

TMX Group Inc.

Q3-2010 Management's Discussion and Analysis

October 26, 2010

This Management's Discussion and Analysis (MD&A) of TMX Group Inc.'s (TMX Group) financial condition and results of operations is provided to enable a reader to assess our financial condition, material changes in our financial condition and our results of operations, including our liquidity and capital resources, for the quarter and nine months ended September 30, 2010, compared with the quarter and nine months ended September 30, 2009 or the year ended December 31, 2009. This MD&A is dated October 26, 2010 and should be read carefully together with our Q3/10 unaudited interim financial statements, including notes, for the corresponding period, as well as our 2009 audited annual financial statements, including notes and related MD&A. Each of these documents is filed with Canadian securities regulators and can be accessed through www.sedar.com or our website at www.tmx.com. The financial measures included in this MD&A are based on financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP), unless otherwise specified. All amounts are in Canadian dollars unless otherwise indicated.

On May 1, 2009, we completed the acquisition of NetThruPut Inc. (NTP), a leading Canadian electronic trading platform and clearing facility for crude oil products. We have included its results in our consolidated financial statements from that date.

Certain comparative figures have been reclassified in order to conform with the financial presentation adopted in the current year. In particular, commencing in 2010, provisions for doubtful accounts receivable are included in *General and Administration* expense whereas, in 2009, these provisions were reflected as a reduction in various sources of revenue. The comparative figures for both revenue and expenses in 2009 and 2008 have been reclassified to conform with the financial presentation adopted in 2010. The impact of the reclassification is not material.

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

Non-GAAP Financial Measures

Certain measures used in this MD&A do not have standardized meanings prescribed by Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other Canadian issuers.

“Initial listing fees billed” and “additional listing fees billed”

Toronto Stock Exchange customers are billed for initial and additional listing fees, and 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 use the terms “initial listing fees billed” and “additional listing fees billed”.

Management uses these measures to assess the effectiveness of our strategy to serve our listed issuers and to manage the listings portion of our business. This is how our international peers, who report using International Financial Reporting Standards (IFRS), currently account for these fees. These non-GAAP revenue measures provide investors with 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.

Market Conditions and Outlook¹

Our revenue is impacted by the levels and nature of market activity on our exchanges. This activity is influenced by customer and product mix, including: volumes / contracts traded in cash equities and fixed income products, as well as derivatives and energy products; the number and market capitalization of listed issuers; the number and value of new and additional listings; as well as the number of subscribers to market data. While it is not possible to quantify the potential changes in some of these measures, future economic and market conditions will continue to affect these revenue drivers and impact future revenue and net income given our largely fixed cost structure.

We operate in the highly competitive exchange industry. Alternative trading systems have entered the Canadian equities market and have fragmented trading volumes when compared with last year. Though our share of equity trading was relatively stable in the first nine months of 2010, we expect to continue to face significant competitive pressure in this multi-marketplace environment. Our subsidiary Boston Options Exchange Group, LLC, or BOX faces intense competition in the U.S. options market.

In 2010, we have seen renewed corporate development activity in the exchange sector. In June, U.S. options exchange CBOE Holdings Inc. completed an initial public offering and in July, IntercontinentalExchange, Inc. (ICE) entered the global carbon market by acquiring London-based Climate Exchange plc, which operates the European Climate Exchange, the Chicago Climate Exchange and the Chicago Climate Futures Exchange. On October 25, 2010, Singapore Exchange Ltd. offered approximately US\$8.3 billion for all of ASX Ltd., the operator of the Australian Securities Exchange. As part of our strategic planning process, we regularly assess different strategic alternatives available to us, which would enable us to further enhance our competitive position in Canada and the global capital markets. We remain committed to exploring opportunities for growth, whether organically, or in other ways such as acquisitions, investments, partnerships or business combinations, that both fit our strategic plan and provide shareholder value.

From a macro perspective, a continued recovery in the global and Canadian economies should have an overall positive impact on our key revenue drivers, as a growing economy typically

¹ The “Market Conditions and Outlook” section above contains certain forward-looking statements. Please refer to “*Caution Regarding Forward-Looking Information*” for a discussion of risks and uncertainties related to such statements.

leads to new public offerings and higher financing activity; the growth of capital may in turn drive more investing and trading activity across all asset classes and venues.

Our belief is that over the long term, well-regulated neutral exchanges and clearing houses with ownership structures that are free of conflict will continue to play a key role in the success of capital markets. We provide transparent markets for capital formation and price discovery along with effectively collateralized clearing mechanisms for managing counterparty credit risk. We believe we are strategically positioned domestically and internationally to continue to succeed in this environment.

2010 Strategic Initiatives

Equity Trading²

TMX Group remains committed to bringing competitively-priced, responsive, innovative products and services to market as customer needs continue to evolve in the multiple marketplace environment.

- Technology
 - In keeping with our commitment to deliver state of the art levels of technology to our markets, we are continuing to invest in, and are implementing a multi-phased initiative to upgrade, the infrastructure across our trading and data enterprise. In order to increase throughput capability, we are upgrading our internal networks, storage and application servers. The first expansion phase was completed in 1H/10. The second phase is underway. The upgrade of the trading and data enterprise is designed to improve our overall market leading infrastructure to better serve our existing customers and to attract additional customers and order flow to our marketplace.
- Products
 - In September, 2010, we announced the introduction of new on-book non-displayed order types on Toronto Stock Exchange and TSX Venture Exchange. Designed for trading customers who are seeking price improvement and trading with minimal market impact, these "dark" orders will be fully integrated into the existing order book on each exchange, meaning these new non-displayed orders will interact and trade with visible as well as other non-displayed orders.

The two new order types, which have received regulatory approval, are:

- (i) Non-displayed Mid-Point Orders, which are designed to execute at the Canadian Best Bid/Offer (CBBO) mid-point price with an optional limit price; and

² The "Equity Trading" section above contains certain forward-looking statements. Please refer to "*Caution Regarding Forward-Looking Information*" for a discussion of risks and uncertainties related to such statements.

- (ii) Non-displayed Limit Priced Orders, which will trade at their limit price or better, with the exchanges automatically adjusting the book price to protect against trade through.

Non-displayed orders will provide meaningful price improvement and will execute only after all Toronto Stock Exchange/TSX Venture Exchange visible and iceberg orders at the same price have been executed, ensuring that the quality of the visible market is retained. The TSX/TSX Venture Exchange non-displayed order types are planned to be released into the customer test environment in November 2010.

- In October 2010, we announced that we had submitted regulatory filings to create a new alternative trading system (ATS). TMX Select™, a wholly-owned subsidiary of TMX Group, will offer a visible marketplace for trading equity securities. TMX Select will operate on TMX Group's high-performance TSX Quantum® trading platform, with functionality and pricing models separate and distinct from Toronto Stock Exchange and TSX Venture Exchange. The new trading system will be accessed through existing TSX connectivity, thus increasing client choice with minimal cost impact and effort.

TMX Select will feature, among other things: expanded trading hours, additional opportunities to execute trades, a simplified market structure with continuous trading of board lots only and no special terms; and strict price-time priority for visible orders. The launch of TMX Select is expected to occur in Q2/11, subject to regulatory approvals.

- Pricing

- Effective March 1, 2010, we reduced trading fees for securities trading under \$1.00 on TSX Venture Exchange and Toronto Stock Exchange. The new fee structure, designed to benefit both active and passive traders of all sizes, includes the elimination of the tiered pricing model that saw fees adjusted based on trader volumes and its replacement by a new, lower single fee schedule for securities trading under \$1.00.
- Effective April 1, 2010, we reduced trading fees for securities trading at \$1.00 and higher on Toronto Stock Exchange and TSX Venture Exchange. These changes were designed to encourage higher volume and liquidity levels and further enhance our competitive position. The changes included replacing the previous three-tiered, volume based fee structure with a simpler two-tier structure and reducing the active fee paid by customers trading in the lower tier, and increasing the liquidity providing rebate to both the low and mid tier customer. In addition, we introduced a separate program to reward qualifying high-volume Participating Organizations.

Issuer Services

- In the first nine months of 2010, we continued to realize the benefits of our international expansion efforts. We added a record 44 new international issuers to Toronto Stock Exchange and TSX Venture Exchange, compared with 16 new international issuers in the first nine months of 2009.

Energy Trading³

- In 2010, Natural Gas Exchange (NGX) has launched clearing services at 10 new hubs in the U.S. bringing the number of U.S. clearing locations to 30. NGX also clears crude oil at 10 locations and clears physical gas at 17 locations in Canada in addition to offering 2 financial gas products and 2 financial power products.

Derivatives Trading and Clearing⁴

- On June 18, 2010, Montréal Exchange Inc. (MX) launched trading of a new futures contract designed to enable market participants to better manage the risk associated with the fluctuation of the price differential between heavy crude oil and light crude oil. The new Canadian heavy crude oil futures contract is based on the price of NGX Western Canadian Select (WCS), the benchmark for heavy crude oil in Canada. Trades are cleared by the Canadian Derivatives Clearing Corporation (CDCC), which is wholly owned by MX. This product demonstrates the key strategic linkages among the TMX Group business areas.
- Our derivatives clearing business, CDCC, has been working with industry and regulatory authorities to develop the infrastructure for central counterparty services for the Canadian fixed income market. The introduction of one solution, the clearing of OTC fixed income repurchase agreements, is scheduled for late 2010 or early 2011. Plans are underway to develop further products like general collateral repos, interest rate swaps and other potential OTC products.
- On October 18, 2010, together with Standard & Poor's, we launched the S&P/TSX 60 VIX index. Developed as a means to gauge volatility, this new index measures the 30-day implied volatility of the Canadian stock market using near-term and next-term S&P/TSX 60 Index options, which trade on MX.

Market Data

- On June 17, 2010, we announced that we had completed the construction of our new co-location facility. Clients began installing their trading applications in the TMX data centre on June 30, 2010. Our co-location facility provides our trading and data clients with a single point of direct high-speed access to the Toronto Stock Exchange, TSX Venture Exchange and MX trading engines and market data feeds.
- In Q3/10, two new Toronto Stock Exchange indices were launched to complement the core S&P/TSX benchmark indices and provide innovative products for the capital markets:

³ The "Energy Trading" section above contains certain forward-looking statements. Please refer to "*Caution Regarding Forward-Looking Information*" for a discussion of risks and uncertainties related to such statements.

⁴ The "Derivatives Trading" section above contains certain forward-looking statements. Please refer to "*Caution Regarding Forward-Looking Information*" for a discussion of risks and uncertainties related to such statements.

- In August 2010, S&P launched the S&P/TSX North American Preferred Stock Index, designed to provide investors with the opportunity to achieve broad diversification and exposure to North American preferred stocks.
- In September 2010, S&P launched the S&P/TSX MegaCap Index, a large-cap index highlighting the 25 largest, most liquid stocks listed on Toronto Stock Exchange. The Index is derived from the S&P/TSX Composite Index, a widely followed gauge of the Canadian equity market.

Quarter Ended September 30, 2010 Compared with Quarter Ended September 30, 2009

Net income was \$50.8 million or \$0.68 per common share for Q3/10 on a basic and diluted basis, compared with net income of \$41.7 million or \$0.56 per common share on a basic and diluted basis for Q3/09, representing an increase in net income of 22%. The increase in net income was largely due to higher revenue and a decrease in expenses.

