

# TMX Group Inc.

## Q1/12 Management's Discussion and Analysis

May 11, 2012

This management's discussion and analysis (MD&A) of TMX Group Inc.'s (TMX Group) financial condition and financial performance is provided to enable a reader to assess our financial condition, material changes in our financial condition and our financial performance, including our liquidity and capital resources, for the quarter ended March 31, 2012 compared with the quarter ended March 31, 2011 or the year ended December 31, 2011. This MD&A is dated May 11, 2012 and should be read carefully together with our Q1/12 unaudited condensed financial statements, including notes, for the corresponding period, as well as our 2011 audited annual financial statements, including notes and related MD&A. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Each of these documents is filed with Canadian securities regulators and can be accessed through [www.sedar.com](http://www.sedar.com) or our website at [www.tmx.com](http://www.tmx.com). The financial measures included in this MD&A are based on financial statements prepared in accordance with IFRS, unless otherwise specified. All amounts are in Canadian dollars unless otherwise indicated.

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

### THE MAPLE OFFER

On May 3, 2012, the Ontario Securities Commission (OSC), and the Autorité des marchés financiers (AMF) published draft and final recognition orders, respectively, and notices of public comment with respect to Maple Group Acquisition Corporation (Maple)'s proposed acquisition of TMX Group and related transactions.

The OSC is asking for public comment on whether or not the recognition orders and the terms and conditions proposed by the OSC in respect of Maple's proposed acquisition of TMX Group and The Canadian Depository for Securities Limited (CDS) constitute an appropriate basis on which to conclude that these acquisitions are in the public interest. The OSC's notice invites public comment for a 30-day period ending June 4, 2012.

The AMF's final orders reflect the terms and conditions which the AMF has determined address the main public interest issues referred to in the AMF's Notice of Public Consultation dated October 7, 2011. These orders give the AMF's approval to Maple's acquisition of TMX Group, including the indirect acquisition of Montréal Exchange Inc. (MX) and the Canadian Derivatives Clearing Corporation (CDCC), and, subject to final approval, Maple's acquisition of Alpha Trading Systems Inc. and Alpha Trading Limited Partnership (collectively, Alpha). In addition, the AMF has published a notice for public comment with respect to its proposed recognition

order relating to Maple's proposed acquisition of CDS. The AMF's notice invites public comment for a 30-day period ending June 4, 2012.

These draft and final orders are the result of extensive consultation by the OSC and AMF with Maple, TMX Group, CDS, market participants, and other regulators – including the Bank of Canada and the Competition Bureau. If these orders are finalized as published, Maple will accept them.

The draft and final orders provide important changes in areas such as: independent governance of Maple (as successor parent to TMX Group) as well as fair, meaningful and diverse representation on the Board of Maple; restrictions designed to ensure competitive equities markets; independent governance of CDS; and access to and fees for CDS clearing and depository services. Maple believes the binding commitments to the structure of the transaction and the regulatory landscape, as reflected in the orders, represent substantial changes to the initial proposal in respect of which the Competition Bureau expressed serious concerns.

Maple understands that each of the Alberta Securities Commission (ASC) and British Columbia Securities Commission (BCSC) also intends to publish notices with respect to the Maple transaction.

On April 27, 2012, Competition Bureau staff provided an update to Maple and TMX Group regarding the status of the Competition Bureau's review of the Maple transaction. Staff of the Competition Bureau advised Maple and TMX Group that, while the Competition Bureau has an independent mandate and will complete its own review, it has provided views and input to the OSC for its consideration relating to the potential impact of the Maple transaction on competition. In that context, Competition Bureau staff advised that it is possible that measures contained in the draft OSC recognition orders, if finalized and enforced, may materially change the regulatory environment such that the Competition Bureau's previously articulated serious concerns may be substantially mitigated. Staff of the Competition Bureau have emphasized that the Bureau would consider both the OSC's published draft orders and any finalized orders, and that a final decision would not be made until it had completed its process.

Under the support agreement with TMX Group, Maple has agreed to use commercially reasonable efforts to obtain all required regulatory approvals, including from the securities regulatory authorities and the Commissioner of Competition, and to accept all conditions, commitments and undertakings necessary to do so, provided they do not result in a "Material Detriment" as defined in the support agreement. Although the draft and final recognition orders published by the OSC and the AMF are in a form that Maple will accept, it is possible that the OSC final orders may differ from the draft orders. In addition, Maple will continue to work to settle the terms and conditions of the additional required recognition orders, including the recognition orders required from the OSC to reflect the acquisition by Maple of Alpha and any exemptions from recognition that the AMF may require in respect of Maple as a result of that acquisition, the recognition order required from the AMF in respect of CDS and applicable recognition orders required from the ASC and BCSC, and to resolve outstanding issues and concerns raised by securities regulatory authorities and the Commissioner of Competition. However, there can be no assurance that the terms and conditions of such final recognition orders will not result in a Material Detriment or that remedies short of a Material Detriment will address the issues and concerns raised by securities regulatory authorities and the Commissioner of Competition. As a result, there can be no assurance that the required regulatory approvals will be obtained.

On April 30, 2012, TMX Group and Maple announced that Maple has reached agreements for the acquisition by Maple of CDS for an aggregate consideration of \$167.5 million, accompanied by a redemption of the outstanding preferred shares of CDS for approximately \$6.1 million, and of Alpha for an aggregate consideration of \$175 million, subject to the potential exercise of rights by Alpha security holders that are not Maple investors to receive an arbitrated fair value for their interests. TMX Group and Maple also announced their agreement to extend the outside date for completing the Maple offer to July 31, 2012 and, consistent with that, an extension of the Maple offer initially to May 31, 2012. Maple expects to have further information about the timing for receipt of potential final regulatory approvals by May 31, 2012, at which time it expects to further extend its offer to the date on which it expects to take up shares of TMX Group under the offer. Maple has agreed under its support agreement with TMX Group to continue to extend the expiry date of the offer until July 31, 2012 if necessary to obtain the required regulatory approvals.

Additional information about the recognition orders and Maple's commitments are outlined in TMX Group's press release dated May 3, 2012 and additional information about Maple's proposed acquisitions of CDS and Alpha are outlined in TMX Group's press release dated April 30, 2012. A description of the Maple offer is located under the heading "*The Maple Offer*" in our 2011 MD&A on pages 13 to 15 and is incorporated herein by reference. As described in the 2011 MD&A, the Maple offer remains subject to a number of conditions, including obtaining all required regulatory approvals.

