2008, which provided us with access to substantially more customers and included the launch of new products and price increases that were effective in January 2008. The increase in net income reflects the higher revenue somewhat offset by higher expenses.

	<b>Nine months ended</b>			
	<b>Sept. 30/08</b>	<b>Sept. 30/07</b>	<b>\$ increase</b>	<b>% increase</b>
Revenue	21.7	15.7	6.0	38%
Net Income	5.3	2.8	2.5	89%

The increase in revenue primarily reflects increased volumes following the successful launch of our arrangement with ICE on February 9, 2008 which provided us with access to substantially more customers and included the launch of new products and price increases that were effective

in January 2008. The increase in net income reflects the higher revenue somewhat offset by higher expenses.

	<b>September 30, 2008</b>	<b>September 30, 2007</b>	<b>\$ increase</b>
Goodwill	21.3	21.3	-
Total Assets	1,020.9	615.4	405.5

Total Assets increased due to an increase in energy contracts receivable of \$361.5 million and an increase of \$38.9 million in the fair value of open energy contracts. The increase reflects higher natural gas prices at the end of September 2008 compared with the end of September 2007.

***Derivative Markets – MX and BOX***

	<b>Q3/08</b>	<b>Q3/07</b>	<b>\$ increase</b>	<b>% increase</b>
Revenue	23.3	-	23.3	100%
Net Income	6.9	-	6.9	100%

The increase in revenue and net income relates to the inclusion of the operations of MX which were combined with TMX Group on May 1, 2008 and BOX from August 29, 2008, following acquisition of control.

	<b>Nine months ended</b>			
	<b>Sept. 30/08</b>	<b>Sept. 30/07</b>	<b>\$ increase</b>	<b>% increase</b>
Revenue	37.2	-	37.2	100%
Net Income	10.7	-	10.7	100%

The increase in revenue and net income relates to the inclusion of the operations of MX which were combined with TMX Group on May 1, 2008 and BOX from August 29, 2008, following acquisition of control.

	<b>September 30, 2008</b>	<b>September 30, 2007</b>	<b>\$ increase</b>
Goodwill	567.1	-	567.1
Total Assets	2,009.6	-	2,009.6

Total Assets increased due to inclusion of the operations of MX which were combined with TMX Group on May 1, 2008 and BOX from August 29, 2008, following acquisition of control. The increase included Goodwill of \$567.1 million and Intangible Assets of \$824.2 million, primarily comprised of derivatives products and trading participants in the amount of \$630.9 million and \$146.3 million, respectively. Also included were Daily Settlements and Cash Deposits of \$498.2 million and Cash and Cash Equivalents and Marketable securities of \$87.2 million.

## Liquidity and Capital Resources

### Cash, Cash Equivalents and Marketable Securities

(in millions of dollars)

<b>September 30, 2008</b>	<b>December 31, 2007</b>	<b>\$ (decrease)</b>
\$ 203.7	\$ 302.8	(\$ 99.1)

- The decrease was due to three dividend payments of \$0.38 per common share, or \$85.6 million in aggregate, as well as to payments totalling \$257.6 million relating to the repurchase of 6,523,249 common shares under our normal course issuer bid (NCIB) in the first nine months of 2008.
- In addition, the decrease was due to a payment of \$15.2 million to ISE Ventures relating to the termination of our previously announced derivatives joint venture, additions to intangible assets of \$5.7 million related to TSX Quantum and SOLA internal development costs as well as capital expenditures of \$4.8 million.
- While the combination with MX was financed with long-term debt and common shares, we did acquire cash and marketable securities when we combined with MX. At September 30, 2008, MX had \$87.2 million of cash and cash equivalents and marketable securities, after paying \$57.9 million for the increased investment in BOX on August 29, 2008.
- The decrease was also partially offset by cash generated from operating activities of \$183.4 million.

### Total Assets

(in millions of dollars)

<b>September 30, 2008</b>	<b>December 31, 2007</b>	<b>\$ increase</b>
\$ 3,482.9	\$ 1,523.9	\$ 1,959.0

- *Total assets* primarily increased due to recording \$824.2 million of intangible assets and \$567.1 million of goodwill related to both the combination with MX on May 1, 2008 and the acquisition of control of BOX on August 29, 2008.
- *Total assets* also increased due to the inclusion of MX daily settlements and cash deposits receivable of \$498.2 million as at September 30, 2008 related to MX's clearing operations. MX also carried offsetting liabilities related to daily settlements and cash deposits which were \$498.2 million at September 30, 2008. Daily settlements due from/to clearing members consist of amounts due from/to clearing members as a result of marking open futures positions to market and settling option

transactions each day that are required to be collected from/paid to clearing members prior to the commencement of the next trading day.

- The overall increase was also due to higher energy contracts receivable of \$841.0 million at September 30, 2008 related to the clearing operations of NGX, compared with \$745.4 million at the end of 2007. The higher level of receivables reflected higher natural gas prices at the end of September 2008 compared with the end of December 2007 and higher volumes. As the clearing counterparty to every trade, NGX also carries offsetting liabilities in the form of energy contracts payable, which were \$841.0 million at September 30, 2008 compared with \$745.4 million at the end of 2007.
- The overall increase also reflected an increase in current assets related to the fair value of open energy contracts (\$120.0 million as at September 30, 2008, compared with \$74.9 million at December 31, 2007). The higher level of receivables reflected higher natural gas prices at the end of September 2008 compared with the end of December 2007. NGX also carried offsetting liabilities related to the fair value of open energy contracts which were \$120.0 million at September 30, 2008 compared with \$74.9 million at December 31, 2007.
- *Total assets* included a decrease in cash and cash equivalents and marketable securities of \$99.1 million.