Revenue

Revenue was \$141.6 million in Q3/10, up \$10.0 million, or 8% compared with \$131.6 million for Q3/09, reflecting increased revenue from issuer services, market data, cash markets fixed income trading, Canadian derivatives markets trading and clearing and energy trading and clearing, partially offset by lower revenue from cash markets equity trading and U.S. derivatives markets trading.

Issuer Services Revenue

The following is a summary of issuer services revenue reported based on initial and additional listing fee revenue reported, and issuer services revenue based on initial and additional listing fees billed* (reconciled below in this section) in Q3/10 and Q3/09.

(in millions of dollars)

	<i>Reported</i>				<i>Billed*</i>			
	Q3/10	Q3/09	\$ Increase/ (decrease)	% Increase/ (decrease)	Q3/10	Q3/09	\$ Increase/ (decrease)	% Increase/ (decrease)
<i>Initial listing fees</i>	\$ 4.7	\$ 4.2	\$ 0.5	12%	\$ 5.2	\$ 3.0	\$ 2.2	73%
<i>Additional listing fees</i>	\$ 16.7	\$ 14.6	\$ 2.1	14%	\$ 20.6	\$ 22.4	(\$ 1.8)	(8%)
<i>Sustaining listing fees</i>	\$ 16.3	\$ 13.6	\$ 2.7	20%	\$ 16.3	\$ 13.6	\$ 2.7	20%
<i>Other issuer services</i>	<u>\$ 2.8</u>	<u>\$ 3.0</u>	<u>(\$ 0.2)</u>	(7%)	<u>\$ 2.8</u>	<u>\$ 3.0</u>	<u>(\$ 0.2)</u>	(7%)
<i>Total</i>	<u>\$ 40.5</u>	<u>\$ 35.4</u>	<u>\$ 5.1</u>	14%	<u>\$ 44.9</u>	<u>\$ 42.0</u>	<u>\$ 2.9</u>	7%

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

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 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:

Initial Listing Fees (in millions of dollars)	Q3/10	Q3/09
Initial listing fees billed*	\$ 5.2	\$ 3.0
Initial listing fees billed* and deferred to future periods	(\$ 5.1)	(\$ 2.9)
Recognition of initial listing fees billed* and previously included in deferred revenue	<u>\$ 4.6</u>	<u>\$ 4.1</u>
Initial listing fee revenue reported	<u>\$ 4.7</u>	<u>\$ 4.2</u>
Additional Listing Fees (in millions of dollars)	Q3/10	Q3/09
Additional listing fees billed*	\$ 20.6	\$ 22.4
Additional listing fees billed* and deferred to future periods	(\$ 20.3)	(\$ 22.0)
Recognition of additional listing fees billed* and previously included in deferred revenue	<u>\$ 16.4</u>	<u>\$ 14.2</u>
Additional listing fee revenue reported	<u>\$ 16.7</u>	<u>\$ 14.6</u>

- *Initial and additional listing fees reported* increased in Q3/10 compared with Q3/09, reflecting an increase in capital market activity during the period from October 1, 2000 to September 30, 2010 compared with the period from October 1, 1999 to September 30, 2009. *Initial listing fees billed** in Q3/10 increased over Q3/09 largely due to an increase in the value and number of initial financings on TSX Venture Exchange, and an increase in the number of new issuers listed on Toronto Stock Exchange in Q3/10 compared with Q3/09. *Additional listing fees billed** in Q3/10 decreased over Q3/09 due to a decrease in the value and number of additional financings on Toronto Stock Exchange, partially offset by fee changes on Toronto Stock Exchange which were effective January 1, 2010, and an increase in the value of additional financings on TSX Venture Exchange.
- 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 the overall higher market capitalization of listed issuers on both exchanges at the end of 2009 compared with the end of 2008.

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

Trading, Clearing and Related Revenue

(in millions of dollars)

	Q3/10	Q3/09	\$ increase/ (decrease)	% increase/ (decrease)
<i>Cash markets revenue</i>	\$ 24.1	\$ 26.7	(\$ 2.6)	(10%)
<i>Derivatives markets revenue</i>	\$ 21.0	\$ 19.4	\$ 1.6	8%
<i>Energy markets revenue</i>	<u>\$ 12.9</u>	<u>\$ 10.3</u>	<u>\$ 2.6</u>	25%
<i>Total</i>	<u>\$ 58.0</u>	<u>\$ 56.4</u>	<u>\$ 1.6</u>	3%

Cash Markets

- The decrease in *cash markets* equity trading revenue was as a result of changes to our equity trading fee schedule on October 1, 2009 and March 1, 2010, which included reductions in active trading fees on securities trading at less than \$1.00 in the post-open continuous market and on April 1, 2010, which included a reduction in trading fees for securities trading at \$1.00 and higher. The fee reductions were somewhat offset by fee changes under the ELP Program. Effective October 1, 2009, we moved to a single tier model which reduced the passive credit paid to ELP Program participants.
- *Cash markets* equity trading revenue also decreased due to a 17% decrease in the volume of securities traded on Toronto Stock Exchange in Q3/10 over Q3/09 (23.54 billion securities in Q3/10 versus 28.31 billion securities in Q3/09) somewhat offset by the impact of a 16% increase in the volume of securities traded on TSX Venture Exchange in Q3/10 over Q3/09 (14.47 billion securities in Q3/10 versus 12.45 billion securities in Q3/09). From a revenue perspective, we also had a favourable change in the mix of customer and product trading activity on Toronto Stock Exchange in Q3/10 compared with Q3/09.
- The decrease was partially offset by an increase in fixed income trading revenue from Shorcan Brokers Limited (Shorcan) due to a more favourable product mix in Q3/10 compared with Q3/09.

Derivatives Markets

- The increase in *derivatives markets* revenue reflects an increase in trading and clearing revenue from MX and CDCC. MX volumes increased by 28% (10.64 million contracts traded in Q3/10 versus 8.33 million contracts traded in Q3/09) reflecting increased trading in the BAX[®] and CGB[®] contracts, as well as equity options. The growth in volumes in Q3/10 partially reflected increased volatility in future interest rate expectations compared with Q3/09. The increase in revenue was partially offset by fee reductions that were effective May 1, 2010. Open interest was up 23% at September 30, 2010 compared with September 30, 2009.
- The increase in *derivatives markets* revenue was partially offset by a reduction in BOX revenues. There was a 29% decrease in BOX volumes (24.26 million contracts in Q3/10 versus 34.06 million contracts traded in Q3/09) due to a decrease in overall U.S. equity

options trading activity and increased competition in Q3/10 compared with Q3/09. The decrease was somewhat offset by revenue from option regulatory fees charged in the U.S. in respect of BOX in Q3/10.

Energy Markets

- The increase in *energy markets* revenue reflects the inclusion of revenue from Shorcan Energy Brokers Inc. (Shorcan Energy Brokers) which launched inter-participant brokerage in energy products in Q1/10.
- The higher revenue also reflected a 27% increase in total energy volume⁺ on NGX over Q3/09 (4.93 million terajoules in Q3/10 compared to 3.88 million terajoules in Q3/09).
- The higher revenue was somewhat offset by the impact of the depreciation of the U.S. dollar against the Canadian dollar in Q3/10 compared with Q3/09.
- The increased revenue was also somewhat offset by NGX having deferred more revenue in Q3/10, on a net basis, than in Q3/09 due to an increased level of forward contracts.

Market Data Revenue

(in millions of dollars)

Q3/10	Q3/09	\$ increase	% increase
\$ 38.8	\$ 35.8	\$3.0	8%

- The increase reflects higher revenue from co-location services, fixed income indices and index data licensing.
- Overall, there was a 4% increase in the average number of professional and equivalent real-time market data subscriptions to Toronto Stock Exchange and TSX Venture Exchange products (152,887 professional and equivalent real-time market data subscriptions for the three months ended September 30, 2010 compared with 147,429 for three months ended September 30, 2009).
- There was a 4% increase in the average number of MX market data subscriptions (23,427 MX market data subscriptions for the three months ended September 30, 2010 compared with 22,482 for the three months ended September 30, 2009).
- The increases were partially offset by the impact of the depreciation of the U.S. dollar against the Canadian dollar in Q3/10 compared with Q3/09.

⁺ NGX total energy volume includes trading and clearing in natural gas, crude oil and electricity.

Business Services and Other Revenue

(in millions of dollars)

Q3/10	Q3/09	\$ increase	% increase
\$ 4.3	\$ 4.0	\$0.3	8%

- *Business services* revenue increased primarily due to a net decrease in foreign exchange losses on U.S. dollar accounts receivable in Q3/10, compared with Q3/09.

Operating Expenses

Operating expenses in Q3/10 were \$68.2 million, down \$1.6 million, or 2%, from \$69.8 million in Q3/09 primarily due to lower compensation and benefits, information and trading technology and general and administration costs.

Compensation and Benefits

(in millions of dollars)

Q3/10	Q3/09	\$ (decrease)	% (decrease)
\$ 32.3	\$ 32.5	(\$0.2)	(1%)

- *Compensation and benefits* costs decreased primarily due to higher capitalization of technology staff costs and lower organizational transition costs, partially offset by higher costs associated with commission-based compensation in Q3/10 compared with Q3/09.
- There were 838 employees at September 30, 2010 versus 845 employees at September 30, 2009.

Information and Trading Systems

(in millions of dollars)

Q3/10	Q3/09	\$ (decrease)	% (decrease)
\$ 10.5	\$ 12.1	(\$1.6)	(13%)

- *Information and trading systems* costs decreased following the decommissioning of legacy hardware in Q2/10.
- In addition, during Q4/09, we reclassified some leases as capital leases versus operating leases. As a result, Information and Trading Systems costs were reduced in Q3/10 and amortization of the related costs was higher (see **Amortization**) when compared with Q3/09.
- These reductions have been partially offset by higher costs related to technology initiatives including enterprise expansion, and increased costs associated with higher energy volumes.

General and Administration

(in millions of dollars)

Q3/10	Q3/09	\$ (decrease)	% (decrease)
\$ 17.3	\$ 17.6	(\$0.3)	(2%)

- *General and administration* costs decreased as a result of reduced capital tax, lower bad debt expenses, lower consulting expenses and reduced occupancy costs. These decreases were partially offset by higher initiatives costs including occupancy and electricity costs related to our co-location facility.

Amortization

(in millions of dollars)

Q3/10	Q3/09	\$ increase	% increase
\$ 8.0	\$ 7.6	\$0.4	5%

- During Q4/09, we reclassified some leases as capital leases versus operating leases. As a result, *Amortization* costs were higher in Q3/10 and *Information and Trading Systems* costs were reduced (see **Information and Trading Systems**) when compared with Q3/09.
- The increase was also due to higher amortization of the assets related to the TMX Smart Order Router, TSX Quantum Order Entry Gateway, enterprise expansion and co-location. The increases were somewhat offset by reduced amortization relating to assets that were fully depreciated by Q3/10.