## **MARKET CONDITIONS**

In Q1/12, the European debt situation, U.S. economy and Canadian interest rate environment negatively impacted various areas of our business. There has been a global slowdown in new listings and equity trading activity. In addition, an increase in the North American supply of natural gas and slower growth of demand has led to lower natural gas prices and less price volatility which contributed to lower volumes on Natural Gas Exchange Inc. (NGX). There has been an increase in the use of derivative instruments, which has offset some of these negative impacts.

We operate in the highly competitive exchange industry, both domestically and internationally. In addition to competing with North American exchanges and alternative trading systems (ATSs) directly for trading of interlisted issuers, we also compete internationally with global marketplaces for investment capital and order flow. In Q1/12, total equity volumes traded in North America decreased significantly from Q1/11 levels. In Canada, we face competitive pressure in an environment with 13 equity marketplaces in operation. In 2011, our combined monthly average share of domestic volume was 67% overall. In Q1/12, our combined monthly average market share was 69%, although that share changes on a daily basis. Alpha has conducted trading on Toronto Stock Exchange and TSX Venture Exchange symbols as an ATS since Q4/08 and began operating as an exchange on April 2, 2012.

NGX's business of trading and clearing physical natural gas, electricity and crude oil contracts and Shorcan Energy Brokers Inc.'s (Shorcan Energy Brokers) business face primary competition in energy markets in Canada and the United States from over-the-counter (OTC) bilateral markets (supported by voice brokers other than Shorcan Brokers Limited (Shorcan)) and competing exchanges listing and clearing similar energy products. NGX's crude oil volumes have declined each quarter since Q1/11 and were down 78% in Q1/12 compared with Q1/11. There are a number of initiatives we are currently undertaking to try and regain NGX's market share and increase activity.

## INITIATIVES AND ACCOMPLISHMENTS

To date in 2012, we have advanced our strategy by executing on a number of initiatives across our business:

### *Derivatives*

#### Trading

MX achieved three new daily records:

- Daily open interest reached 5,401,436 contracts on January 19, 2012, surpassing the record of 5,325,519 contracts set on the previous day.
- A new overall daily volume record of 346,497 contracts was also established for equity and ETF options on January 20, 2012, surpassing the previous record of 287,593 contracts that was established on December 17, 2010.
- On April 17, 2012, MX achieved a new record of 302,371 contracts traded on the Three-Month Canadian Bankers' Acceptance Futures (BAX), surpassing the previous record of 285,500 contracts traded set on August 4, 2011.

On April 19, 2012, MX received permission from the U.S. Commodity Futures Trading Commission (CFTC) Division of Market Oversight to trade the S&P/TSX<sup>1</sup> 60 Index Mini Futures Contract (SXM) in the U.S. The SXM, launched in 2011, is the eighth MX product that can be traded by U.S. persons.

On April 27, 2012, BOX received Securities and Exchange Commission approval of its application for registration as a national securities exchange and thus, act as its own self-regulatory organization (SRO). BOX expects to start using its own exchange license in mid-May. We will take a 40% economic interest and a 20% voting interest in the new SRO, and we will maintain a 53.8% ownership interest in the BOX options trading platform.

#### Clearing

On February 21, 2012, CDCC launched the first phase of fixed income central counter party services with the clearing of fixed income repurchase and reverse repurchase agreements (REPOs). CDCC's technology and industry specialists worked with the Investment Industry Association of Canada (IIAC), the Bank of Canada and industry stakeholders to develop the infrastructure for central-counterparty services for the Canadian fixed income market. On April 30, 2012, Canadian Derivatives Clearing Service (CDCS), operated by CDCC, was designated by the Bank of Canada as being subject to Bank of Canada oversight under the *Payment Clearing and Settlement Act (Canada)*.

CDCC clearing members (Clearing Members) pay fees for clearing and settlement, including OTC fixed income and REPO transactions, on a per transaction basis. Fees for fixed income transactions are based on the size and term of the original agreement, and members pay a

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<sup>1</sup> "S&P" as part of the composite mark S&P/TSX is a trade-mark of Standard & Poor's Financial Services LLC and is used under license. "TSX" is a trade-mark of TSX Inc.

minimum monthly fee. CDCC members are also eligible for a revenue share arrangement based on annual cleared volumes of REPO transactions.

From February 21, 2012 through April 30, 2012, CDCC cleared 802 transactions, comprised of 14 active securities (or International Securities Identification Numbers) with a notional value of \$36.8 billion.

### *Issuer Services*

On January 19, 2012, we announced the acquisition of the assets of ir2020, LLC (ir2020), a U.S.-based online shareholder data and targeting solution provider. The ir2020 product will continue to be distributed in the U.S. and will also be integrated into our suite of products available to Toronto Stock Exchange and TSX Venture Exchange issuers.

### *Information Services*

On April 11, 2012, S&P Indices and TMX Group announced the launch of two new indices designed to provide market participants with unique measuring tools for specific stock characteristics within the S&P/TSX Composite Index, the principal broad market measure for the Canadian equity markets:

- The S&P/TSX Composite Low Volatility Index measures the performance of the 50 least volatile stocks in the S&P/TSX Composite Index. The new Index is designed to serve as a benchmark for low volatility strategies in the Canadian stock market; and
- The S&P/TSX Composite High Beta Index measured the performance of the 50 constituents of the S&P/TSX Composite Index that are the most sensitive to changes in market returns. It is designed to serve as a benchmark for investors with a bullish strategic or tactical view of the Canadian stock market.

Both the S&P/TSX Composite Low Volatility Index and the S&P/TSX Composite High Beta Index have been licensed to serve as the basis for ETFs to be listed on Toronto Stock Exchange.

TMX Atrium also announced the expansion of its low latency financial network to include redundant connections to Moscow, Russia, which is planned for launch in Q2/12.

### *Technology Services*

As of March 26, 2012, TMX Australia Pty Ltd, a wholly owned subsidiary of TMX Group, became the sole shareholder of Razor Risk Technologies Limited (Razor) after the completion of the compulsory acquisition process following our takeover bid of the shares of Razor.

The acquisition of Razor provides us with a point of entry into the risk management technology sector. Headquartered in Sydney, Razor provides risk software to clearing houses, stock exchanges, financial institutions and brokerages around the world. It develops and integrates economic capital, market, credit and liquidity risk management requirements across multiple asset classes.