## Credit Facilities and Guarantee

### Long-term Debt

(in millions of dollars)

<b>September 30, 2008</b>	<b>December 31, 2007</b>	<b>\$ increase</b>
\$ 428.1	\$ -	\$ 428.1

- In connection with the combination with MX, we established a non-revolving three-year term unsecured credit facility of \$430.0 million with a syndicate of seven financial institutions. In addition, we also established a revolving three-year unsecured credit facility of \$50.0 million with the same syndicate. TMX Group may draw on these facilities in Canadian dollars by way of prime rate loans and/or Bankers' Acceptances or in U.S. dollars by way of LIBOR loans and/or U.S. base rate loans. Currently, the acceptance fee rate for Bankers' Acceptances and margin for LIBOR loans is 0.45%. On April 30, 2008, we drew down \$430.0 million in Canadian funds on the three-year term facility to satisfy the cash consideration of the purchase price for MX. We entered into a series of interest rate swap agreements which took effect on August 28, 2008 in order to partially manage our exposure to interest rate fluctuations by fixing the interest rate relating to \$300.0 million of principal as follows:

Notional value (in millions of dollars)	Interest rate we will pay under swap (excludes 0.45% fee)	Maturity date of swap
Swap #1 - \$100.0	3.496%	August 31, 2009
Swap #2 - \$100.0	3.749%	August 31, 2010
Swap #3 - \$100.0	3.829%	April 18, 2011

These credit facilities contain customary covenants, including a requirement that TMX Group maintain:

- a maximum debt to adjusted EBITDA ratio of 3.5:1, where adjusted EBITDA means earnings on a consolidated basis before interest, taxes, depreciation and amortization, all determined in accordance with GAAP but adjusted to include initial and additional listing fees billed and to exclude initial and additional listing fees reported as revenue;
- a minimum consolidated net worth covenant based on a pre-determined formula; and
- a debt incurrence test whereby debt to adjusted EBITDA must not exceed 3.0:1.

At September 30, 2008, all covenants were met.

#### ***Other Credit Facility and Guarantee***

NGX maintains an unsecured clearing backstop fund of U.S. \$100.0 million. We are the guarantor of this fund on an unsecured basis.

CDCC has also arranged a total of \$30.0 million in revolving standby credit facilities with a Canadian Schedule I bank to provide liquidity in the event of default by a clearing member. Borrowings under the facilities, which are required to be collateralized, bear interest based on the bank's prime rate plus 0.75%.

These facilities have not been drawn upon at September 30, 2008.

#### **Shareholders' Equity**

(in millions of dollars)

<b>September 30, 2008</b>	<b>December 31, 2007</b>	<b>\$ increase</b>
\$ 779.1	\$ 171.9	\$ 607.2

- *Shareholders' equity* increased primarily due to an increase in share capital of \$806.6 million relating to the issuance of 15.3 million shares upon our combination with MX. We earned \$132.9 million of net income in the first nine months of 2008. In addition, proceeds of \$7.0 million were received on the exercise of options in the first nine months of 2008.

- The increase in *shareholders' equity* was partially offset by the repurchase of shares in connection with our NCIB announced on August 1, 2007. Under the expired NCIB, we purchased 6,841,051 shares for cancellation at a weighted average price per share of \$42.79, which was the maximum allowable under the plan. From May 2, 2008 to July 22 2008, we repurchased 4,441,189 common shares at a cost of \$185.2 million under our original NCIB.
- We have received Toronto Stock Exchange approval to renew our NCIB and purchase up to 7,595,585 of our common shares through the facilities of Toronto Stock Exchange or other Canadian marketplaces. We may also enter into one or more private agreements to purchase common shares, provided that we first obtain an order from the relevant securities regulatory authority to permit such agreements. These purchases will terminate on August 17, 2009 or such earlier date as we complete our permitted purchases. We will make our purchases in accordance with Toronto Stock Exchange requirements and the price we pay for any such common shares will be the market price of such shares at the time of acquisition. All shares purchased by TMX Group under the NCIB will be cancelled. We entered into a pre-defined plan with our designated broker to allow for the repurchase of common shares at times when we would not ordinarily be active in the market due to our own internal trading blackout periods, insider trading rules or otherwise. From August 18, 2008 to September 12, 2008, we repurchased 2,082,060 common shares at a cost of \$72.4 million under our new NCIB.
- In addition, we paid \$85.6 million in dividends during the first nine months of 2008.
- In connection with the combination with MX, on May 1, 2008, we issued 162,194 share options in exchange for 208,400 MX share options.
- We have obtained approval from Toronto Stock Exchange to issue up to 1.5 million common shares to satisfy the purchase price payable for NTP if we acquire NTP from Enbridge and Circuit Technology.
- At September 30, 2008, there were 75,403,577 common shares issued and outstanding. In the first nine months of 2008, 331,848 common shares were issued on the exercise of share options. At September 30, 2008, 4,252,296 common shares were reserved for issuance upon the exercise of options granted under the share option plan. At September 30, 2008, there were 1,025,741 options outstanding.
- At October 28, 2008, there were 75,403,577 common shares issued and outstanding and 1,024,015 options outstanding under the share option plan.