Investment Income

(in millions of dollars)

Q3/10	Q3/09	\$ increase	% increase
\$ 2.1	\$ 1.3	\$0.8	62%

- *Investment income* increased primarily due to an increase in the amount of cash available for investment in Q3/10 compared with Q3/09.

Interest Expense

(in millions of dollars)

Q3/10	Q3/09	\$ increase	% increase
\$ 1.7	\$ 1.3	\$0.4	31%

- *Interest expense* has increased due to a higher average interest rate charged on the debt outstanding during Q3/10 compared with Q3/09. In addition, *interest expense*

included interest on capital leases in Q3/10 (see **Amortization**). On April 30, 2008, we borrowed \$430.0 million in Canadian funds related to financing the cash consideration of the purchase price for MX (see **Term Loan**).

Income Taxes

(in millions of dollars)

Q3/10	Q3/09	Effective tax rate (%)	
		Q3/10	Q3/09
\$ 23.1	\$ 19.4	31%	32%

- The effective tax rate for Q3/10 was lower than that for Q3/09 partially due to a decrease in federal and Ontario corporate income tax rates.

Non-Controlling Interests

(in millions of dollars)

Q3/10	Q3/09	\$ (decrease)	% (decrease)
\$0.3	\$0.7	(\$0.4)	(57%)

- MX holds a 53.8% ownership interest in BOX. The results for BOX are consolidated into our statements of income. The non-controlling interests represent the other BOX unitholders' share of BOX's loss or profit in the period. The Q3/10 results reflect lower volumes on BOX, somewhat offset by revenue from option regulatory fees charged in the U.S. in respect of BOX.

Nine Months Ended September 30, 2010 Compared with Nine Months Ended September 30, 2009

Net income was \$147.5 million or \$1.98 per common share for the first nine months of 2010 on a basic and diluted basis, compared with net income of \$131.5 million or \$1.78 per common share (\$1.77 on a diluted basis) for the first nine months of 2009, representing an increase in net income of 12%. The increase in net income was largely due to higher revenue partially offset by higher expenses due to a continued investment in various technology initiatives, and higher costs related to corporate development, marketing and commission-based compensation.

Revenue

Revenue was \$424.0 million in the first nine months of 2010, up \$17.4 million, or 4% compared with \$406.6 million for the first nine months of 2009, reflecting increased revenue from issuer services, cash markets fixed income trading, Canadian derivatives markets trading and clearing, market data and energy trading and clearing, partially offset by lower revenue from cash markets equity trading and U.S. derivatives markets trading.

Issuer Services Revenue

The following is a summary of issuer services revenue reported based on initial and additional listing fee revenue reported, and issuer services revenue based on initial and additional listing fees billed* (reconciled below in this section) in the first nine months of 2010 and the first nine months of 2009.

(in millions of dollars)

	Reported				Billed*			
	Nine months ended		\$	%	Nine months ended		\$	%
	Sept. 30/10	Sept. 30/09			Sept. 30/10	Sept. 30/09		
<i>Initial listing fees</i>	\$ 13.8	\$ 12.6	\$ 1.2	10%	\$ 18.3	\$ 6.9	\$ 11.4	165%
<i>Additional listing fees</i>	\$ 48.7	\$ 42.4	\$ 6.3	15%	\$ 71.7	\$ 62.4	\$ 9.3	15%
<i>Sustaining listing fees</i>	\$ 48.3	\$ 41.1	\$ 7.2	18%	\$ 48.3	\$ 41.1	\$ 7.2	18%
<i>Other issuer services</i>	\$ 10.1	\$ 10.2	(\$ 0.1)	(1%)	\$ 10.1	\$ 10.2	(\$ 0.1)	(1%)
<i>Total</i>	<u>\$120.9</u>	<u>\$106.3</u>	<u>\$ 14.6</u>	14%	<u>\$148.4</u>	<u>\$120.6</u>	<u>\$ 27.8</u>	23%

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 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:

	Nine months ended	
	Sept. 30/10	Sept. 30/09
Initial Listing Fees (in millions of dollars)		
Initial listing fees billed*	\$ 18.3	\$ 6.9
Initial listing fees billed* and deferred to future periods	(\$ 17.5)	(\$ 6.6)
Recognition of initial listing fees billed* and previously included in deferred revenue	<u>\$ 13.0</u>	<u>\$ 12.3</u>
Initial listing fee revenue reported	<u>\$ 13.8</u>	<u>\$ 12.6</u>

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

Additional Listing Fees (in millions of dollars)	Nine months ended	
	Sept. 30/10	Sept. 30/09
Additional listing fees billed*	\$ 71.7	\$ 62.4
Additional listing fees billed* and deferred to future periods	(\$ 68.7)	(\$ 60.0)
Recognition of additional listing fees billed* and previously included in deferred revenue	<u>\$ 45.7</u>	<u>\$ 40.0</u>
Additional listing fee revenue reported	<u>\$ 48.7</u>	<u>\$ 42.4</u>

- *Initial and additional listing fees reported* increased in the first nine months of 2010 compared with the first nine months of 2009, reflecting an increase in capital market activity during the period from April 1, 2000 to September 30, 2010 compared with the period from April 1, 1999 to September 30, 2009.
- *Initial listing fees billed** in the first nine months of 2010 increased over the first nine months of 2009 due to an increase in the value of initial financings and the number of new issuers listed on Toronto Stock Exchange and TSX Venture Exchange. *Additional listing fees billed** in the first nine months of 2010 increased over the first nine months of 2009 due to an increase in the value and number of additional financings on TSX Venture Exchange. While the value and number of additional financings on Toronto Stock Exchange decreased in the first nine months of 2010 compared with the first nine months of 2009, there was an increase in *Additional listing fees billed** as a result of fee changes that were effective January 1, 2010.
- 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 the overall higher market capitalization of listed issuers on both exchanges at the end of 2009 compared with the end of 2008.

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

Trading, Clearing and Related Revenue

(in millions of dollars)

	Nine months ended		\$ increase/ (decrease)	% increase/ (decrease)
	Sept. 30/10	Sept. 30/09		
<i>Cash markets revenue</i>	\$ 81.5	\$ 85.9	(\$ 4.4)	(5%)
<i>Derivatives markets revenue</i>	\$ 60.6	\$ 61.3	(\$ 0.7)	(1%)
<i>Energy markets revenue</i>	<u>\$ 33.4</u>	<u>\$ 29.4</u>	<u>\$ 4.0</u>	14%
<i>Total</i>	<u>\$ 175.5</u>	<u>\$ 176.6</u>	<u>(\$ 1.1)</u>	(1%)

Cash Markets

- *Cash markets* equity trading revenue decreased due to an 18% decrease in the volume of securities traded on Toronto Stock Exchange in the first nine months of 2010 over the first nine months of 2009 (75.02 billion securities in the first nine months of 2010 versus 91.34 billion securities in the first nine months of 2009).
- The decrease was somewhat offset by a 41% increase in the volume of securities traded on TSX Venture Exchange in the first nine months of 2010 over the first nine months of 2009 (44.56 billion securities in the first nine months of 2010 versus 31.57 billion securities in the first nine months of 2009).
- From a revenue perspective, we also had a favourable change in the mix of customer and product trading activity on Toronto Stock Exchange in the first nine months of 2010 compared with the first nine months of 2009.
- The decrease was also the result of changes to our equity trading fee schedule on October 1, 2009 and March 1, 2010, which included reductions in active trading fees on securities trading at less than \$1.00 in the post-open continuous market and on April 1, 2010, which included a reduction in trading fees for securities trading at \$1.00 and higher. The fee reductions were somewhat offset by fee changes under the ELP Program. Effective October 1, 2009, we moved to a single tier model which reduced the passive credit paid to ELP Program participants.
- The decrease was partially offset by an increase in fixed income trading revenue from Shorcan due to a more favourable product mix in the first nine months of 2010 compared with the first nine months of 2009.

Derivatives Markets

- The decrease in *derivatives markets* revenue reflects a 45% decrease in BOX volumes (65.74 million contracts in the first nine months of 2010 versus 118.87 million contracts traded in the first nine months of 2009) due to increased competition in the U.S. equity options trading market in the first nine months of 2010 compared with the first nine months of 2009. The decrease was somewhat offset by revenue from option regulatory fees charged in the U.S. in respect of BOX in the first nine months of 2010.

- The decrease in *derivatives markets* revenue was somewhat offset by an increase in trading and clearing revenue from MX and CDCC. MX volumes increased by 31% (32.58 million contracts traded in the first nine months of 2010 versus 24.93 million contracts traded in the first nine months of 2009) reflecting increased trading in the BAX and CGB contracts, as well as index derivatives and ETF options. The growth in volumes in the first nine months of 2010 partially reflected increased volatility in future interest rate expectations compared with the first nine months of 2009. The increase in revenue was partially offset by fee changes that were effective May 1, 2010. Open interest was up 23% at September 30, 2010 compared with September 30, 2009.

Energy Markets

- The increase in *energy markets* revenue reflects the inclusion of revenue from Shorcan Energy Brokers which launched inter-participant brokerage in energy products in Q1/10.
- The higher revenue also reflected a 13% increase in total energy volume⁺ over the first nine months of 2009 (12.54 million terajoules in the first nine months of 2010 compared to 11.10 million terajoules in the first nine months of 2009).
- The higher revenue was somewhat offset by the impact of the depreciation of the U.S. dollar against the Canadian dollar in the first nine months of 2010 compared with the first nine months of 2009.
- The increased revenue was partially offset as a result of NGX deferring more revenue in the first nine months of 2010, on a net basis, than in the first nine months of 2009.

Market Data Revenue

(in millions of dollars)

Nine months ended			
Sept. 30/10	Sept. 30/09	\$ increase	% increase
\$ 115.0	\$ 111.9	\$3.1	3%

- The increase was due to higher revenue from fixed income indices, co-location services, index data licensing, and higher usage-based activity in the first nine months of 2010 compared with the first nine months of 2009.
- Overall, there was a 1% increase in the average number of professional and equivalent real-time market data subscriptions to Toronto Stock Exchange and TSX Venture Exchange products (152,913 professional and equivalent real-time market data subscriptions for the nine months ended September 30, 2010 compared with 152,158 for the nine months ended September 30, 2009). There was a 9% decrease in the average number of MX market data subscriptions (23,085 MX market data subscriptions for the

⁺ NGX total energy volume includes trading and clearing in natural gas, crude oil and electricity.

nine months ended September 30, 2010 compared with 25,236 for the nine months ended September 30, 2009).

- The increase was partially offset by the impact of the depreciation of the U.S. dollar against the Canadian dollar in the first nine months of 2010 compared with the first nine months of 2009.
- The increase was also offset by lower revenue from BOX derivatives market data.

Business Services and Other Revenue

(in millions of dollars)

Nine months ended			
Sept. 30/10	Sept. 30/09	\$ increase	% increase
\$ 12.6	\$ 11.9	\$0.7	6%

- *Business services* revenue increased primarily due to a net decrease in foreign exchange losses on U.S. dollar accounts receivable in the first nine months of 2010, compared with the first nine months of 2009.

Operating Expenses

Operating expenses in the first nine months of 2010 were \$211.6 million, up \$2.8 million, or 1%, from \$208.8 million in the first nine months of 2009 primarily due to higher costs related to technology initiatives, corporate development and marketing as well as commission-based compensation.