## QUARTER ENDED MARCH 31, 2012 COMPARED WITH QUARTER ENDED MARCH 31, 2011

Net income attributable to TMX Group shareholders was \$56.8 million, or \$0.76 per common share on a basic and diluted basis for Q1/12, a decrease of 10% compared with net income attributable to TMX Group shareholders of \$63.1 million, or \$0.85 per common share (\$0.84 on a diluted basis) for Q1/11. The decrease in net income attributable to TMX Group shareholders was largely due to lower revenue from issuer services and cash markets trading, partially offset by higher revenue from derivatives markets trading and clearing as well as higher information services revenue. The decrease in net income was also due to higher compensation and benefits expenses and increased information and trading systems costs, somewhat offset by a decrease in income tax expense and lower general and administration expenses (due to the inclusion in Q1/11 of a commodity tax adjustment of \$4.8 million relating to prior periods) in Q1/12 compared with Q1/11. Net income in Q1/11 was reduced by \$8.3 million (pre-tax) of costs related to the proposed merger with London Stock Exchange Group plc (LSEG); whereas in Q1/12, net income was reduced by \$0.5 million (pre-tax) of costs related to the Maple transaction.

### Adjusted Earnings per Share Reconciliation for Q1/12 and Q1/11\*\*

The following is a reconciliation of earnings per share to adjusted earnings per share\*\*:

	Q1/12		Q1/11	
	Basic	Diluted	Basic	Diluted
<i>Earnings per share</i>	\$0.76	\$0.76	\$0.85	\$0.84
<i>Adjustment related to Maple and LSEG related costs, net of income tax</i>	\$0.01	-	\$0.08	\$0.08
<i>Adjustment related to commodity tax adjustment*, net of income tax</i>	=	=	<u>\$0.05</u>	<u>\$0.05</u>
<i>Adjusted earnings per share**</i>	<u>\$0.77</u>	<u>\$0.76</u>	<u>\$0.98</u>	<u>\$0.97</u>

Adjusted earnings per share\*\* of \$0.77 per common share (\$0.76 on a diluted basis) was lower than adjusted earnings per share of \$0.98 per common share (\$0.97 on a diluted basis) for Q1/11. The decrease in adjusted earnings per share was largely due to lower revenue from issuer services and cash markets trading, partially offset by higher revenue from derivatives markets trading and clearing as well as higher information services revenue. The decrease in adjusted earnings per share was also due to higher compensation and benefits expenses and

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\*\* The terms adjusted earnings per share and adjusted diluted earnings per share do not have standardized meanings prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. We present adjusted earnings per share and adjusted diluted earnings per share to indicate operating performance exclusive of *Maple related costs* we reported in Q1/12 and *LSEG related costs* and a commodity tax adjustment reported in Q1/11, each net of tax. Management uses these measures to assess our financial performance exclusive of these costs and to enable comparability across periods.

\* See "General and Administration" section.

increased information and trading systems costs, somewhat offset by a decrease in income tax expense in Q1/12 compared with Q1/11.

## Revenue

Revenue was \$162.3 million in Q1/12, down \$12.4 million, or 7% compared with \$174.7 million for Q1/11, reflecting lower revenue from issuer services and cash markets trading. These decreases were partially offset by increased revenue from derivatives markets trading and clearing, information services, (including revenue from TMX Atrium, acquired July 29, 2011), and technology services and other (including revenue from Razor, consolidated from February 14, 2012).

### Issuer services revenue

(in millions of dollars)

	Q1/12	Q1/11	\$ Increase/ (decrease)	% Increase/ (decrease)
<i>Initial listing fees</i>	\$3.9	\$ 8.3	(\$ 4.4)	(53%)
<i>Additional listing fees</i>	\$ 25.0	\$ 31.7	(\$ 6.7)	(21%)
<i>Sustaining listing fees</i>	\$ 17.4	\$ 18.9	(\$ 1.5)	(8%)
<i>Other issuer services</i>	<u>\$ 3.9</u>	<u>\$ 3.1</u>	<u>\$ 0.8</u>	26%
<i>Total</i>	<u>\$ 50.2</u>	<u>\$ 62.0</u>	<u>(\$ 11.8)</u>	(19%)

- *Initial listing fees* in Q1/12 were lower due to a decrease in the number and value of new listings on Toronto Stock Exchange compared with Q1/11. Initial listing fees were significantly higher in Q1/11 compared with Q1/12 due to the large number of issuers who converted from income trusts to corporate entities in the period, which resulted in revenue of approximately \$3.0 million.
- *Additional listing fees* in Q1/12 decreased compared with Q1/11 primarily due to a decrease in the number and value of additional financings on TSX Venture Exchange and the number of additional financings on Toronto Stock Exchange. While there was a significant increase in the value of additional listings on Toronto Stock Exchange in Q1/12 compared with Q1/11, this was driven by a number of high value transactions where the issuers paid the maximum listing fee.
- 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 decrease in sustaining listing fees was due to the overall lower market capitalization of listed issuers on both exchanges at the end of 2011 compared with the end of 2010. The decrease was also due to a reduction in fees charged to ETFs effective January 1, 2012.
- The increased revenue from *Other issuer services* included higher revenue from The Equicom Group Inc., which provides investor relations and corporate communications services.

## Trading, clearing and related revenue

(in millions of dollars)

	Q1/12	Q1/11	\$ increase/ (decrease)	% increase/ (decrease)
<i>Cash markets revenue</i>	\$ 24.6	\$ 33.6	(\$ 9.0)	(27%)
<i>Derivatives markets revenue</i>	\$ 29.9	\$ 26.3	\$ 3.6	14%
<i>Energy markets revenue</i>	<u>\$ 10.9</u>	<u>\$ 11.4</u>	<u>(\$ 0.5)</u>	(4%)
<i>Total</i>	<u>\$ 65.4</u>	<u>\$ 71.3</u>	<u>(\$ 5.9)</u>	(8%)

### Cash Markets

- *Cash markets* equity trading revenue decreased primarily due to a 43% decrease in the volume of securities traded on TSX Venture Exchange in Q1/12 compared with Q1/11 (14.41 billion securities in Q1/12 versus a record volume quarter with 25.23 billion securities traded in Q1/11) and a 19% decrease in the volume of securities traded on Toronto Stock Exchange in Q1/12 compared with Q1/11 (24.67 billion securities in Q1/12 versus 30.32 billion securities in Q1/11). *Cash markets* revenue also included revenue from TMX Select, which was launched in July 2011 (0.7 billion securities traded in Q1/12).
- The decrease was also as a result of changes to our equity trading fee schedule effective March 1, 2011, which reduced the fees for significant usage for our Market on Open (MOO) facility and introduced net credit payments for trading in our continuous limit order book and additional changes effective April 1, 2011, which provided cost savings to participants that trade equities where the trade price per-security is lower than \$1.00. Effective October 1, 2011, we also made changes to our market making fee schedule for Toronto Stock Exchange, including introducing monthly credits.
- The decrease in overall *cash markets* revenue also reflected lower volumes from Shorcan fixed income trading in Q1/12 compared with Q1/11.