## Cash Flows from Operating Activities

(in millions of dollars)

	<b>Q3/08</b>	<b>Q3/07</b>	<b>(Decrease) in cash</b>
<i>Cash Flows from Operating Activities</i>	\$ 54.6	\$ 55.1	(\$ 0.5)

*Cash Flows from Operating Activities* were \$0.5 million lower in Q3/08 compared with Q3/07 due to:

(in millions of dollars)

	<b>Q3/08</b>	<b>Q3/07</b>	<b>Increase/ (decrease) in cash</b>
Net income	\$ 50.9	\$ 42.7	\$ 8.2
Amortization	\$ 7.0	\$ 4.1	\$ 2.9
Unrealized (gain) loss on marketable securities	\$ 0.7	(\$ 0.8)	\$ 1.5
(Increase) in future income tax asset	(\$ 1.3)	(\$ 3.2)	\$ 1.9
Decrease in accounts receivable and prepaid expenses	\$ 8.6	\$ 7.5	\$ 1.1
(Increase)/decrease in other assets	\$ 1.3	(\$ 1.1)	\$ 2.4
Net increase/(decrease) in accounts payable and accrued liabilities	(\$ 2.5)	\$ 6.4	(\$ 8.9)
(Decrease) in deferred revenue	(\$ 13.2)	(\$ 2.5)	(\$ 10.7)
Net increase in income taxes payable	\$ 2.2	\$ 1.5	\$ 0.7
Net increase in other items	<u>\$ 0.9</u>	<u>\$ 0.5</u>	<u>\$ 0.4</u>
<i>Cash Flows from Operating Activities</i>	<u>\$ 54.6</u>	<u>\$ 55.1</u>	<u>(\$ 0.5)</u>

(in millions of dollars)

	<b>Nine months ended</b>		<b>Increase</b>
	<b>Sept.</b>	<b>Sept.</b>	<b>in cash</b>
	<b>30/08</b>	<b>30/07</b>	
<i>Cash Flows from Operating Activities</i>	\$ 183.4	\$ 168.5	\$ 14.9

*Cash Flows from Operating Activities* were \$14.9 million higher in the first nine months of 2008 compared with the first nine months of 2007 due to:

(in millions of dollars)

	<b>Nine months ended</b>		<b>Increase/</b>
	<b>Sept.</b>	<b>Sept.</b>	<b>(decrease)</b>
	<b>30/08</b>	<b>30/07</b>	<b>in cash</b>
Net income	\$132.9	\$118.3	\$ 14.6
Amortization	\$ 17.3	\$ 11.6	\$ 5.7
Unrealized (gain) loss on marketable securities	(\$ 0.2)	\$ 3.0	(\$ 3.2)
(Increase) in future income tax asset	(\$ 5.2)	(\$ 13.3)	\$ 8.1
Payment to ISE Ventures related to termination of joint venture	\$ 15.2	-	\$ 15.2
(Increase) in accounts receivable and prepaid expenses	-	(\$ 13.2)	\$ 13.2
(Increase)/decrease in other assets	\$ 5.1	(\$ 0.2)	\$ 5.3
Net (decrease) in accounts payable and accrued liabilities	(\$ 35.7)	(\$ 5.4)	(\$ 30.3)
Increase in deferred revenue	\$ 52.1	\$ 79.6	(\$ 27.5)
Net increase/(decrease) in income taxes payable	\$ 0.5	(\$ 13.4)	\$ 13.9
Net increase in other items	<u>\$ 1.4</u>	<u>\$ 1.5</u>	<u>(\$ 0.1)</u>
<i>Cash Flows from Operating Activities</i>	<u>\$183.4</u>	<u>\$168.5</u>	<u>\$ 14.9</u>

## Cash Flows from (used in) Financing Activities

(in millions of dollars)

	Q3/08	Q3/07	(Decrease) in cash
<i>Cash Flows from (used in) Financing Activities</i>	(\$ 152.2)	(\$ 98.9)	(\$ 53.3)

*Cash Flows used in Financing Activities* were \$53.3 million higher in Q3/08 compared with Q3/07 due to:

(in millions of dollars)

	Q3/08	Q3/07	Increase/ (decrease) in cash
Dividends paid on common shares	(\$ 29.4)	(\$ 26.0)	(\$ 3.4)
Repurchase of common shares under NCIB	(\$ 123.2)	(\$ 73.8)	(\$ 49.4)
Net increase in other items	<u>\$ 0.4</u>	<u>\$ 0.9</u>	<u>(\$ 0.5)</u>
<i>Cash Flows from (used in) Financing Activities</i>	<u>(\$ 152.2)</u>	<u>(\$ 98.9)</u>	<u>(\$ 53.3)</u>

(in millions of dollars)

	Nine months ended		Increase in cash
	Sept. 30/08	Sept. 30/07	
<i>Cash Flows from (used in) Financing Activities</i>	\$ 91.3	(\$ 148.2)	\$ 239.5

*Cash Flows from Financing Activities* were \$239.5 million higher in the first nine months of 2008 compared with the first nine months of 2007 due to:

(in millions of dollars)

	Nine months ended		Increase/ (decrease) in cash
	Sept. 30/08	Sept. 30/07	
Net proceeds on term loan used to finance cash portion of purchase price for MX	\$427.8	-	\$427.8
Dividends paid on common shares	(\$ 85.6)	(\$ 78.1)	(\$ 7.5)
Repurchase of common shares under NCIB	(\$257.6)	(\$ 73.8)	(\$183.8)
Proceeds from exercised options	\$ 7.0	\$ 4.4	\$ 2.6
Net (decrease) in other items	<u>(\$ 0.3)</u>	<u>(\$ 0.7)</u>	<u>\$ 0.4</u>
<i>Cash Flows from (used in) Financing Activities</i>	<u>\$ 91.3</u>	<u>(\$148.2)</u>	<u>\$239.5</u>