Compensation and Benefits

(in millions of dollars)

Nine months ended			
Sept. 30/10	Sept. 30/09	\$ (decrease)	% (decrease)
\$ 97.0	\$ 97.4	(\$0.4)	-

- *Compensation and benefits* costs decreased primarily due to lower organizational transition costs, as well as an overall reduction in salary and benefits and recruitment costs relating to reduced headcount, partially offset by higher costs associated with commission-based compensation compared with the first nine months of 2009.
- There were 838 employees at September 30, 2010 versus 845 employees at September 30, 2009.

Information and Trading Systems

(in millions of dollars)

Nine months ended

Sept. 30/10	Sept. 30/09	\$ increase	% increase
\$ 36.7	\$ 35.0	\$1.7	5%

- *Information and trading systems* costs increased due to higher costs related to technology initiatives including enterprise expansion and increased costs associated with higher energy volumes. This increase was partially offset by decreased costs following the decommissioning of legacy hardware in Q2/10.
- During Q4/09, we reclassified some leases as capital leases versus operating leases. As a result, *Information and Trading Systems* costs were reduced in the first nine months of 2010 and amortization of the related costs was higher (see **Amortization**) when compared with the first nine months of 2009.

General and Administration

(in millions of dollars)

Nine months ended

Sept. 30/10	Sept. 30/09	\$ (decrease)	% (decrease)
\$ 53.5	\$ 54.2	(\$0.7)	(1%)

- *General and administration* costs decreased as a result of lower capital tax expense, reduced insurance costs, lower bad debt expense and reduced occupancy costs.
- The lower expenses were somewhat offset by increased corporate development and marketing costs.

Amortization

(in millions of dollars)

Nine months ended

Sept. 30/10	Sept. 30/09	\$ increase	% increase
\$ 24.4	\$ 22.2	\$2.2	10%

- During Q4/09, we reclassified some leases as capital leases versus operating leases. As a result, *Amortization* costs were higher in the first nine months of 2010 and *Information and Trading Systems* costs were reduced (see **Information and Trading Systems**) when compared with the first nine months of 2009.

- The increase was also due to higher amortization of the assets related to enterprise expansion, the TSX Quantum Order Entry Gateway, the TMX Smart Order Router, SOLA[®] Clearing and co-location. The increases were somewhat offset by reduced amortization relating to assets that were fully depreciated by the first nine months of 2010.

Investment Income

(in millions of dollars)

Nine months ended

Sept. 30/10	Sept. 30/09	\$ increase	% increase
\$ 4.7	\$ 4.3	\$0.4	9%

- *Investment income* increased primarily due to an increase in the amount of cash available for investment in the first nine months of 2010 compared with the first nine months of 2009, partially offset by lower overall returns during the first nine months of 2010.

Interest Expense

(in millions of dollars)

Nine months ended

Sept. 30/10	Sept. 30/09	\$ (decrease)	% (decrease)
\$ 4.2	\$ 4.7	(\$0.5)	(11%)

- *Interest expense* decreased as a result of a lower average interest rate charged on the debt outstanding during the first nine months of 2010 compared with the first nine months of 2009. The decrease was partially offset by interest on capital leases during the first nine months of 2010 (see **Amortization**). On April 30, 2008, we borrowed \$430.0 million in Canadian funds related to financing the cash consideration of the purchase price for MX (see **Term Loan**).

Mark-to-market on Interest Rate Swaps – Loss

(in millions of dollars)

Nine months ended

Sept. 30/10	Sept. 30/09	\$ (decrease)	% (decrease)
\$0.2	\$0.8	(\$0.6)	(75%)

- We entered into a series of interest rate swap agreements to partially manage our exposure to interest rate fluctuations on our long-term debt, effective August 28, 2008 (see **Term Loan**).

- During the first nine months of 2010, unrealized gains of \$4.3 million and realized losses of \$4.5 million were reflected in net income, compared with unrealized gains of \$5.6 million and realized losses of \$6.4 million recognized in the first nine months of 2009.

Income Taxes

(in millions of dollars)

Nine months ended		Effective tax rate%	
Sept. 30/10	Sept. 30/09	Sept. 30/10	Sept. 30/09
\$ 66.6	\$ 62.2	31%	32%

- The effective tax rate for the first nine months of 2010 was lower than that for the first nine months of 2009 partially due to a decrease in federal and Ontario corporate income tax rates.

Non-Controlling Interests

(in millions of dollars)

Nine months ended			
Sept. 30/10	Sept. 30/09	\$ (decrease)	% (decrease)
(\$0.5)	\$3.0	(\$3.5)	(117%)

- MX holds a 53.8% ownership interest in BOX. BOX results are consolidated into our consolidated statements of income. The non-controlling interests represent the other BOX unitholders' share of BOX's loss or profit in the period. The loss in the first nine months of 2010 resulted from lower volumes on BOX somewhat offset by revenue from option regulatory fees charged in the U.S. in respect of BOX.

Segment Analysis

Cash Markets - Equities and Fixed Income

(in millions of dollars)

	Q3/10	Q3/09	\$ increase	% increase
Revenue	\$102.3	\$96.6	\$5.7	6%
Net Income	\$39.2	\$33.6	\$5.6	17%

The increase in revenue primarily reflects higher issuer services revenue related to sustaining and additional listing fees as well as higher fixed income trading and non-subscription based market data revenue, partially offset by a decrease in equity trading revenue. The increase in net income reflected the higher revenue and lower operating expenses primarily due to shifting to a lower cost technology platform.

(in millions of dollars)

	Nine months ended			
	Sept. 30/10	Sept. 30/09	\$ increase	% increase
Revenue	\$314.1	\$299.3	\$14.8	5%
Net Income	\$118.5	\$107.9	\$10.6	10%

The increase in revenue primarily reflects higher issuer services revenue related to sustaining and additional listing fees as well as higher fixed income trading and market data revenue partially offset by a decrease in equity trading revenue. The increase in net income reflected the higher revenue somewhat offset by increased expenses partially attributable to technology initiatives in 1H/10 and higher amortization.

(in millions of dollars)

	September 30, 2010	September 30, 2009	\$ increase
Goodwill	\$116.9	\$116.9	-
Total Assets	\$604.6	\$500.4	\$104.2

The amount of goodwill remained constant in Q3/10 compared with Q3/09. Total assets increased primarily due to an increase in cash and marketable securities at the end of Q3/10 compared with the end of Q3/09.

Derivative Markets – MX and BOX

(in millions of dollars)

	Q3/10	Q3/09	\$ increase	% increase
Revenue	\$26.3	\$24.8	\$1.5	6%
Net Income	\$7.5	\$5.3	\$2.2	42%

The increase in revenue reflects an increase in trading and clearing revenue from MX and CDCC, somewhat offset by lower revenue and volumes on BOX, which is fully consolidated in revenue for this segment. The decrease in BOX's trading revenue was somewhat offset by revenue from option regulatory fees charged in the U.S. in respect of BOX in Q3/10. Net income for Q3/10 increased over Q3/09 largely due to the increase in revenue as well as an overall decrease in expenses. Lower operating expenses were partially offset by a higher allocation of corporate costs.

(in millions of dollars)

	Nine months ended			
	September 30, 2010	September 30, 2009	\$ increase / (decrease)	% increase / (decrease)
Revenue	\$75.9	\$78.1	(\$2.2)	(3%)
Net Income	\$19.5	\$14.8	\$4.7	32%

The decrease in revenue largely reflects lower revenue and volumes on BOX. The decrease in BOX's trading revenue was somewhat offset by revenue from option regulatory fees charged in the U.S. in respect of BOX in the first nine months of 2010. In addition, there was a significant increase in trading and clearing revenue from MX and CDCC. Net income for the first nine months of 2010 increased over the first nine months of 2009 due to:

- A decrease in *Compensation and Benefits, General and Administration* expenses and *Amortization* costs, partially offset by a higher allocation of corporate costs and a reduction in revenue, as discussed above.
- In the first nine months of 2009, net income was reduced by \$3.0 million reflecting the non-controlling interests' share of BOX's income. However, in the first nine months of 2010, net income increased by \$0.5 million reflecting the non-controlling interests' share of BOX's loss.

(in millions of dollars)

	September 30, 2010	September 30, 2009	\$ (decrease)
Goodwill	\$414.6	\$493.8	(\$79.2)
Total Assets	\$1,568.7	\$2,069.6	(\$500.9)

The decrease in Goodwill related mainly to the non-cash goodwill impairment charge of \$77.3 million related to BOX in Q4/09.

Total Assets decreased primarily due to a reduction in Daily Settlements and Cash Deposits of \$435.4 million. MX also carried offsetting liabilities related to daily settlements and cash deposits which were \$435.4 million lower at September 30, 2010 compared with September 30, 2009. Total fund requirements have declined as a result of reduced equity market volatility. In addition, there has been a trend towards clearing members pledging securities rather than cash as collateral. The decrease in assets also reflected the non-cash goodwill impairment charge of \$77.3 million related to BOX, which was taken in Q4/09.

Energy Markets – NGX and Shorcan Energy Brokers

(in millions of dollars)

	Q3/10	Q3/09	\$ increase	% increase
Revenue	\$13.0	\$10.2	\$2.8	27%
Net Income	\$4.1	\$2.9	\$1.2	41%

The increase in revenue in Q3/10 compared with Q3/09 was partially due to the addition of revenue from Shorcan Energy Brokers in 2010. The higher revenue also reflected an increase in natural gas volumes traded or cleared on NGX in Q3/10 compared with Q3/09. The higher revenue was somewhat offset by the impact of the depreciation of the U.S. dollar against the Canadian dollar in Q3/10 compared with Q3/09. NGX also deferred more revenue in Q3/10, on a net basis, than in Q3/09 due to an increased level of forward contracts. The increase in net income reflected the increase in revenue somewhat offset by the inclusion of costs from Shorcan Energy Brokers and increased ICE outsourcing fees as a result of increased volumes.

(in millions of dollars)

	Nine months ended			
	September 30, 2010	September 30, 2009	\$ increase	% increase
Revenue	\$34.0	\$29.2	\$4.8	16%
Net Income	\$9.5	\$8.9	\$0.6	7%

The increase in revenue in the first nine months of 2010 compared with the first nine months of 2009 was largely due to the addition of revenue from Shorcan Energy Brokers. The higher revenue also reflected an increase in natural gas volumes traded or cleared on NGX in the first nine months of 2010 compared with the first nine months of 2009. The higher revenue was somewhat offset by the impact of the depreciation of the U.S. dollar against the Canadian dollar in the first nine months of 2010 compared with the first nine months of 2009. The increase in net income reflected the increase in revenue largely offset by the inclusion of costs from Shorcan Energy Brokers, a higher allocation of corporate costs and increased ICE outsourcing fees as a result of increased volumes.