### Derivatives Markets

- The increase in *derivatives markets* revenue reflects higher revenues from BOX primarily as a result of a 23% increase in BOX volumes (38.93 million contracts in Q1/12 versus 31.67 million contracts traded in Q1/11).
- The increase in *derivatives markets* revenue also reflects an increase in trading and clearing revenue from MX and CDCC. Volumes increased by 12% over Q1/11 (16.35 million contracts traded in Q1/12 versus 14.55 million contracts traded in Q1/11) reflecting increased trading in the CGB contracts as well as in ETF and equity options. The increase in revenue was partially offset by the impact of price changes since Q1/11. Open interest was up 27% at March 31, 2012 compared with March 31, 2011.
- *Derivatives markets* revenue for Q1/12 also includes fees earned by CDCC for providing the clearing service on REPO transactions as well as bank fees that are charged back to

Clearing Members (see **Other Credit and Liquidity Facilities and Guarantee**). This service was launched on February 21, 2012.

### **Energy Markets**

- The decrease in energy markets revenue reflects NGX deferring more revenue in Q1/12 due to an increase in the number of forward contracts compared with Q1/11.
- The decrease in revenue also reflects lower NGX crude oil volumes due to limited acceptance of NGX's clearing services and increased competition from voice brokers, including from Shorcan Energy Brokers, a wholly-owned subsidiary of Shorcan. This decrease in NGX crude oil revenue was essentially offset by higher revenue from Shorcan Energy Brokers driven by higher volumes in Q1/12 compared with Q1/11.
- There was a 2% decrease in total energy volume<sup>#</sup> traded on NGX from Q1/11 (4.01 million terajoules in Q1/12 compared to 4.11 million terajoules in Q1/11), which included a 1% decline in total natural gas volumes.

### **Information services revenue**

(in millions of dollars)

<b>Q1/12</b>	<b>Q1/11</b>	<b>\$ increase</b>	<b>% increase</b>
\$ 42.8	\$ 40.0	\$2.8	7%

- The increase was primarily due to revenue from TMX Atrium, acquired July 29, 2011, and higher revenue from TMXnet, co-location services, feeds and PC-Bond. The increase was also due to higher revenue recoveries related to under-reported usage of real-time quotes in prior periods during Q1/12 compared with Q1/11.
- There was a 14% increase in the average number of MX market data subscriptions (27,178<sup>+</sup> MX market data subscriptions in Q1/12 compared with 23,748<sup>+</sup> in Q1/11).
- The increases were partially offset by price reductions effective October 1, 2011, and lower revenue from usage based quotes.
- Overall, there was a 2% decrease in the average number of professional and equivalent real-time market data subscriptions to Toronto Stock Exchange and TSX Venture Exchange products compared with Q1/11 (155,524<sup>+</sup> professional and equivalent real-time market data subscriptions in Q1/12 compared with 159,072<sup>+</sup> in Q1/11).

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<sup>#</sup> NGX total energy volume includes trading and clearing in natural gas, crude oil and electricity.

<sup>+</sup> Includes a base number of subscriptions for customers that have entered into enterprise agreements.

## Technology services and other revenue

(in millions of dollars)

Q1/12	Q1/11	\$ increase	% increase
\$ 3.9	\$ 1.4	\$2.5	179%

- *Technology services and other* revenue increased primarily due to income from Razor, consolidated from February 14, 2012, and lower net foreign exchange losses on U.S. dollar accounts receivable in Q1/12 compared with Q1/11.

## REPO interest

(in millions of dollars)

	Q1/12	Q1/11	\$ increase/ (decrease)	% increase/ (decrease)
<i>Interest income</i>	\$ 0.8	\$ -	\$ 0.8	-
<i>Interest expense</i>	<u>(\$ 0.8)</u>	<u>\$ -</u>	<u>(\$ 0.8)</u>	-
<i>Net REPO interest</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-

- On February 21, 2012, CDCC launched the clearing of fixed income REPO agreements. The interest income and interest expense arising from the REPO agreements are equal. However, as CDCC does not have a legal right to offset these amounts, they are recognized separately on the condensed consolidated income statement.
- Fees earned by CDCC for providing the clearing service for the REPO agreements are included in *Derivatives Markets Trading, clearing and related revenue*.

## Operating Expenses

Operating expenses in Q1/12 were \$83.1 million, up \$6.0 million, or 8%, from \$77.1 million in Q1/11 primarily due to the inclusion of approximately \$5.0 million of expenses related to TMX Atrium, acquired July 29, 2011, Razor, consolidated from February 14, 2012 and ir2020, the assets of which were acquired December 23, 2011. There was an overall increase in salary and benefits costs and information and trading systems costs, somewhat offset by lower general and administration costs due to the inclusion in Q1/11 of a commodity tax adjustment of \$4.8 million relating to prior periods.

## Compensation and Benefits

(in millions of dollars)

Q1/12	Q1/11	\$ increase	% increase
\$ 40.3	\$ 36.8	\$3.5	10%

- *Compensation and benefits* costs increased due to an overall increase in salary and benefits costs relating to increased headcount and merit increases. There were 956

employees at March 31, 2012, including 31 from Razor consolidated from February 14, 2012, 2 from ir2020, acquired December 23, 2011, and 24 from TMX Atrium, acquired July 29, 2011, versus 856 employees at March 31, 2011. The increased headcount attributable to TMX Atrium, Razor and ir2020 contributed to the higher costs. In addition, we continue to invest in our leading technologies, and over the past year we have continued to add resources to generate future revenue growth.

- The higher costs were partially offset by higher capitalization of costs associated with technology initiatives.

### Information and Trading Systems

(in millions of dollars)

Q1/12	Q1/11	\$ increase	% increase
\$ 14.8	\$ 10.6	\$4.2	40%

- *Information and trading systems* expenses were higher due to the inclusion of costs related to TMX Atrium, acquired July 29, 2011.
- The increase was also due to higher spending on new technology initiatives in Q1/12 compared with Q1/11. We invested in a number of new projects, including TMX Quantum XA, REPO clearing and corporate software conversions.

### General and Administration

(in millions of dollars)

Q1/12	Q1/11	\$ (decrease)	% (decrease)
\$ 20.1	\$ 23.1	(\$3.0)	(13%)

- In Q1/11, *General and Administration* costs included a commodity tax adjustment of \$4.8 million relating to prior periods. The lower costs were partially offset by the inclusion of costs related to TMX Atrium, acquired July 29, 2011, and Razor, consolidated from February 14, 2012. In addition, we incurred bank fees relating to the REPO initiative, some of which have been charged back to the Clearing Members on a pro rated basis based on service usage, and are included in *Derivatives Markets Trading, clearing and related revenue*.