## Cash Flows from (used in) Investing Activities

(in millions of dollars)

	Q3/08	Q3/07	Increase in cash
<i>Cash Flows from (used in) Investing Activities</i>	\$ 56.6	\$ 53.2	\$ 3.4

*Cash Flows from Investing Activities* were \$3.4 million higher in Q3/08 compared with Q3/07 due to:

(in millions of dollars)

	Q3/08	Q3/07	Increase/ (decrease) in cash
Acquisition of controlling interest in BOX, net of cash	(\$ 56.0)	-	(\$ 56.0)
Payments related to option to purchase NetThruPut Inc. shares	-	(\$ 10.3)	\$ 10.3
Capital expenditures primarily related to technology investments and leasehold improvements	(\$ 1.6)	(\$ 2.4)	\$ 0.8
Additions to intangible assets including TSX Quantum and SOLA internal development costs	(\$ 1.6)	(\$ 2.1)	\$ 0.5
Net sale of marketable securities	<u>\$115.8</u>	<u>\$ 68.0</u>	<u>\$ 47.8</u>
<i>Cash Flows from (used in) Investing Activities</i>	<u>\$ 56.6</u>	<u>\$ 53.2</u>	<u>\$ 3.4</u>

(in millions of dollars)

	<b>Nine months ended</b>		<b>(Decrease)</b>
	<b>Sept.</b>	<b>Sept.</b>	<b>in cash</b>
	<b>30/08</b>	<b>30/07</b>	
<i>Cash Flows from (used in) Investing Activities</i>	(\$ 250.5)	(\$ 11.3)	(\$ 239.2)

*Cash Flows (used in) Investing Activities* were \$239.2 million higher in the first nine months of 2008 compared with the first nine months of 2007 due to:

(in millions of dollars)

	<b>Nine months ended</b>		<b>Increase/</b>
	<b>Sept.</b>	<b>Sept.</b>	<b>(decrease)</b>
	<b>30/08</b>	<b>30/07</b>	<b>in cash</b>
Acquisitions of MX, controlling interest in BOX, and Equicom (2007) net of cash	(\$411.0)	(\$ 8.1)	(\$402.9)
Payment to ISE Ventures related to termination of joint venture	(\$ 15.2)	-	(\$ 15.2)
Payments related to option to purchase NetThruPut Inc. shares	-	(\$ 10.3)	\$ 10.3
Capital expenditures primarily related to technology investments	(\$ 4.8)	(\$ 4.6)	(\$ 0.2)
Additions to intangible assets including TSX Quantum and SOLA internal development costs	(\$ 5.7)	(\$ 4.0)	(\$ 1.7)
Additions to goodwill related to Equicom	(\$ 2.1)	-	(\$ 2.1)
Net sale of marketable securities	<u>\$188.3</u>	<u>\$ 15.7</u>	<u>\$172.6</u>
<i>Cash Flows from (used in) Investing Activities</i>	<u>(\$250.5)</u>	<u>(\$ 11.3)</u>	<u>(\$239.2)</u>

## **Financial Instruments**

### ***Cash, Cash Equivalents and Marketable Securities***

Our financial instruments include cash, cash equivalents and investments in marketable securities. This includes units in a money market fund and a short-term bond and mortgage fund. Marketable securities also includes 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 primary risks related to these marketable securities are variation in interest rates and credit risk. For a description of these risks, please refer to “*Credit Risk - Marketable Securities*” and “*Interest Rate Risk - Marketable Securities*”.

These investments are recorded at fair value and the unrealized losses of \$0.7 million and unrealized gains of \$0.2 million were recorded in investment income in Q3/08 and the first nine months of 2008 respectively, compared with unrealized gains of \$0.8 million and unrealized losses of \$3.0 million in Q3/07 and the first nine months of 2007 respectively.

### ***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. The primary risks associated with these financial instruments are credit risk and market risk. For a description of these risks, please refer to “*Credit Risk – CDCC*” and “*Market Risk – CDCC*”.

### ***Long-term Debt***

In connection with the combination with MX, we established a non-revolving three-year term unsecured credit facility of \$430.0 million. In addition, we also established a revolving three-year unsecured credit facility of \$50.0 million with the same syndicate (see **Long-term Debt**). The long-term debt is subject to interest rate risk. For a description of this risk, please refer to “*Interest Rate Risk – Long-term Debt*”.

## **Derivative Financial Instruments**

### ***Total Return Swaps***

We have entered into a series of total return swaps (TRSs) which synthetically replicate the economics of TSX Inc. purchasing our shares as a partial fair value hedge to the share appreciation rights of deferred share units (DSUs) and restricted share units (RSUs) that are awarded to our directors and employees. We mark to market the fair value of the TRSs as an adjustment to income, and simultaneously mark to market the liability to holders of the share units as an adjustment to income. These total return swaps are subject to credit risk and market risk. For a description of these risks, please refer to “*Credit Risk- Total Return and Interest Rate Swaps*” and “*Market Risk - Total Return Swaps*”. The fair value of the TRSs is based upon the excess or deficit of the volume weighted average price of our shares for the last five trading days of the month compared with our 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 fair values of the total return swaps were a liability of \$4.0 million at September 30, 2008 and an asset of \$1.1 million at September 30, 2007. During Q3/08, unrealized losses of \$4.3 million were reflected as an increase in compensation and benefits costs and general and

administration costs. During Q3/07, unrealized gains of \$2.2 million were reflected as a decrease in compensation and benefits costs and general and administration costs. During the first nine months of 2008, unrealized losses of \$7.9 million were reflected as an increase in compensation and benefits costs and general and administration costs. During the first nine months of 2007, unrealized losses of \$nil were reflected as an increase in compensation and benefits costs and general and administration costs.