(in millions of dollars)

	September 30, 2010	September 30, 2009	\$ increase / (decrease)
Goodwill	\$51.9	\$52.2	(\$0.3)
Total Assets	\$1,024.4	\$883.0	\$141.4

The increase in Total Assets was largely due to an increase in energy contracts receivable of \$202.2 million compared with the end of September 2009. The increase in receivables was largely attributable to a higher volume of contracts delivered in September 2010 as well as higher gas prices. As the clearing counterparty to every trade, NGX also carries offsetting liabilities in the form of energy contracts payable which were also \$202.2 million higher at the end of September 2010 compared with the end of September 2009. The increase was partially offset by a \$59.2 million reduction in the fair value of open energy contracts at the end of

September 2010 compared with the end of September 2009. NGX also carried offsetting liabilities related to the value of open energy contracts which were \$59.2 million lower at the end of September 2010 compared with the end of September 2009.

Liquidity and Capital Resources

Cash, Cash Equivalents and Marketable Securities

(in millions of dollars)

September 30, 2010	December 31, 2009	\$ increase
\$ 289.9	\$ 191.1	\$ 98.8

- The increase was largely due to cash generated from operating activities of \$203.7 million, partially offset by dividend payments of \$84.5 million, capital expenditures of \$11.4 million and additions to intangible assets of \$6.6 million.

Total Assets

(in millions of dollars)

September 30, 2010	December 31, 2009	\$ (decrease)
\$ 3,197.6	\$ 3,524.5	(\$ 326.9)

- *Total assets* decreased largely due to lower MX daily settlements and cash deposits of \$174.7 million as at September 30, 2010 related to MX's clearing operations, compared with \$565.4 million at the end of 2009. MX also carried offsetting liabilities related to daily settlements and cash deposits which were \$174.7 million at September 30, 2010 compared with \$565.4 million at the end of 2009. 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 options transactions each day that are required to be collected from/paid to clearing members prior to the commencement of the next trading day. Total fund requirements have declined as a result of reduced equity market volatility. In addition, there has been a trend towards clearing members pledging securities rather than cash as collateral.
- The decrease was also due to a decrease in current assets related to the fair value of open energy contracts (\$187.9 million as at September 30, 2010, compared with \$202.8 million at December 31, 2009). The reduced level of open energy contracts largely reflected the impact of lower volatility in natural gas prices for the relevant measuring period during September 2010 compared with the corresponding period in December 2009. NGX also carried offsetting liabilities related to the fair value of open energy contracts which were \$187.9 million at September 30, 2010 compared with \$202.8 million at December 31, 2009.
- The overall decrease was somewhat offset by an increase in cash and marketable securities of \$98.8 million.

Credit Facilities and Guarantee

Term Loan⁵

(in millions of dollars)

September 30, 2010	December 31, 2009	\$ increase
\$429.6	\$429.0	\$0.6

- In connection with the combination with MX, we established a non-revolving three-year term unsecured credit facility of \$430.0 million, the Term Loan. In addition, we also established a revolving three-year unsecured credit facility of \$50.0 million with the same syndicate. We 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, TMX Group's acceptance fee or spread on the loan is 0.45%. On April 30, 2008, we borrowed \$430.0 million in Canadian funds on the Term Loan to satisfy the cash consideration of the purchase price for MX. This amount is included in Current liabilities and is due on April 18, 2011. Based on current levels of cash flow from operations, we believe that the Term Loan could be repaid with a combination of existing cash, future cash flow from operations and refinancing, as required.
- 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, extraordinary, unusual or non-recurring items, depreciation and amortization, all determined in accordance with Canadian 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, 2010, all covenants were met.

⁵ The "Term Loan" section above contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainties related to such statements.

- 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 on our \$430.0 million non-revolving three-year term facility. The interest rate swap in place at September 30, 2010 is as follows:

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

Other Credit Facilities and Guarantee

To backstop its clearing operations, NGX currently has a credit agreement in place with a Canadian chartered bank which includes a US\$100.0 million clearing backstop fund. We are NGX's unsecured guarantor for this fund up to a maximum of US\$100.0 million.

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.

These facilities had not been drawn upon at September 30, 2010.

NGX also has an Electronic Funds Transfer (EFT) Daylight facility of \$300.0 million in place with a Canadian chartered bank.

Shareholders' Equity

(in millions of dollars)

September 30, 2010	December 31, 2009	\$ increase
\$ 834.2	\$ 770.6	\$ 63.6

- We earned \$147.5 million of net income during the first nine months of 2010 and paid \$84.5 million in dividends.
- At September 30, 2010, there were 74,337,607 common shares issued and outstanding. In Q3/10, no common shares were issued on the exercise of share options. At September 30, 2010, 4,097,081 common shares were reserved for issuance upon the exercise of options granted under the share option plan. At September 30, 2010, there were 1,718,567 options outstanding.
- At October 25, 2010, there were 74,337,607 common shares issued and outstanding and 1,718,567 options outstanding under the share option plan.

Cash Flows from Operating Activities

(in millions of dollars)

	Q3/10	Q3/09	Increase in cash
<i>Cash Flows from Operating Activities</i>	\$ 58.3	\$ 37.4	\$ 20.9

Cash Flows from Operating Activities were \$20.9 million higher in Q3/10 compared with Q3/09 due to:

(in millions of dollars)

	Q3/10	Q3/09	Increase/ (decrease) in cash
Net income	\$ 50.8	\$ 41.7	\$ 9.1
Amortization	\$ 8.0	\$ 7.6	\$ 0.4
Increase/(decrease) in future income tax liabilities, net of future income tax assets	(\$ 0.4)	(\$ 2.6)	\$ 2.2
Unrealized (gain) on interest rate swaps	(\$ 1.3)	(\$ 2.2)	\$ 0.9
Unrealized (gain) on marketable securities	(\$ 0.7)	(\$ 0.6)	(\$ 0.1)
Decrease/(increase) in accounts receivable and prepaid expenses	\$ 1.6	(\$ 9.3)	\$ 10.9
Decrease/(increase) in other assets	\$ 0.3	(\$ 0.9)	\$ 1.2
Net increase/(decrease) in accounts payable, accrued liabilities and long-term liabilities	\$ 7.3	\$ 4.8	\$ 2.5
(Decrease) in deferred revenue	(\$ 11.8)	(\$ 1.9)	(\$ 9.9)
(Increase)/decrease in income taxes recoverable, net of income taxes payable	\$ 3.3	(\$ 0.8)	\$ 4.1
Net increase in other items	<u>\$ 1.2</u>	<u>\$ 1.6</u>	<u>(\$ 0.4)</u>
<i>Cash Flows from Operating Activities</i>	\$ 58.3	\$ 37.4	\$ 20.9

Cash Flows from Operating Activities

(in millions of dollars)

	Nine months ended		
	Sept. 30/10	Sept. 30/09	Increase in cash
Cash Flows from Operating Activities	\$ 203.7	\$ 148.4	\$ 55.3

Cash Flows from Operating Activities were \$55.3 million higher in the first nine months of 2010 compared with the first nine months of 2009 due to:

(in millions of dollars)

	Nine months ended		
	Sept. 30/10	Sept. 30/09	Increase/ (decrease) in cash
Net income	\$ 147.5	\$ 131.5	\$ 16.0
Amortization	\$ 24.4	\$ 22.2	\$ 2.2
Increase/(decrease) in future income tax liabilities, net of future income tax assets	(\$ 3.8)	(\$ 2.6)	(\$ 1.2)
Unrealized (gain) on interest rate swaps	(\$ 4.3)	(\$ 5.6)	\$ 1.3
Unrealized (gain) on marketable securities	(\$ 0.8)	(\$ 0.3)	(\$ 0.5)
(Increase)/decrease in accounts receivable and prepaid expenses	\$ 1.7	(\$ 13.1)	\$ 14.8
(Increase) in other assets	(\$ 2.3)	(\$ 7.7)	\$ 5.4
Net (decrease) in accounts payable, accrued liabilities and long-term liabilities	(\$ 3.0)	(\$ 9.8)	\$ 6.8
Increase in deferred revenue	\$ 47.6	\$ 45.3	\$ 2.3
(Increase)/decrease in income taxes recoverable, net of income taxes payable	(\$ 4.5)	(\$ 17.0)	\$ 12.5
Net increase in other items	<u>\$ 1.2</u>	<u>\$ 5.5</u>	<u>(\$ 4.3)</u>
<i>Cash Flows from Operating Activities</i>	\$203.7	\$148.4	\$ 55.3

Cash Flows from (used in) Financing Activities

(in millions of dollars)

	Q3/10	Q3/09	(Decrease) in cash
<i>Cash Flows from (used in) Financing Activities</i>	(\$ 29.3)	(\$ 29.0)	(\$ 0.3)

Cash Flows (used in) Financing Activities were \$0.3 million higher in Q3/10 compared with Q3/09 due to:

(in millions of dollars)

	Q3/10	Q3/09	Increase/ (decrease) in cash
Dividends paid on common shares	(\$ 28.3)	(\$ 28.2)	(\$ 0.1)
Dividends paid to BOX non-controlling interests	-	(\$ 1.2)	\$ 1.2
Net increase/(decrease) in other items	<u>(\$ 1.0)</u>	<u>\$ 0.4</u>	<u>(\$ 1.4)</u>
<i>Cash Flows from (used in) Financing Activities</i>	<u>(\$ 29.3)</u>	<u>(\$ 29.0)</u>	<u>(\$ 0.3)</u>

Cash Flows from (used in) Financing Activities

(in millions of dollars)

	Nine months ended		
	Sept. 30/10	Sept. 30/09	Increase in cash
<i>Cash Flows from (used in) Financing Activities</i>	(\$ 87.5)	(\$ 120.6)	\$ 33.1

Cash Flows (used in) Financing Activities were \$33.1 million lower in the first nine months of 2010 compared with the first nine months of 2009 due to:

(in millions of dollars)

	Nine months ended		
	Sept. 30/10	Sept. 30/09	Increase/ (decrease) in cash
Dividends paid on common shares	(\$ 84.5)	(\$ 84.7)	\$ 0.2
Repurchase of common shares under NCIB	-	(\$ 30.4)	\$ 30.4
Dividends paid to BOX non-controlling interests	-	(\$ 6.4)	\$ 6.4
Net increase/(decrease) in other items	<u>(\$ 3.0)</u>	<u>\$ 0.9</u>	<u>(\$ 3.9)</u>
<i>Cash Flows from (used in) Financing Activities</i>	<u>(\$ 87.5)</u>	<u>(\$ 120.6)</u>	<u>\$ 33.1</u>

Cash Flows from (used in) Investing Activities

(in millions of dollars)

	Q3/10	Q3/09	(Decrease) in cash
<i>Cash Flows from (used in) Investing Activities</i>	(\$ 31.8)	(\$ 3.3)	(\$ 28.5)

Cash Flows (used in) Investing Activities were \$28.5 million higher in Q3/10 compared with Q3/09 due to:

(in millions of dollars)

	Q3/10	Q3/09	Increase/ (decrease) in cash
Cost of acquisitions and investments, net of cash acquired	-	(\$ 3.3)	\$ 3.3
Capital expenditures primarily related to technology investments and leasehold improvements	(\$ 1.6)	(\$ 2.4)	\$ 0.8
Additions to intangible assets including TSX Quantum Gateway, TMX Smart Order Router (2009) and SOLA internal development costs	(\$ 2.6)	(\$ 1.9)	(\$ 0.7)
Net (purchases)/sales of marketable securities	<u>(\$ 27.6)</u>	<u>\$ 4.3</u>	<u>(\$ 31.9)</u>
<i>Cash Flows from (used in) Investing Activities</i>	<u>(\$ 31.8)</u>	<u>(\$ 3.3)</u>	<u>(\$ 28.5)</u>