### Depreciation and Amortization

(in millions of dollars)

Q1/12	Q1/11	\$ increase	% increase
\$ 7.9	\$ 6.6	\$1.3	20%

- *Depreciation and amortization* costs increased due to increased amortization of intangible assets related to REPO clearing, on-book Dark Order types, TMX Select, TSX

Quantum feeds as well as intangible assets related to acquisitions including TMX Atrium, Razor and ir2020.

### Maple and LSEG Related Costs

(in millions of dollars)

Q1/12	Q1/11	\$ (decrease)	% (decrease)
\$ 0.5	\$ 8.3	(\$ 7.8)	(94%)

- In Q1/12, these costs included legal, advisory and other costs incurred related to the Maple transaction.
- In Q1/11, these costs included legal, advisory and other costs incurred related to the LSEG transaction.

### Finance Income

(in millions of dollars)

Q1/12	Q1/11	\$ increase	% increase
\$ 1.7	\$ 1.2	\$0.5	42%

- The increase in *Finance income* reflected an increase in cash available for investment in Q1/12 compared with Q1/11.

### Finance Costs

(in millions of dollars)

Q1/12	Q1/11	\$ increase	% increase
\$ 2.4	\$ 2.0	\$0.4	20%

- *Finance costs* increased as a result of higher interest rates and fees on the debt outstanding (see **Term Loan**).

### Income Tax Expense

(in millions of dollars)

Q1/12	Q1/11	Effective tax rate (%)	
		Q1/12	Q1/11
\$ 20.2	\$ 24.7	26%	28%

- The effective tax rate for Q1/12 was lower than that for Q1/11 due to a decrease in federal and Ontario corporate income tax rates.

## Net Income Attributable to Non-Controlling Interests

(in millions of dollars)

Q1/12	Q1/11	\$ increase	% increase
\$1.8	\$1.2	\$0.6	50%

- MX holds a 53.8% ownership interest in BOX. The results for BOX are consolidated in our Income Statement.
- Net income attributable to non-controlling interests represents the other BOX unitholders' share of BOX's net income in the period. In Q1/12, the net income of \$1.8 million reflected significantly higher BOX trading volumes compared with Q1/11.

## SEGMENT ANALYSIS

### *Cash Markets and Other (includes Maple and LSEG Related Costs)*

(in millions of dollars)

	Q1/12	Q1/11	\$ (decrease)	% (decrease)
Revenue	\$116.0	\$131.9	(\$15.9)	(12%)
Maple and LSEG Related Costs	\$0.5	\$8.3	(\$7.8)	(94%)
Net Income attributable to TMX Group shareholders	\$45.8	\$51.8	(\$6.0)	(12%)

The decrease in revenue primarily reflects lower issuer services revenue and a decline in cash markets trading revenue in Q1/12 compared with Q1/11. The decrease was partially offset by an increase in revenue from information services and lower net foreign exchange losses on U.S. dollar accounts receivable in Q1/12 compared with Q1/11. Net income decreased due to the lower revenue as well as higher costs related to TMX Atrium, Razor and ir2020 and higher overall compensation and benefits costs and information and trading systems costs. This was partially offset by lower general and administration costs (due to the inclusion in Q1/11 of a commodity tax adjustment of \$4.8 million relating to prior periods), and a decrease in Maple and LSEG related costs.

(in millions of dollars)

	March 31, 2012	March 31, 2011	\$ (decrease)
Total Assets	\$489.2	\$565.5	(\$76.3)
Total Liabilities	\$445.2	\$586.8	(\$141.6)

Total Assets decreased primarily due to a decrease in cash and marketable securities at March 31, 2012 compared with March 31, 2011. Total Liabilities decreased at March 31, 2012 compared with March 31, 2011 due to the treatment of an inter-company loan between segments.

### **Derivative Markets – MX, CDCC and BOX**

(in millions of dollars)

	<b>Q1/12</b>	<b>Q1/11</b>	<b>\$ increase</b>	<b>% increase</b>
Revenue	\$35.0	\$31.4	\$3.6	11%
Net income attributable to TMX Group shareholders	\$8.2	\$8.2	-	-

The increase in revenue largely reflects higher volume on BOX and MX.

Net income attributable to TMX Group shareholders was the same in Q1/12 as in Q1/11 as the higher revenue was offset by higher compensation and benefits expenses, increased information and trading systems costs, a higher allocation of corporate costs and interest expense on an inter-company loan.

(in millions of dollars)

	<b>March 31, 2012</b>	<b>March 31, 2011</b>	<b>\$ increase</b>
Total Assets	\$3,402.5	\$1,434.5	\$1,968.0
Total Liabilities	\$2,328.1	\$402.2	\$1,925.9

Total Assets increased primarily due to an increase in Balances with Clearing Members (formerly *MX Daily settlements and cash deposits*) of \$1,771.8 million at March 31, 2012 compared with March 31, 2011, following CDCC's launch of REPO clearing services on February 21, 2012 (see **Total Assets**). MX also carried offsetting liabilities related to Balances with Clearing Members which were \$1,771.8 million higher at March 31, 2012 compared with March 31, 2011. The increase was also due to an increase in cash and marketable securities. Total Liabilities also increased at March 31, 2012 compared with March 31, 2011 due to the treatment of an inter-company loan between segments.

### **Energy Markets – NGX and Shorcan Energy Brokers**

(in millions of dollars)

	<b>Q1/12</b>	<b>Q1/11</b>	<b>\$ (decrease)</b>	<b>% (decrease)</b>
Revenue	\$11.3	\$11.4	(\$0.1)	(1%)
Net income attributable to TMX Group shareholders	\$2.8	\$3.1	(\$0.3)	(10%)

The decrease in energy markets revenue reflects NGX deferring more revenue in Q1/12 due to an increase in the number of forward contracts compared with Q1/11. The decrease in revenue also reflects lower NGX crude oil volumes due to limited acceptance of NGX's clearing services and increased competition from voice brokers, including from Shorcan Energy Brokers, a wholly-owned subsidiary of Shorcan. This decrease in NGX crude oil revenue was essentially offset by higher revenue from Shorcan Energy Brokers driven by higher volumes in Q1/12 compared with Q1/11.

The decrease in net income reflected the lower overall revenue and an increase in compensation and benefits costs, including commission-based compensation and higher organizational transition costs. These reductions in net income were partially offset by the impact of a lower effective tax rate in Q1/12 compared with Q1/11.