### ***NGX - Fair Value of Open Energy Contracts***

As part of its clearing operations, NGX becomes the central counterparty to each transaction. We record NGX's energy contract receivables and offsetting payables for all contracts where physical delivery has occurred or financial settlement amounts have been determined prior to the period end but payments have not been made. 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. The primary risks related to these financial instruments are credit risk and market risk. For a description of these risks, please refer to "*Credit Risk – NGX*" and "*Market Risk – NGX*".

### ***Interest Rate Swaps***

We entered into a series of interest rate swap agreements which took effect on August 28, 2008, to partially manage our exposure to interest rate fluctuations on the non-revolving three-year term facility. These interest rate swaps are subject to credit risk. For a description of this risk, please refer to "*Credit Risk – Total Return and Interest Rate Swaps*". We mark to market the fair value of the interest rate swaps as an adjustment to comprehensive income. During Q3/08 and the first nine months of 2008, unrealized losses of \$3.4 million were reflected in other comprehensive income, compared with \$nil during Q3/07 and the first nine months of 2007. During Q3/08 and the first nine months of 2008, interest paid of \$0.2 million was reflected in net income, compared with \$nil during Q3/07 and the first nine months of 2007.

### ***Option to Acquire NTP***

On September 6, 2007, we entered into an agreement with Enbridge and Circuit Technology granting us the option to acquire all the shares of NTP, at a time after March 15, 2009, for a price between \$40.0 million and \$95.0 million, 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.

## Quarterly Information

(in thousands of dollars except per share amounts)

	Sept. 30 /08	June 30/08	Mar. 31 /08	Dec. 31 /07	Sept. 30 /07	June 30/07	Mar. 31 /07	Dec. 31 /06
<i>Revenue</i>	\$139,364	\$130,077	\$112,353	\$111,191	\$105,930 <sup>+</sup>	\$106,364 <sup>+</sup>	\$101,102 <sup>+</sup>	\$91,025
<i>Net Income</i>	50,944	49,227	32,746	30,439	42,682	39,128	36,448	35,116
<i>Earnings per share:</i>								
<i>Basic</i>	0.66	0.65	0.49	0.46	0.63	0.57	0.53	0.51
<i>Diluted</i>	0.66	0.65	0.49	0.45	0.62	0.57	0.53	0.51

### 2007

- Revenue in Q1/07 improved over revenue in Q4/06 primarily due to higher market data and issuer services revenue. Net income for Q1/07 increased over Q4/06 primarily due to the increased revenue partially offset by higher overall expenses.
- Revenue in Q2/07 improved over revenue in Q1/07 primarily due to higher issuer services, trading and market data revenue. Net income for Q2/07 increased over Q1/07 primarily due to the increased revenue and lower overall expenses, somewhat offset by lower investment income.
- Revenue in Q3/07 declined slightly over revenue in Q2/07. Increased revenue from issuer services was more than offset by decreases in other sources of revenue. Net income for Q3/07 increased over Q2/07 primarily due to higher investment income and lower income taxes.
- Revenue in Q4/07 increased over revenue in Q3/07 primarily due to higher issuer services, trading and market data revenue. Net income for Q4/07 decreased over Q3/07 primarily due to increased income taxes as a result of a \$13.3 million reduction to the value of the future income tax asset and increased expenses which more than offset the higher revenue.

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<sup>+</sup> Revenue adjusted to reflect reclassification of interest income from Business Services and Other Revenue to Investment income.

## 2008

- Revenue in Q1/08 increased over revenue in Q4/07 primarily due to higher market data and issuer services revenue. Net income for Q1/08 increased over Q4/07 primarily due to a decrease in expenses and higher revenue. Net income for Q1/08 was reduced due to a payment of \$15.2 million to ISE Ventures related to exiting our previously announced joint venture to operate DEX, whereas in Q4/07, net income was reduced due to increased income taxes as a result of a \$13.3 million reduction to the value of the future income tax asset.
- Revenue in Q2/08 improved over revenue in Q1/08 primarily due to revenue associated with the combination with MX and increased issuer services and market data revenue. Net income for Q2/08 increased over Q1/08 primarily due to the increase in revenue, somewhat offset by an increase in expenses, including interest expense, and a decrease in investment income.
- Revenue in Q3/08 improved over revenue in Q2/08 primarily due to a full quarter of revenue from the combination with MX, compared with the inclusion of two months of revenue from MX in Q2/08 following the combination on May 1, 2008. In addition, 100% of BOX's revenue is consolidated from acquisition of control on August 29, 2008, with an adjustment made for non-controlling interests. Net income for Q3/08 increased over Q2/08 primarily due to the increase in revenue, somewhat offset by an increase in expenses related to MX and BOX, interest expense, and a decrease in investment income.

## Adoption of Accounting Policies

### Capital Disclosures

On January 1, 2008, we adopted standards set by the Canadian Institute of Chartered Accountants (CICA) in Handbook Section 1535 "Capital Disclosures", which establishes standards for disclosing an entity's objectives, policies and processes for managing capital.