Cash Flows from (used in) Investing Activities

(in millions of dollars)

	Nine months ended		
	Sept. 30/10	Sept. 30/09	(Decrease) in cash
<i>Cash Flows from (used in) Investing Activities</i>	(\$ 151.7)	(\$ 40.5)	(\$ 111.2)

Cash Flows (used in) Investing Activities were \$111.2 million higher in the first nine months of 2010 compared with the first nine months of 2009 due to:

(in millions of dollars)

	Nine months ended		
	Sept. 30/10	Sept. 30/09	Increase/ (decrease) in cash
Cost of acquisitions and investments, net of cash acquired	-	(\$ 37.1)	\$ 37.1
Capital expenditures primarily related to technology investments and leasehold improvements	(\$ 11.4)	(\$ 4.6)	(\$ 6.8)
Additions to intangible assets including TSX Quantum Gateway, TMX Smart Order Router (2009) and SOLA internal development costs	(\$ 6.6)	(\$ 10.4)	\$ 3.8
Net (purchases)/sales of marketable securities	<u>(\$ 133.7)</u>	<u>\$ 11.6</u>	<u>(\$ 145.3)</u>
<i>Cash Flows from (used in) Investing Activities</i>	<u>(\$ 151.7)</u>	<u>(\$ 40.5)</u>	<u>(\$ 111.2)</u>

Summary of Cash Position and Other Matters⁶

We had \$289.9 million of cash and cash equivalents and marketable securities at September 30, 2010 and have a three-year, \$50.0 million revolving credit facility which is undrawn. Based on our current business operations and model, we believe that we have sufficient cash resources to operate our business. During the first nine months of 2010, with revenues of \$424.0 million, we incurred operating expenses of \$211.6 million. We had \$430.0 million of debt outstanding under the Term Loan, which is due on April 18, 2011. Based on current levels of cash flow from operations, we believe that the Term Loan could be repaid with a combination of existing cash, future cash flow from operations and refinancing, as required. We expect that the Term Loan will be repaid or refinanced before the end of Q1/11.

In June 2010, we filed a short form base shelf prospectus with securities regulators in each of the provinces of Canada. This will enable us to offer and issue up to \$1.0 billion of debt, equity

⁶ The "Summary of Cash Position and Other Matters" section above contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainties related to such statements.

or other securities over a 25-month period ending in July 2012. The net proceeds of any such offerings will be used for general corporate purposes, including repaying outstanding indebtedness from time to time, and funding future acquisitions or investments. We have no immediate intention to raise funds, other than potentially replacing, in whole or in part, the Term Loan.

Cash flows from operations were \$203.7 million in the first nine months of 2010. We paid \$84.5 million (or 38 cents per common share each quarter) in dividends in the first nine months of 2010. The next quarterly dividend to be paid on November 26, 2010, to shareholders of record at the close of business on November 12, 2010, will be increased by 5% to 40 cents per common share.

In Q3/09, we announced phase 3 and 4 of our major expansion of our co-location services and facilities in response to significant international demand. The new facility is designed to accommodate up to 200 co-location spaces, which will meet current and medium-term demand for the services. Capital expenditures of approximately \$7.2 million associated with the third phase of the expansion project were incurred in the first nine months of 2010. We expect to incur approximately \$3.3 million of additional capital expenditures associated with this phase. The new facility now provides space for 100 cabinets. In June 2010, we announced that construction of the new co-location facility was complete and on June 30, 2010, clients began installing their trading applications in the TMX data centre and receiving the benefits of direct high-speed access to the Toronto Stock Exchange, TSX Venture Exchange and MX trading engines and market data feeds. We began to realize incremental revenue in Q3/10.

In keeping with our commitment to deliver state of the art levels of technology to our markets, we are continuing to invest in and are implementing a multi-phased initiative to upgrade the infrastructure across our trading and data enterprise. In order to increase throughput capability, we are upgrading our internal networks, storage and application servers. The first expansion phase was completed in Q1/10. The second phase is under way. We are incurring annual operating expenses, including amortization, of approximately \$10.0 million to support these phases of this initiative. However, we estimate these costs will be largely offset by the decommissioning of legacy hardware. Information and trading systems costs were lower in Q3/10 following this decommissioning which was completed by the end of June 2010. The upgrade of the trading and data enterprise is designed to improve our overall market leading infrastructure to better serve our existing customers and to attract additional customers and order flow to our marketplaces.

Future investment opportunities that may require debt financing could be limited by current and future economic conditions, the covenants on TMX Group's existing credit facilities and by our financial viability ratios imposed by securities regulators.

The recognition order of TSX Inc. by the Ontario Securities Commission (OSC) contains certain financial viability tests that must be met. If TSX Inc. fails to meet any of these tests for a period of more than three months, TSX Inc. will not, without the prior approval of the Director of the OSC, pay dividends (among other things) until the deficiencies have been eliminated for at least six months or a shorter period of time as agreed by OSC staff. TSX Venture Exchange is required by various provincial securities commissions to maintain adequate financial resources for the performance of its functions in a manner that is consistent with the public interest and the terms of its recognition orders. Under its recognition order, MX is also subject to certain financial viability tests set by the Autorité des marchés financiers (AMF) that must be met. If MX fails to meet any of these tests for a period of more than three months, MX will not, without the prior

approval of the AMF, pay dividends (among other things) until the deficiencies have been eliminated for at least six months. NGX is required by the Alberta Securities Commission to maintain adequate financial resources to operate its trading system and support its trade execution functions (see TMX Group 2009 Annual MD&A under **Managing Capital** for more information on the financial resources requirements imposed by securities regulators).

As at September 30, 2010, we met all of the requirements above.

Changes in Internal Control over Financial Reporting

There were no changes to internal control over financial reporting during the quarter beginning July 1, 2010 and ended September 30, 2010 that materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Future Changes in Accounting Policies⁷

Transition to International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board requires publicly accountable enterprises such as us to adopt IFRS for fiscal years beginning on or after January 1, 2011. As such, current Canadian GAAP will be replaced by IFRS commencing with our interim and annual 2011 financial statements.

We will also prepare comparative information for 2010, both for interim and annual financial statements, as applicable, on an IFRS basis. We must also present an opening IFRS statement of financial position as at January 1, 2010, our date of transition to IFRS ("Transition Date"), which will form part of our interim financial report for the quarter ending March 31, 2011.

Our consolidated financial statements for the year ending December 31, 2011, will be our first annual financial statements that comply with IFRS. As this will be our first year of reporting under IFRS, IFRS 1, First-time Adoption of IFRS ("IFRS1"), will be applicable.

In accordance with IFRS 1, we will apply IFRS retrospectively as of January 1, 2010, for comparative purposes as if IFRS had always been in effect, subject to certain mandatory exceptions and optional exemptions applicable to us, discussed below.

Senior management and the Finance & Audit Committee have approved our IFRS accounting policies, but IFRS standards are evolving and may be different at the time of transition. The International Accounting Standards Board (IASB) has several projects underway that could affect the differences currently identified between Canadian GAAP and IFRS.

The expected impact from the transition on our financial position and financial performance is discussed below.

⁷ The "Future Changes in Accounting Policies" section above contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainties related to such statements.

Initial Adoption – Impacts of the Conversion to IFRS

Based on our assessments to date and our interpretation of IFRS currently in effect, the areas expected to be affected by our conversion from current Canadian GAAP to IFRS are set out below in order of significance. For each affected area, any applicable IFRS1 exemptions, accounting policy differences between current Canadian GAAP and IFRS standards and the expected impact of adoption on TMX Group are discussed. We believe revenue recognition of initial and additional listing fees and the resulting tax effect will have the most significant impact on our financial statements upon transition to IFRS.

Revenue Recognition

The most significant area of impact will be in the recognition of Issuer Services Revenue related to initial and additional listing fees, along with the associated impact on future income tax assets. Initial and additional listing fees for both Toronto Stock Exchange and TSX Venture Exchange will be impacted. No other sources of revenue will be impacted by the conversion to IFRS.

- *Accounting policy difference between Canadian GAAP and IFRS:*

Canadian GAAP - Initial and additional listing 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 accordance with EIC 141, Revenue Recognition.	IFRS – Initial and additional listing fees are recognized in full in the period when the listings occur.
--	--

- *Impact of Adoption on TMX Group:*

On the Transition Date, short-term deferred revenue – initial and additional listing fees and long-term deferred revenue – initial and additional listing fees will be reduced by \$78 million and \$405.1 million respectively, with the offset to retained earnings. The tax effect on the above transition adjustment will be a reduction of \$128.4 million in future income tax assets with the offset to retained earnings.

The following is a five-year history and the first nine months of 2010 of total issuer services revenue reported under Canadian GAAP and total issuer services revenue billed to Toronto Stock Exchange and TSX Venture Exchange issuers, which shows the impact this accounting policy change would have had on historical issuer services revenue, had IFRS been in effect during the periods identified.

(in millions of dollars)

	2005	2006	2007	2008	2009	9M/10
Total issuer services revenue under IFRS ⁺	\$146.3	\$175.9	\$212.5	\$181.2	\$173.3	\$148.4
Total issuer services revenue under current Canadian GAAP ⁺	<u>\$87.7</u>	<u>\$108.5</u>	<u>\$133.9</u>	<u>\$153.0</u>	<u>\$143.0</u>	<u>\$120.9</u>
Incremental revenue that would have been reported under IFRS	<u>\$58.6</u>	<u>\$67.4</u>	<u>\$78.6</u>	<u>\$28.2</u>	<u>\$30.3</u>	<u>\$27.5</u>

In June 2010, the International Accounting Standards Board issued an Exposure Draft on Revenue from Contracts from Customers (“ED”) and requested comments by October 22, 2010. The ED does not specify an effective date for the new standard; however, it proposes that the amendments be applied retrospectively. We are currently unsure as to the impact that this ED will have on Issuer Services Revenue, however it is possible that it could result in a deferral of initial and additional listing fees.

Business Combinations

- *IFRS 1 Exemption:*

This exemption allows first-time adopters to elect to apply IFRS 3 (revised) - Business Combinations (“IFRS 3”), prospectively from the Transition Date or retrospectively only to acquisitions after a chosen date that is prior to the Transition Date. Not taking this exemption would require retrospective restatement of all business combinations occurring before the Transition Date.

Election - We have elected not to apply IFRS 3 retrospectively to business combinations that occurred before 2008, the year of our most significant acquisition (MX). The acquisitions of MX, BOX and NTP will therefore be restated to reflect the requirements of IFRS 3 upon adoption of IFRS.

⁺ For 2008, 2009 and 2010, provisions for doubtful accounts receivable are included in *General and Administration* expense whereas in previous years, these provisions were reflected as a reduction in various sources of revenue.

- *Accounting policy differences between Canadian GAAP and IFRS:*

- 1) Measurement of purchase price:

Canadian GAAP – Shares issued as consideration are measured at their estimated fair value the date the parties to the business combination reach an agreement on the purchase price and the proposed transaction is announced.