(in millions of dollars)

	<b>March 31, 2012</b>	<b>March 31, 2011</b>	<b>\$ (decrease)</b>
Total Assets	\$714.9	\$976.2	(\$261.3)
Total Liabilities	\$585.6	\$857.8	(\$272.2)

Total Assets decreased due to a decrease in energy contracts receivable of \$288.2 million related to the clearing operations of NGX due to significantly lower gas prices compared with the end of March 2011 and slightly lower volumes delivered. As the clearing counterparty to every trade, NGX also carries offsetting liabilities in the form of energy contracts payable, which were also \$288.2 million lower at the end of March 2012. The decrease in total assets was partially offset by an increase of \$17.2 million in the fair value of open energy contracts receivable compared with the end of March 2011. As the clearing counterparty to every trade, NGX also carries offsetting liabilities related to the fair value of open energy contracts which were also \$17.2 million higher at March 31, 2012 compared with March 31, 2011.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash, Cash Equivalents and Marketable Securities

(in millions of dollars)

<b>March 31, 2012</b>	<b>December 31, 2011</b>	<b>\$ (decrease)</b>
\$ 447.2	\$ 490.4	(\$ 43.2)

- The decrease was largely due to dividend payments of \$29.9 million, additions to intangible assets of \$5.4 million, capital expenditures of \$7.0 million and acquisitions of \$9.7 million. In Q1/12, we generated \$12.2 million of cash from operating activities, net of \$4.1 million of cash outlays pertaining to Maple related costs.

### Total Assets

(in millions of dollars)

<b>March 31, 2012</b>	<b>December 31, 2011</b>	<b>\$ increase</b>
\$ 4,606.6	\$ 3,394.8	\$1,211.8

- Our condensed consolidated balance sheet as at March 31, 2012 includes outstanding balances on open REPO agreements within Balances with Clearing Members (formerly *MX daily settlements and cash deposits*), following CDCC's launch of clearing of fixed income REPO agreements on February 21, 2012. OTC REPO agreements between buying and selling Clearing Members are novated to CDCC whereby the rights and

obligations of the Clearing Members under the REPO agreements are cancelled and replaced by new agreements with CDCC. Once novation occurs, CDCC becomes the counterparty to both the buying and selling Clearing Member. As a result, the contractual right to receive and return the principal amount of the REPO as well as the contractual right to receive and pay interest on the REPO is transferred to CDCC. Receivable and payable balances outstanding with the same Clearing Member are offset when they are in the same currency and are to be settled on the same day, as CDCC has a legally enforceable right to offset. Balances with Clearing Members include outstanding balances on open REPO transactions, including both the original principal amount of the REPO and the accrued interest which are both carried at amortized cost. As CDCC is the central counterparty, an equivalent amount is recognized in both assets and liabilities.

- The increase was also due to an increase in trade and other receivables of \$72.4 million reflecting later billing and collecting of sustaining listing fees for 2012.
- The overall increase was partially offset by a decrease in energy contracts receivable of \$230.8 million related to the clearing operations of NGX and a decrease in cash and marketable securities of \$43.2 million at March 31, 2012 compared with December 31, 2011.

## CREDIT AND LIQUIDITY FACILITIES AND GUARANTEE

### Term Loan

(in millions of dollars)

<b>March 31, 2012</b>	<b>December 31, 2011</b>	<b>\$ increase</b>
\$429.9	\$429.8	\$ 0.1

- 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). On April 30, 2008, we borrowed \$430.0 million in Canadian funds under the Term Loan to satisfy the cash consideration of the purchase price for MX. On December 16, 2011, we extended and amended this facility. The revised credit facility remains at \$430.0 million and will expire on June 29, 2012. We plan to renew the facility prior to this date.
- This credit facility contains 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 IFRS;
  - 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 March 31, 2012, all covenants were met.

### ***Other Credit and Liquidity Facilities and Guarantee***

To backstop its clearing operations, NGX currently has a credit agreement in place with a Canadian Schedule I 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. This facility had not been drawn upon at March 31, 2012.

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

In 2011, CDCC put in place a \$300.0 million daylight liquidity facility with a Canadian Schedule I bank. In January 2012, CDCC increased its revolving standby liquidity facility from \$50.0 million to \$100.0 million and signed an additional daylight liquidity facility for \$400.0 million with a Canadian Schedule 1 chartered bank, for a total of \$700.0 million in daylight liquidity facilities. CDCC's revolving standby liquidity facility is in place to provide end of day liquidity in the event that CDCC is unable to clear the daylight liquidity facilities to zero. This would only occur in the event of a Clearing Member default. Advances under the revolving facility will be secured by collateral in the form of securities that have been received by CDCC. CDCC's daylight liquidity facilities are in place to provide liquidity on the basis of collateral in the form of securities that have been received by CDCC. The daylight liquidity facilities must be cleared to zero at the end of each day. The revolving facilities had not been drawn upon at March 31, 2012.

In February 2012, CDCC signed a \$1.2 billion repurchase facility with a syndicate of six Canadian Schedule 1 chartered banks (the syndicated REPO facility). The facility is comprised of \$300.0 million in committed liquidity and \$900.0 million in uncommitted liquidity. In April 2012, the CDCC syndicated REPO facility was increased from \$1.2 billion to \$4.8 billion. The revised facility is comprised of \$1.2 billion in committed liquidity and \$3.6 billion in uncommitted liquidity. The facility remains with the same syndicate of six Canadian Schedule 1 chartered banks. CDCC's syndicated REPO facility is also in place to provide end of day liquidity in the event that CDCC is unable to clear the daylight liquidity facilities to zero. This would only occur in the event of a Clearing Member default. The facility will provide liquidity in exchange for securities that have been received by CDCC. The bank fees for this facility are included in *General and Administration* costs. However, these bank fees are charged back to the Clearing Members on a pro rated basis based on service usage, and are included in *Derivatives Markets Trading, clearing and related revenue*. The syndicated REPO facility had not been drawn upon at March 31, 2012.

In April 2012, CDCC signed an agreement that would allow the Bank of Canada to provide emergency last-resort liquidity to CDCC at the discretion of the Bank of Canada. This facility is intended to provide end of day liquidity only in the event that CDCC is unable to access liquidity from the revolving standby liquidity facility and the syndicated REPO facility. Use of this facility would be on a fully collateralized basis.

## Total Equity attributable to Shareholders of TMX Group

(in millions of dollars)

<b>March 31, 2012</b>	<b>December 31, 2011</b>	<b>\$ increase</b>
\$ 1,224.6	\$ 1,196.5	\$ 28.1

- We earned \$56.8 million of net income attributable to TMX Group shareholders during Q1/12 and paid \$29.9 million in dividends.
- At March 31, 2012, there were 74,691,248 common shares issued and outstanding. In Q1/12, 51,215 common shares were issued on the exercise of share options. At March 31, 2012, 3,741,168 common shares were reserved for issuance upon the exercise of options granted under the share option plan. At March 31, 2012, there were 1,773,071 options outstanding.
- At May 9, 2012, there were 74,693,248 common shares issued and outstanding and 1,768,538 options outstanding under the share option plan.