Our primary objectives in managing capital, which we define to include our share capital and various credit facilities, include:

- Maintaining sufficient capital for operations to ensure market confidence. We do this by managing our capital subject to capital maintenance requirements imposed on our subsidiaries:
  - In respect of Toronto Stock Exchange, as required by the Ontario Securities Commission (OSC) to maintain certain regulatory ratios as defined in the OSC recognition order, as follows:
    - a current ratio not less than 1.1:1;

- a debt to cash flow ratio not greater than 4:1; and
- a financial leverage ratio consisting of adjusted total assets to adjusted shareholders' equity not greater than 4:1.

We have complied with these externally imposed capital requirements.

- In respect of TSX Venture Exchange, as required by various provincial securities commissions to maintain adequate financial resources.

We have complied with these externally imposed capital requirements.

- In respect of NGX, to:
  - maintain adequate financial resources, as required by the Alberta Securities Commission; and
  - maintain a current ratio of no less than 1:1 and a tangible net worth of not less than \$9.0 million, as required by a major Canadian chartered bank.

We have complied with these externally imposed capital requirements.

- In respect of Shorcan, by IIROC which requires Shorcan to maintain a minimum level of shareholder's equity of \$0.5 million.

We have complied with this externally imposed capital requirement.

- 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:
  - a working capital ratio of not less than 1.5:1;
  - a cash flow to total debt ratio of more than 20%; and
  - a financial leverage ratio consisting of total assets to shareholders' equity of less than 4:1.

We have complied with these externally imposed capital requirements.

- Providing sufficient capital to meet the covenants imposed in connection with our long-term debt (see Long-term Debt).
- Retaining sufficient capital to invest in, and continue to grow, our business both organically and through acquisitions.
- Increasing total returns to shareholders through methods such as dividends and purchasing shares for cancellation pursuant to normal course issuer bids.

## Financial Instruments Disclosure and Presentation

On January 1, 2008, we adopted standards set by the CICA in Handbook Section 3862 “Financial Instruments – Disclosure” and Section 3863 “Financial Instruments – Presentation”. These sections enhance disclosure requirements on the nature and extent of risks arising from financial instruments and how the entity manages these risks.

### *Credit Risk*

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

#### *Credit Risk – Marketable Securities*

TMX Group, excluding MX, manages exposure to credit risk arising from investments in marketable securities by limiting the investment in short-term bond and mortgage funds to a 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. TMX Group 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, compared with 34% in short-term bond and mortgage funds and 66% in money market funds at September 30, 2007.

MX manages 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.

#### *Credit Risk – Total Return and Interest Rate Swaps*

We have entered into total return swaps which synthetically replicate the economics of TSX Inc. purchasing our shares as a partial economic hedge to the share appreciation rights of DSUs and RSUs that are awarded to our directors and employees. The contracts are settled in cash upon maturity. The obligation to unit holders is reflected on the balance sheet. In addition, we entered into interest rate swaps, which took effect on August 28, 2008, in order to partially manage our exposure to interest rate fluctuations on our non-revolving term loan (*see Long-term Debt*). To manage credit risk, we entered into these total return and interest rate swaps with major Canadian chartered banks.

### *Credit Risk – NGX, Shorcan and CDCC*

We are exposed to credit risk in the event that customers, in the case of Shorcan, 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:

- outstanding energy contracts receivable;
- "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
- "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 \$449.1 million and letters of credit of \$2,491.6 million, compared with cash collateral deposits of \$271.8 million and letters of credit of \$1,734.9 million at September 30, 2007. These amounts are not included in our consolidated balance sheet.

NGX also maintains an unsecured clearing backstop fund of U.S. \$100.0 million. TMX Group is the unsecured guarantor of this fund. This facility has not been drawn upon at September 30, 2008.

### *Credit Risk – CDCC*

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 some OTC products. 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.

In order to manage the risks associated with the default of its clearing members, CDCC's principal technique 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 futures and options contracts,

margin deposits would be available to apply against the costs incurred to liquidate or transfer 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 was 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 \$3,511.9 million and clearing fund deposits of \$296.1 million. These amounts are not included in our consolidated balance sheet.

CDCC maintains \$30 million in revolving standby credit facilities in the event of default by a clearing member. Borrowings under these facilities would be required to be collateralized. This facility has not been drawn upon at September 30, 2008.

#### *Credit Risk – Accounts Receivable*

Our exposure to credit risk resulting from uncollectable accounts is influenced by the individual characteristics of our 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.

#### ***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 our income or the value of our holdings of financial instruments.

#### *Market Risk – Total Return Swaps*

We are exposed to market risk arising from our utilization of total return swaps to partially hedge the share appreciation rights of DSUs and RSUs that are awarded to our directors and employees. The fair value of the total return swaps is based upon the excess or deficit of the volume weighted average price of our shares for the last five trading days of the month compared with

our share price at the date of entering into the total return swaps. The change in the fair value of the total return swaps is offset by the change in the obligation to DSU and RSU holders.

#### *Interest Rate Risk – Marketable Securities*

We are exposed to interest rate risk on our marketable securities. We have engaged external investment fund managers to manage the asset mix and the risks associated with these investments. At September 30, 2008, we held \$126.1 million in these funds, compared with \$267.1 million at September 30, 2007. The approximate impact of a 1% rise in interest rates is a decrease of \$1.8 million on the carrying value of these investments and the approximate impact of a 1% fall in interest rates is an increase of \$1.8 million on the carrying value of these investments.