IFRS - Shares issued as consideration are measured at their fair value on the acquisition date.

- 2) Acquisition costs:

Canadian GAAP – Direct and incremental costs of business combinations are recognized as part of the purchase cost.

IFRS – Acquisition related costs are accounted for separately from the business combination and they are expensed as incurred.

- 3) Restructuring provisions:

Canadian GAAP – If certain conditions are met, the costs of restructuring activities are included as part of the purchase price even if a present obligation does not exist as of the date of acquisition.

IFRS – Restructuring provisions are included as part of the business combination only if they represent a present obligation as of the date of acquisition.

- 4) Non-controlling interests:

Canadian GAAP – Non-controlling interests are recorded at their share of the existing carrying values of the net assets acquired.

IFRS – Non-controlling interests are recorded at either their fair value or their proportionate share of the fair value of the acquiree's net assets. TMX Group plans to adopt the latter method.

5) Increase in ownership of a subsidiary:

Canadian GAAP – Increase in ownership interests of a subsidiary are accounted for using the purchase method.

IFRS – When an entity increases its ownership in an investment that results in the acquisition of control, the previously held equity interests are re-measured to fair value through net earnings. When an entity increases its ownership in a previously controlled subsidiary, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary.

6) Contingent liabilities:

Canadian GAAP – Contingent liabilities assumed in a business combination are recognized when it is probable that a liability has been incurred on the date of acquisition and when the amount can be reasonably estimated.

IFRS – A contingent liability is recognized at fair value on the date of acquisition if it is a present obligation that arises from past events and its fair value can be measured reliably.

- *Impact of Adoption on TMX Group:*

The acquisitions of MX, BOX and NTP will be restated under IFRS 3 on transition, and as a result of this, the acquisition accounting will be amended. The goodwill associated with the MX acquisition will decrease by \$155.5 million, share capital will decrease by \$141.1 million, and retained earnings will decrease by \$14.4 million. Intangible assets related to the acquisition of BOX will increase by \$14.3 million, non-controlling interests will increase by \$16.0 million, and will be reclassified to equity, and retained earnings will decrease by \$1.7 million. The goodwill related to the acquisition of NTP will decrease by \$5.3 million, share capital will decrease by \$3.6 million, and retained earnings will decrease by \$1.7 million. The tax effect on the above transition adjustments will be a reduction of \$0.5 million in goodwill with the offset to retained earnings.

Impairment of Assets:

- *Accounting policy differences between Canadian GAAP and IFRS:*

Canadian GAAP – An impairment loss is recognized when a long lived asset's carrying amount exceeds its recoverable amount, which is estimated, by TMX Group, as the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition.

IFRS – An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount, which is the higher of the fair value less costs to sell and its value-in-use.

- *Impact of Adoption on TMX Group:*

An impairment charge of \$14.8 million will be recognized on the Transition Date in respect of the BOX trading participants intangible asset, \$6.8 million of which relates to the non-controlling interests share, with the remaining \$8.0 million relating to our share and therefore will be charged to retained earnings on transition.

Employee Benefits:

- *IFRS 1 Exemption:*

This exemption allows first-time adopters to recognize all cumulative unamortized actuarial gains and losses directly to retained earnings on the Transition Date, thus resetting unamortized actuarial gains and losses to zero. Not taking this exemption would require retrospective application of IAS 19 - Employee Benefits ("IAS 19"), from the inception of all benefit plans.

Election – We have elected to apply this exemption, and recognize all unamortized actuarial gains and losses under previous Canadian GAAP to retained earnings on the Transition Date. In taking this exemption, we will be applying IAS 19 retrospectively from the Transition Date.

- *Accounting policy differences between Canadian GAAP and IFRS:*

1) Actuarial gains and losses:

Canadian GAAP – We amortize actuarial gains (losses) arising from employee benefit plans over the expected average remaining service period of active employees when the net accumulated actuarial gain (loss) is in excess of 10% of the greater of the accrued benefit obligations and the fair value of plan assets at the beginning of the fiscal year.

IFRS – As permitted under IAS 19, we will recognize all actuarial gains and losses immediately in other comprehensive income without flowing through to the income statement in subsequent periods.

2) Measurement date:

Canadian GAAP – We measure the defined benefit obligation and plan assets for certain plans as of September 30.

IFRS - We are required to determine the present value of the defined benefit obligation and the fair value of plan assets at the date of the statement of financial position. As a result, on the Transition Date, we will change the measurement date of our plans to December 31.

3) Recognition of past service costs:

Canadian GAAP – Past service costs arising from plan amendments or initiation are amortized on a straight-line basis over the expected average remaining service period of employees active at the time of the amendment.

IFRS - Past service costs arising from plan amendments or initiation are amortized on a straight-line basis over the expected average period remaining to vest. Any benefits already vested are recognized immediately in earnings.

4) Limit on accrued benefit asset:

Canadian GAAP – When a defined benefit plan gives rise to an accrued benefit asset, a valuation allowance is recognized for any excess of the accrued benefit asset over the expected future benefit, and the accrued benefit asset is presented net of any valuation allowance in the balance sheet. Any change in the valuation allowance is recognized in net earnings.

IFRS – IFRS also sets a limit on the accrued benefit asset that can be recognized in the statement of financial position, although this is calculated differently than under current Canadian GAAP. Any change in the recoverable amount will be recognized immediately in other comprehensive income.

- *Impact of Adoption on TMX Group:*

Pension benefit assets and accrued employee benefits payable will be reduced by \$8.2 million and \$0.1 million respectively, with the offset of \$8.1 million to retained earnings. The tax effect on the above transition adjustment will be a net decrease of \$2.0 million in future income tax liabilities, with the offset to retained earnings.

Leases:

- *IFRS 1 Exemption:*

This exemption allows first-time adopters to elect to apply IFRIC 4 - Determining whether an Arrangement contains a Lease (“IFRIC 4”), only to arrangements existing at the Transition Date. An additional exemption also exists, allowing a first-time adopter to opt out of reassessing its arrangements under IFRIC 4 if it has already assessed whether an arrangement contains a lease in accordance with current Canadian GAAP EIC-150 – Determining Whether an Arrangement Contains a Lease (“EIC 150”).

Election - We have elected to apply both exemptions thus limiting our reassessment under IFRIC 4 to arrangements in place at the Transition Date that were not subject to the scope of EIC 150 under previous Canadian GAAP.

- *Accounting policy differences between Canadian GAAP and IFRS:*

1) Classification:

Canadian GAAP – The criteria used to determine whether a lease is to be classified as an operating or a capital lease includes “bright-line” thresholds such as whether the lease term is greater than 75% of the economic life of the leased asset, or the present value of the minimum lease payments is above 90% of the fair value of the lease.

IFRS – The criteria for lease classification rely heavily on the substance of the agreement and do not include any “bright-line” thresholds.

2) Present value of minimum lease payments:

Canadian GAAP – The present value of minimum lease payments is calculated using the lower of (i) the interest rate implicit in the lease; and (ii) the lessee’s incremental borrowing rate.

IFRS – The present value of minimum lease payments should be determined using the interest rate implicit in the lease. The lessee’s incremental borrowing rate should only be used when the interest rate implicit in the lease cannot be determined.

- *Impact of Adoption on TMX Group:*

A number of leases will be reclassified on the Transition Date from capital leases to operating leases. As a result, obligations under finance leases, and the associated equipment assets, will decrease by \$7.1 million on the statement of financial position.

Share Based Payments:

- *IFRS 1 Exemption:*

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 - Share-based Payments (“IFRS 2”), to equity instruments granted on or before November 7, 2002, or to equity instruments granted after that date but which have vested by the Transition Date. In addition, it encourages, but again does not require, first-time adopters to apply IFRS 2 to liabilities arising from share-based payment transactions that were settled before the Transition Date.

Election - We have elected to only apply IFRS 2 to equity instruments granted after November 7, 2002, and remaining unvested at the Transition Date as well as to liabilities remaining unsettled as at the Transition Date.

- *Accounting policy differences between Canadian GAAP and IFRS:*

1) Recognition of expense:

Canadian GAAP - For share-based awards with graded vesting we recognize the total fair value of the award on a straight-line basis over the vesting period.

IFRS – Each tranche of an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each tranche is accounted for on that basis.

2) Forfeitures:

Canadian GAAP - Forfeitures of awards are recognized as they occur.

IFRS – Compensation cost is recognized based on an estimate of the number of awards expected to vest and is revised if subsequent information indicates that actual forfeitures differ from the estimate.

3) Cash-settled share based payments:

Canadian GAAP – A liability for Restricted Share Units and Deferred Share Units is accrued based on the intrinsic value of the award with changes in the intrinsic values at each reporting period recognized in the income statement.

IFRS – We are required to measure the liability at fair value on the date of grant and at each subsequent reporting date by applying an option pricing model. Changes in fair value are recognized in the income statement.

- *Impact of Adoption on TMX Group:*

The share option plan component of equity will increase by \$0.9 million as a result of the changes in the accounting treatment of share options, and accounts payable and other liabilities will decrease by \$0.6 million in respect of the cash-settled share based payments, the offset to which will decrease retained earnings by \$0.3 million. The tax effect on the above transition adjustment will be a decrease of \$0.1 million in future income tax assets with the offset to retained earnings.

Cumulative translation differences:

- *IFRS 1 Exemption:*

This exemption allows first-time adopters to recognize all cumulative translation differences relating to foreign operations directly to retained earnings on the Transition Date, thus resetting the cumulative translation adjustment account to zero. Not taking this election would require retrospective application of IAS 21 - The Effect of Changes in Foreign Exchange Rates (“IAS 21”), from the date the foreign operations were formed or acquired.

Election - We have elected to apply this exemption, and reset all of our cumulative translation differences to zero through retained earnings on the Transition Date.

- *Impact of Adoption on TMX Group:*

The Cumulative Translation Adjustment (CTA) balance of \$3.2 million as at the Transition Date will be recognized as an adjustment to retained earnings on transition to IFRS. The application of the exemption will have no impact on net equity.

Decommissioning liabilities included in the cost of property, plant & equipment:

- *IFRS 1 Exemption:*

This exemption allows first-time adopters to elect to apply the guidance in IFRIC 1 - Changes in Existing Decommissioning, Restoration and Similar Liabilities ("IFRIC 1"), prospectively from the Transition Date, as opposed to retrospectively. IFRIC 1 requires that changes in these liability estimates be added to, or deducted from, the cost of the asset to which it relates, and the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life.

Election - We have elected to apply this exemption, therefore applying the requirements of IFRIC 1 prospectively to decommissioning liabilities that existed as at the Transition Date.

Income Taxes:

- *Accounting policy differences between Canadian GAAP and IFRS:*

Canadian GAAP – The recognition of future income taxes relating to temporary differences arising from intercompany transactions is prohibited.

IFRS – There is no such prohibition under IFRS.

- *Impact of Adoption on TMX Group:*

Future income tax assets will be reduced by \$0.2 million on transition, with the offset to retained earnings.