## Cash Flows from Operating Activities

(in millions of dollars)

	Q1/12	Q1/11	(Decrease) in cash
<i>Cash Flows from Operating Activities</i>	\$ 12.2	\$ 72.1	(\$59.9)

*Cash Flows from Operating Activities* were \$12.2 million in Q1/12, which were net of \$4.1 million of cash outlays pertaining to Maple related costs, compared with \$72.1 million of cash flows from operating activities in Q1/11, which were net of \$1.2 million of cash outlays pertaining to LSEG related costs. The decrease of \$59.9 million was primarily due to lower income before income taxes and an increase in trade receivables reflecting later billing and collecting of sustaining listing fees for 2012:

(in millions of dollars)

	Q1/12	Q1/11	Increase/ (decrease) in cash
Income before income taxes	\$ 78.8	\$ 89.0	(\$ 10.2)
Depreciation and amortization	\$ 7.9	\$ 6.6	\$ 1.3
(Increase) in trade and other receivables and prepaid expenses	(\$ 74.0)	(\$ 47.0)	(\$ 27.0)
Maple and LSEG related costs	\$ 0.5	\$ 8.3	(\$ 7.8)
Maple and LSEG related cash outlays	(\$ 4.1)	(\$ 1.2)	(\$ 2.9)
Net (decrease) in trade and other payables, long-term accrued and other non-current liabilities	(\$ 16.9)	(\$ 19.0)	\$ 2.1
Increase in deferred revenue	\$ 54.4	\$ 58.3	(\$ 3.9)
Income taxes paid	(\$ 31.3)	(\$ 29.2)	(\$ 2.1)
(Decrease) / increase in provisions, including commodity tax adjustment	(\$ 4.3)	\$ 5.4	(\$ 9.7)
Net increase in other items	<u>\$ 1.2</u>	<u>\$ 0.9</u>	<u>\$ 0.3</u>
<i>Cash Flows from Operating Activities</i>	<u>\$ 12.2</u>	<u>\$ 72.1</u>	<u>(\$59.9)</u>

## Cash Flows from (used in) Financing Activities

(in millions of dollars)

	Q1/12	Q1/11	(Decrease) in cash
<i>Cash Flows from (used in) Financing Activities</i>	(\$ 32.3)	(\$ 24.6)	(\$ 7.7)

*Cash Flows (used in) Financing Activities* were \$7.7 million higher in Q1/12 compared with Q1/11 due to:

(in millions of dollars)

	Q1/12	Q1/11	Increase/ (decrease) in cash
Dividends paid on common shares	(\$ 29.9)	(\$ 29.8)	(\$ 0.1)
Proceeds from exercised share options	\$ 1.6	\$ 6.1	(\$ 4.5)
BOX dividend to non-controlling interest	(\$ 3.7)	-	(\$ 3.7)
Net (decrease) in other items	<u>(\$ 0.3)</u>	<u>(\$ 0.9)</u>	<u>\$ 0.6</u>
<i>Cash Flows from (used in) Financing Activities</i>	<u>(\$32.3)</u>	<u>(\$ 24.6)</u>	<u>(\$ 7.7)</u>

## Cash Flows from (used in) Investing Activities

(in millions of dollars)

	Q1/12	Q1/11	Increase in cash
<i>Cash Flows from (used in) Investing Activities</i>	\$ 34.9	(\$ 33.0)	\$ 67.9

*Cash Flows from Investing Activities* were \$67.9 million higher in Q1/12 compared with Q1/11 due to:

(in millions of dollars)

	Q1/12	Q1/11	Increase/ (decrease) in cash
Capital expenditures primarily related to our co-location facility, TMX Atrium's network and hardware as well as leasehold improvements	(\$ 7.0)	(\$ 0.3)	(\$ 6.7)
Additions to intangible assets including TMX Quantum XA (2012), SOLA internal development costs (2012), development costs related to REPO clearing (2012 and 2011), TSX Quantum Feeds (2011) and on-book Dark Order types (2011)	(\$ 5.4)	(\$ 2.5)	(\$ 2.9)
Acquisitions, net of cash acquired	(\$ 9.7)	(\$ 1.0)	(\$ 8.7)
Proceeds on disposal of EDX investment	-	\$ 3.2	(\$ 3.2)
Net sales/(purchases) of marketable securities	<u>\$ 57.0</u>	<u>(\$ 32.4)</u>	<u>\$ 89.4</u>
<i>Cash Flows from (used in) Investing Activities</i>	<u>\$ 34.9</u>	<u>(\$ 33.0)</u>	<u>\$ 67.9</u>

## Summary of Cash Position and Other Matters<sup>2</sup>

We had \$447.2 million of cash and cash equivalents and marketable securities at March 31, 2012. During Q1/12, with revenues of \$162.3 million, we incurred operating expenses of \$83.1 million. Cash flows from operations were \$12.2 million, net of \$4.1 million of cash outlays pertaining to Maple related costs, and we paid \$29.9 million in dividends on TMX Group common shares in Q1/12. Based on our current business operations and model, we believe that we have sufficient cash resources to operate our business.

We had \$429.9 million of debt outstanding under the Term Loan. On December 16, 2011, we extended and amended our \$430.0 million credit facility that was due to expire on December 28, 2011. The revised credit facility remains at \$430.0 million and will expire on June 29, 2012. We plan to renew the facility prior to this date.

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<sup>2</sup> 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.

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 or other securities over a 25-month period ending in July 2012. The net proceeds of any such offerings would be used for general corporate purposes, including repaying outstanding indebtedness from time to time, and funding future acquisitions or investments.

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

Under the terms of the support agreement with Maple, we are restricted from declaring or making any distribution or dividend payment other than the regular quarterly dividend of \$0.40 per common share.

The recognition order of TSX Inc. by the 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. cannot, 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 AMF that must be met. If MX fails to meet any of these tests for a period of more than three months, MX cannot, 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 ASC and the CFTC to maintain adequate financial resources to operate its trading system and support its trade execution functions.

As at March 31, 2012, we met all of the above requirements. In addition, as of May 7, 2012, NGX, as a derivatives clearing organization (DCO) will have additional financial requirements under the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank Act). See **MANAGING CAPITAL**.

### **Changes in Internal Control over Financial Reporting**

There were no changes to internal control over financial reporting during the quarter beginning January 1, 2012 and ended March 31, 2012 that materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

### **MANAGING CAPITAL**

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

- I. Maintaining sufficient capital for operations to ensure market confidence. Currently, we target to retain a minimum of \$100.0 million in cash and marketable securities. This amount is currently under review in light of changing regulatory requirements. We do this by managing our capital subject to capital maintenance requirements imposed on us and our subsidiaries as follows:

- In respect of TSX Inc., as required by the OSC to maintain certain regulatory ratios as defined in the OSC recognition order, as follows:
  - a current ratio not less than 1.1:1;
  - a debt to cash flow ratio not greater than 4:1; and
  - a financial leverage ratio consisting of adjusted total assets to adjusted shareholders' equity not greater than 4:1.