#### *Interest Rate Risk – Long-term Debt*

We are exposed to interest rate risk on our long-term debt. In order to partially manage our exposure to interest rate fluctuations, we have entered into a series of interest rate swap agreements which took effect on August 28, 2008, which fix the interest rate relating to \$300.0 million of the principal amount.

#### *Foreign Currency Risk – Market Data and NGX*

We are 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 U.S.\$13.1 million, compared with U.S.\$11.0 million at September 30, 2007, 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 \$0.1 million 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 \$0.1 million increase in net income. In addition, the net assets of BOX are denominated in U.S. dollars, and the effect of exchange rate movements on MX's share of the net assets is included within Other Comprehensive Income.

#### *Other Market Price Risk – NGX, Shorcan and CDCC*

We are 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 deliver either securities, energy products or derivatives 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 customer's 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.

We are also exposed to other market price risk on a portion of our sustaining listing fee revenue, which is based on the quoted market values of listed issuers as at December 31 of the previous year.

### ***Liquidity Risk***

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due.

We manage liquidity risk through the management of our revolving and non revolving credit facilities (*see Long-term Debt*) and capital.

### **Interest Rate Swaps**

We have entered into a series of interest rate swap agreements to partially manage our exposure to interest rate fluctuations on the non-revolving three year term facility, effective August 28, 2008 (*see Long-term Debt*).

We have 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.

During Q3/08, we determined that the hedges were effective and paid and recognized interest expense of \$0.2 million, representing the net amount owing on the interest rate swaps. In addition, we recognized an unrealized fair value loss on the swaps of \$3.4 million (\$2.3 million net of tax) in Other comprehensive income.

As an alternative, we could have recorded the loss of \$3.4 million (\$2.3 million net of tax) as a reduction of net income in Q3/08. However, we concluded that using hedge accounting will better reflect the actual interest costs in future reporting periods.

### **Future Accounting Changes**

#### *Goodwill and Intangible Assets*

In February 2008, the CICA issued CICA Handbook Section 3064 – Goodwill and Intangible Assets, which replaces CICA HB 3062 – Goodwill and Other Intangible Assets and 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, we will adopt this new standard effective January 1, 2009 retrospectively with a restatement of prior periods.

### *International Financial Reporting Standards (IFRS)*

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 our financial reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. We are currently assessing the impact of adopting IFRS. If we decide to proceed with early adoption of IFRS, which would not be prior to January 1, 2010, we would be required to obtain exemptive relief from Canadian securities regulators.

### **Contractual Obligations**

MX's material contractual obligations under firm contractual arrangements include operating lease agreements expiring between 2008 and 2015 for our premises and equipment, and licence and maintenance agreements until 2011.

### **Update to Risks and Uncertainties**

We face risks associated with severe capital market downturns and extreme volatility in our cash and derivatives markets. These risks, among others, are outlined in our 2007 Annual MD&A under the headings **We Depend on the Economy of Canada, Our Trading Operations Depend Primarily on a Small Number of Clients and We Depend on Market Activity that is Outside of Our Control.**

Following the combination with MX, we also face, among others, the following risks and uncertainties with respect to MX's derivatives and clearing operations and BOX's trading operations, in addition to those outlined in the section above under the heading *Financial Instruments Disclosure and Presentation*.

### **We Face Risks Associated With Integrating the Operations, Systems and Personnel of MX within TMX Group**

The success of the combination will depend in large part on the success of the management of TMX Group in integrating the operations and systems of MX, as well as retaining and integrating key personnel of MX. The failure to successfully integrate the operations of TMX Group and MX, or otherwise to realize any of the anticipated benefits of the combination, could impair the operating results, profitability and financial results of TMX Group. In particular, a failure to realize the cost synergies in whole or in part, and the enhanced growth opportunities described above under the section **Strategy Update** could materially adversely affect TMX Group's operating results. Realization of the anticipated benefits of the combination will depend in part on whether the operations, systems and personnel can be completely integrated in an

efficient and effective manner. Moreover, the overall integration of the companies may result in unanticipated operational issues, expenses and liabilities.

### **MX and BOX Face Competition from Other Marketplaces**

MX and BOX are in direct competition with, among others, securities, options and other derivatives exchanges as well as alternative trading systems or electronic communication networks (ECNs, as they are known in the United States) and other trading and crossing venues, some of our clearing member firms and interdealer brokerage firms. This competition exists particularly in the United States, but also in Europe and Asia. These competitors may, among other things, respond more quickly to competitive pressures, develop similar products to those MX and BOX offer that are preferred by customers or they may develop alternative competitive products, they may price their products more competitively and use better, more user friendly and reliable technology. Increased competition could lead to reduced interest in MX's and BOX's products and pressure on transaction prices, among other things, which could materially adversely affect our business and operating results.

### **MX and BOX Depend Heavily on Information Technology which could Fail or Malfunction**

MX is entirely automated, and therefore MX is highly dependent on its information technology systems. SOLA, the MX proprietary trading system, is currently in use at BOX. In addition, MX provides the technical operations services related to BOX's trading and surveillance platform. MX has implemented fully-redundant parallel processing back-up systems and fail-safes to minimize the risk of system interruptions or outages that could affect MX's trading and clearing operations. In addition, in June 2007, MX completed BOX's full redundancy and back-up systems. If these systems are significantly compromised or disrupted or if the systems suffer repeated failures, this could interrupt MX's trading and clearing services, including the services it provides to BOX; cause delays in settlement, cause MX to lose data; corrupt MX's and BOX's trading and clearing operations, data and records; or disrupt its and BOX's business operations. This could undermine confidence in MX's trading and clearing systems and materially adversely affect our reputation or operating results, and may lead to customer claims, litigation and regulatory sanctions.