Reconciliation of Shareholders' Equity

The following summarizes the impact (net of tax) of the above mentioned changes on shareholders' equity as of January 1, 2010 on transition to IFRS.

(in millions of dollars)

	January 1, 2010
Shareholders' Equity under Canadian GAAP	\$ 770.6
IFRS adjustments increasing (decreasing) reported equity:	
Revenue recognition	354.7
Business combinations	(163.0)
Other items	<u>(13.8)</u>
Total Shareholders' Equity under IFRS	\$ <u>948.5</u>

Transition plan update

The following is an update on the status of the various milestones identified as part of our transition plan, and discussed in the 2009 Annual MD&A.

KEY ACTIVITY	MILESTONES	STATUS
Financial statement preparation:		
<ul style="list-style-type: none"> Identify accounting differences between Canadian GAAP and IFRS accounting policies, and any associated accounting policy choices available Select TMX Group's ongoing IFRS policies Select TMX Group's IFRS 1 policy choices Develop IFRS-compliant financial statement format Quantify the effects of these changes on the financial statements 	<p>Key differences identified and tentative accounting policy decisions made and presented to the Finance & Audit Committee by the end of 2009.</p> <p>Final senior management sign-off and Finance & Audit Committee review of all items in advance of transition (by Q3/10)</p>	<p>Completed analysis and quantification of the differences identified and an assessment of the accounting policy choices available.</p> <p>Accounting policy choices, including IFRS 1 elections, were approved by the Finance & Audit Committee in October 2010.</p> <p>Opening statement of financial position reconciliation is complete. Development of financial statement format and the initial IFRS 1 disclosure is in progress.</p>

KEY ACTIVITY	MILESTONES	STATUS
Training:		
<p>Define and introduce the appropriate level of IFRS expertise for the following:</p> <ul style="list-style-type: none"> • Core IFRS team • Other affected finance staff • Senior executives and the Board of Directors, including Finance & Audit Committee and Disclosure Committee members 	<p>Appropriate level of expertise in place throughout TMX Group by mid 2010.</p>	<p>Training plan completed.</p> <p>Finance & Audit Committee receives quarterly IFRS updates.</p> <p>A detailed training session for members of the Board of Directors and senior executives took place in Q3/10.</p> <p>Detailed training underway for core team since 2008, and ongoing throughout conversion.</p> <p>Training of other affected finance staff has taken place. Refresher to be provided in Q4/10 for both finance staff and other TMX Group management.</p>
IT infrastructure:		
<p>Confirm that business processes and systems are IFRS compliant, including:</p> <ul style="list-style-type: none"> • IT system upgrades and changes • Gathering data for additional disclosure purposes • Budget and forecasting under IFRS 	<p>Confirm that systems can support dual reporting requirements by Q4/09.</p> <p>Business processes and systems required for additional disclosure and for budgeting to be in place by transition.</p>	<p>Review of dual reporting options is complete and relevant changes to the accounting and reporting systems completed in Q1/10 to enable dual reporting, which has also commenced.</p> <p>IT and business processes impact analysis included as part of the evaluation and design work. No major IT issues identified to date.</p>
Control environment:		
<ul style="list-style-type: none"> • For all accounting policy changes identified, assess the control design and effectiveness implications (both ICFR and DC&P) • Implement appropriate changes 	<p>Key controls and design effectiveness implications to be assessed as part of the evaluation and design phase.</p>	<p>Internal Audit has assessed the key control design and effectiveness implications for ICFR and DC&P relating to the transition to IFRS and continues to assess the impact of identified accounting policy changes on ICFR and DC&P.</p>

KEY ACTIVITY	MILESTONES	STATUS
External reporting:		
<p>Assess the effects of key IFRS-related accounting policy and financial statement changes on external reporting, including:</p> <ul style="list-style-type: none"> Identify the impact on financial covenants and regulatory capital adequacy requirements, and complete any required renegotiations/discussions Consider expected MD&A communications up to and following transition Consider the investor relations process for responding to IFRS-related queries, and confirm that 2011 investor relations communications are IFRS compliant 	<p>Publish regular updates on the status of the IFRS transition in the 2009 and 2010 annual and quarterly MD&A.</p> <p>Publish 2011 quarterly and annual financial statements and MD&A in accordance with IFRS, including 2010 comparatives and IFRS 1 required disclosures.</p> <p>Complete review, and address covenants and regulatory requirements as necessary by the end of Q3/10.</p>	<p>IFRS disclosure in the MD&A has been updated throughout the project.</p> <p>Identification of covenants and regulatory ratios that may be affected by the transition is complete. We have analyzed the impact on the various covenants under agreements as well as on ratios for regulatory purposes and have determined that the conversion to IFRS will not have a material impact on our recognition orders, financial viability ratios, or debt covenants.</p> <p>Investor communication plan prepared during Q4/09 and has been implemented.</p> <p>We have addressed the impact of transferring to IFRS in our communications with shareholders and potential investors.</p>

Quarterly Information

(in thousands of dollars except per share amounts)

	Sept. 30/10	June 30/10	Mar. 31 /10	Dec. 31 /09	Sept. 30 /09	June 30/09	Mar. 31 /09	Dec. 31 /08
<i>Revenue</i>	\$141,590	\$142,674	\$139,706	\$153,555 [†]	\$131,627 [†]	\$138,132 [†]	\$136,818 [†]	\$152,001 [†]
<i>Net Income/(loss)</i>	50,798	47,598	49,082	(26,837)	41,749	46,871	42,918	49,035
<i>Earnings/(loss) per share:</i>								
<i>Basic</i>	0.68	0.64	0.66	(0.36)	0.56	0.63	0.58	0.65
<i>Diluted</i>	0.68	0.64	0.66	(0.36)	0.56	0.63	0.58	0.65

[†]For 2010, provisions for doubtful accounts receivable are included in *General and Administration* expense whereas in 2009 and 2008, these provisions were reflected as a reduction in various sources of revenue. The comparative figures for both revenue and expenses in 2009 and 2008 have been reclassified to conform with the financial presentation adopted in 2010.

2008

- Revenue in Q4/08 increased over revenue in Q3/08 primarily due to higher revenue from cash equity trading, derivatives trading and energy trading and higher market data revenue. Net income for Q4/08 decreased over Q3/08 primarily due to higher operating expenses and a \$13.3 million mark-to-market adjustment on our interest rate swaps, partially offset by higher revenue and investment income.

2009

- Revenue in Q1/09 decreased over revenue in Q4/08 primarily due to lower cash equity trading and issuer services revenue primarily related to lower sustaining listing fees. Net income for Q1/09 decreased over Q4/08 primarily due to the reduced revenue and an increase in compensation and benefits expenses.
- Revenue in Q2/09 increased over revenue in Q1/09 largely due to higher revenue from TSX Venture Exchange cash equities trading and energy trading, including revenue from NTP, effective May 1, 2009. Net income for Q2/09 increased over Q1/09 primarily due to the increased revenue and a decrease in compensation and benefits expenses.
- Revenue in Q3/09 decreased over revenue from Q2/09 largely due to lower revenue from Toronto Stock Exchange cash equities trading and market data. Net income for Q3/09 decreased over Q2/09 primarily due to the decreased revenue and an increase in compensation and benefits costs, information and trading systems expenses as well as amortization.
- Revenue in Q4/09 increased over revenue from Q3/09 primarily due to increased business services revenue, which included a one-time license fee of \$13.5 million from the London Stock Exchange Group plc (LSE), as well as higher revenue from issuer services, cash markets trading and market data. This was partially offset by lower revenue from derivatives and energy trading. There was a net loss in Q4/09 largely due to the non-cash goodwill impairment charge of \$77.3 million related to BOX and an increase in income taxes due to a write-down in the value of future tax assets and liabilities of \$10.4 million, partially offset by the increased revenue and lower overall expenses compared with Q3/09.

2010

- Revenue in Q1/10 decreased over revenue in Q4/09 primarily due to the higher business services revenue in Q4/09 from the one-time license fee of \$13.5 million from the LSE, as well as lower revenue from cash markets equity trading and energy trading. This was somewhat offset by increased revenue from issuer services, cash markets fixed income trading and market data. Net income for Q1/10 increased over the net loss reported in Q4/09 largely as a result of the non-cash goodwill impairment charge of \$77.3 million related to BOX and the write-down in the value of future tax assets and liabilities of \$10.4 million.
- Revenue in Q2/10 increased over revenue in Q1/10 due to higher revenue from market data, issuer services, energy trading and Canadian derivatives trading, somewhat offset by lower revenue from cash equities trading and U.S. derivatives trading. Net income for Q2/10 decreased over net income in Q1/10 largely due to higher expenses as we

continue to invest in technology initiatives, corporate development and marketing. The increased expenses were partially offset by the higher revenue.

- Revenue in Q3/10 decreased over revenue in Q2/10 primarily due to lower cash markets trading revenue and business services revenue, partially offset by higher energy trading revenue. Net income for Q3/10 increased over Q2/10 due to lower expenses related to our technology initiatives and lower general and administration costs.

Caution Regarding Forward-Looking Information

This MD&A contains “forward-looking information” (as defined in applicable Canadian securities legislation) that is based on expectations, assumptions, estimates, projections and other factors that management believes to be relevant 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, by its nature, requires us to make assumptions and is subject to significant risks and uncertainties which may give rise to the possibility that our expectations or conclusions will not prove to be accurate and that our assumptions may not be correct.

Examples of such forward-looking information in this MD&A include, but are not limited to, factors relating to stock, derivatives and energy exchanges and clearing houses and the business, strategic goals and priorities, market condition, pricing, proposed technology and other initiatives, financial condition, operations and prospects of TMX Group, which are subject to significant risks and uncertainties. These risks include: competition from other exchanges or marketplaces, including alternative trading systems and new technologies, on a national and international basis; dependence on the economy of Canada; adverse effects on our results caused by global economic uncertainties; failure to retain and attract qualified personnel; geopolitical and other factors which could cause business interruption; dependence on information technology; vulnerability of our networks and third party service providers to security risks; failure to implement our strategies; regulatory constraints; risks of litigation; dependence on adequate numbers of customers; failure to develop or gain acceptance of new products; currency risk; adverse effect of new business activities; not being able to meet cash requirements because of our holding company structure and restrictions on paying dividends; dependence and restrictions imposed by licenses and other arrangements; dependence of trading operations on a small number of clients; new technologies making it easier to disseminate our information; risks associated with our clearing operations; challenges related to international expansion; restrictions on ownership of TMX Group shares; inability to protect our intellectual property; dependence on third party suppliers; adverse effect of a systemic market event on our derivatives business; risks associated with the credit of customers; cost structures being largely fixed; risks associated with integrating the operations, systems, and personnel of new acquisitions; and dependence on market activity that cannot be controlled.

The forward looking information contained in this MD&A is presented for the purpose of assisting readers of this document in understanding our financial condition and results of operations and our strategies, priorities and objectives and may not be appropriate for other purposes. Actual results, events, performances, achievements 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 and regional marketplaces; 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/changes; the impact on TMX Group and its customers of various regulations; TMX Group's ongoing relations with its employees; and the extent of any labour, equipment or other disruptions at any of its 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 is contained in our 2009 Annual MD&A under the heading **Risks and Uncertainties**.