### **MX and BOX are Subject to Significant Regulatory Constraints**

MX is subject to numerous regulatory requirements governing its activities. MX carries on these activities in accordance with the regulations of securities regulators in Canada, the U.S., France and the U.K., and, given our development plans, could eventually be subject to the regulations of other jurisdictions. BOX carries on its activities in accordance with the securities regulators in the U.S. Regulatory trends are not always predictable. Unexpected and new regulatory requirements could materially adversely affect our organization, customers, market position and results.

## **Our Derivatives Business Could be Harmed by a Systemic Market Event**

Some MX market participants could be overleveraged. In case of sudden, large price movements, such market participants may not be able to meet their obligations to brokers who, in turn, may not be able to meet their obligations to their counterparties. The impact of such an event could have a material adverse effect on our business.

In such cases, it could be possible that clearing members default with the CDCC. As referred to in the “*Credit Risk – CDCC*” section, CDCC would use its risk management mechanisms to manage such a default. In extreme situations such as large scale market price moves or multiple defaults occurring at the same time, all these mechanisms may prove insufficient to cover losses and this would result in a loss.

## **Internal Control over Financial Reporting**

As outlined above under **Strategy Update**, on May 1, 2008, we completed our business combination with MX, previously a reporting issuer subject to the certification requirements of Canadian securities legislation. Following the combination, we have extended our compliance program to include internal control over financial reporting of MX. There were no changes to internal control over financial reporting during the quarter ended September 30, 2008 that materially affected, or are reasonable likely to materially affect our internal control over financial reporting.

## **Forward-Looking Information**

This MD&A contains “forward looking information” (as defined in applicable Canadian securities legislation) that is based on expectations, estimates and projections as of the date of this MD&A. Often, but not always, such forward looking information can be identified by the use of forward looking words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “targeted”, “estimates”, “forecasts”, “intends”, “anticipates”, “believes”, or variations or the negatives of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved or not be taken, occur or be achieved. Forward looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of TMX Group to be materially different from any future results, performance or achievements expressed or implied by the forward looking information in this MD&A.

Examples of such forward looking information in this MD&A include, but are not limited to factors relating to stock and derivatives exchanges and the business, financial position, operations and prospects of TMX Group, including the creation (through the combination with MX) of opportunities to create cost and revenue synergies, which are subject to significant risks and uncertainties, including competition from other exchanges or marketplaces, including alternative trading systems, new technologies and other sources, on a national or international basis; dependence on the economy of Canada; failure to retain and attract qualified personnel; geopolitical factors which could cause business interruption; dependence on information technology; failure to implement our strategies; changes in regulation; risks of litigation; failure

to develop or gain acceptance of new products; adverse effect of new business activities; dependence of trading operations on a small number of clients; the risks associated with NGX's and MX's clearing operations; adverse effect of a systemic market event on our derivatives business; the risks associated with the credit of customers; cost structures being largely fixed; the risks associated with integrating the operations, systems, and personnel of MX within TMX Group; and dependence on market activity that cannot be controlled; and the risk that the cost savings, growth prospects and any other synergies expected to result from the combination with MX may not be fully realized or may take longer to materialize than expected. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward looking information contained in this MD&A.

Such forward looking information is based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions in connection with the ability of TMX Group to successfully compete against global exchanges by creating through the combination with MX an enterprise of increased scale; the accuracy, timing and ability to realize the projected synergies in respect of expected cash flows, cost savings and profitability, which will be dependent on, but not limited to, such factors as optimizing technology and data centres, reducing corporate costs and rationalizing premises (cost synergies are presented in this MD&A to provide one strategic rationale to support the benefits of the combination with MX and these estimated cost synergies should not be relied on for any other purpose); business and economic conditions generally; exchange rates (including estimates of the U.S. dollar - Canadian dollar exchange rate), the level of trading and activity on markets, and particularly the level of trading in TMX Group's key products; the continued availability of financing on appropriate terms for future projects; productivity at TMX Group, as well as that of TMX Group's competitors; market competition; research & development activities; the successful introduction of new derivatives and equity products; tax benefits/charges; the impact on TMX Group of various regulations and initiatives; TMX Group's ongoing relations with their employees; and the extent of any labour, equipment or other disruptions at any of their operations of any significance other than any planned maintenance or similar shutdowns.

While we anticipate that subsequent events and developments may cause our views to change, we have no intention to update this forward looking information, except as required by applicable securities law. This forward looking information should not be relied upon as representing our views as of any date subsequent to the date of this MD&A. We have attempted to identify important factors that could cause actual actions, events or results to differ materially from those current expectations described in forward looking information. However, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended and that could cause actual actions, events or results to differ materially from current expectations. **There can be no assurance that forward looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward looking information.** These factors are not intended to represent a complete list of the factors that could affect us. A description of the above-mentioned items and additional risk factors are discussed in TMX Group's materials, including our 2007 Annual MD&A and Annual Information Form. Please see the risk factors outlined in the previously mentioned documents, which risk factors are specifically incorporated by reference, filed with the securities regulatory

authorities in Canada from time to time, and the impact upon them of subsequently reported items.

October 29, 2008