During Q1/12, we have complied with these externally imposed capital requirements.

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

During Q1/12, we have complied with these externally imposed capital requirements.

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

During Q1/12, we have complied with these externally imposed capital requirements.

- Under the Dodd-Frank Act governing DCO activities, as of May 7, 2012, NGX, as a DCO, is required to:
  - maintain sufficient financial resources to cover the single largest default by a clearing member in an extreme but plausible scenario; and
  - maintain sufficient financial resources to cover 12 months operating expenses.

NGX is currently in compliance with this requirement and will measure and adjust as required by regulation.

- In respect of Shorcan;
  - by the Investment Industry Regulatory Organization of Canada (IIROC), which requires Shorcan to maintain a minimum level of shareholder's equity of \$0.5 million; and
  - by the OSC which requires Shorcan to maintain a minimum level of excess working capital.

During Q1/12, we have complied with these externally imposed capital requirements.

- In respect of TMX Select, IIROC requires TMX Select to maintain an adequate level of risk adjusted capital.

During Q1/12, we have complied with this externally imposed capital requirement.

- In respect of MX, as required by the AMF to maintain certain regulatory ratios as defined in the AMF recognition order, as follows:
  - a working capital ratio of more than 1.5:1;
  - a cash flow to total debt ratio of more than 20%; and
  - a financial leverage ratio consisting of total assets to shareholders' equity of less than 4:1.

During Q1/12, we have complied with these externally imposed capital requirements.

- In respect of CDCC, to maintain certain cash amounts, as follows:
  - \$10.0 million of cash, cash equivalents and marketable securities must be reserved to be utilized within the default management process; and
  - sufficient cash, cash equivalents and marketable securities to cover 12 months of operating expenses, excluding amortization and depreciation;

As of March 31, 2012, CDCC has complied with these financial resource requirements, which stem from CPSS-IOSCO<sup>3</sup> best practices.

- Maintaining sufficient capital to meet the covenants imposed in connection with our term loan (see Term Loan).

During Q1/12, we have complied with these externally imposed capital requirements.

- II. Retaining sufficient capital to invest in, and continue to grow, our business both organically and through acquisitions.
- III. Returning capital to shareholders through methods such as dividends and purchasing shares for cancellation pursuant to normal course issuer bids.

Our objectives, policies and processes for managing capital have not changed in the current economic environment.

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<sup>3</sup> Committee on Payment and Settlement Systems (CPSS) - International Organization of Securities Commissions (IOSCO).

## QUARTERLY INFORMATION

(in thousands of dollars except per share amounts)

	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10
<i>Revenue</i>	\$162.3	\$161.7	\$167.8	\$169.3	\$174.7	\$174.1	\$146.0	\$156.1
<i>Net income attributable to TMX Group shareholders</i>	56.8	52.7	67.0	54.7	63.1	67.0	55.2	58.4
<i>Earnings per share:</i>								
<i>Basic</i>	0.76	0.70	0.90	0.73	0.85	0.90	0.74	0.79
<i>Diluted</i>	0.76	0.70	0.90	0.73	0.84	0.90	0.74	0.79

### 2012

- Revenue in Q1/12 was in line with Q4/11. In Q1/12, we had higher cash markets trading and derivatives markets trading and clearing revenue as well as higher technology services and other revenue including revenue from Razor (consolidated from February 14, 2012) and lower net foreign exchange losses on U.S. dollar accounts receivable compared with Q4/11. The increases in revenue were offset by lower issuer services revenue, primarily related to initial and sustaining listing fees, as well as reduced energy markets trading and clearing revenue and lower information services revenue. Net income attributable to TMX Group shareholders for Q1/12 increased over Q4/11 primarily due to lower Maple related costs.

### 2011

- Revenue in Q1/11 increased over revenue in Q4/10 due to higher derivatives trading and clearing revenue and cash equity trading revenue largely offset by lower issuer services, energy trading as well as technology services and other revenue. Net income attributable to TMX Group shareholders for Q1/11 decreased over Q4/10 primarily due to costs associated with the proposed merger with LSEG and an increase in general and administration expenses related to a commodity tax adjustment.
- Revenue in Q2/11 decreased compared with revenue in Q1/11 due to lower cash markets and energy trading revenue partially offset by higher technology services and other revenue and increased revenue from issuer services and information services. Net income attributable to TMX Group shareholders for Q2/11 decreased over Q1/11 primarily due to the decreased revenue and LSEG and Maple related costs partially offset by lower general and administration costs related to a commodity tax adjustment and lower compensation and benefits costs. Finance income was somewhat higher in Q2/11 compared with Q1/11.
- Revenue in Q3/11 decreased compared with revenue in Q2/11 due to lower issuer services revenue partially offset by higher revenue from derivatives markets trading and clearing, information services and net foreign exchange gains on U.S. dollar accounts receivables. Net income attributable to TMX Group shareholders for Q3/11 increased over Q2/11 primarily due to decreased LSEG and Maple related costs as well as lower

general and administration costs, partially offset by higher compensation and benefits costs.

- Revenue in Q4/11 decreased compared with revenue in Q3/11 primarily due to lower cash markets trading revenue and reduced derivatives markets trading and clearing revenue, somewhat offset by increased issuer services and information services revenue as well as higher energy trading and clearing revenue. In addition, other revenue included net foreign exchange gains on U.S. dollar receivables in Q3/11 and net foreign exchange losses in Q4/11. Net income attributable to TMX Group shareholders for Q4/11 decreased from Q3/11 primarily due to the lower revenue, increased Maple related costs, higher compensation and benefits costs, increased information and trading systems costs as well as higher general and administration expenses.

## **2010**

- Revenue in Q2/10 increased over revenue in Q1/10 due to higher revenue from issuer services, information services, energy trading and Canadian derivatives trading, somewhat offset by lower revenue from cash equities trading and U.S. derivatives trading. Net income attributable to TMX Group shareholders for Q2/10 increased over net income attributable to TMX Group shareholders in Q1/10 largely due to higher revenue partially offset by higher expenses as we continued to invest in technology initiatives, corporate development and marketing.
- Revenue in Q3/10 decreased over revenue in Q2/10 primarily due to lower revenue from issuer services. The decrease was also as a result of lower cash markets trading revenue and technology services revenue, partially offset by higher energy trading revenue. Net income attributable to TMX Group shareholders for Q3/10 decreased over Q2/10 due to lower revenue. The impact was partially offset by lower information and trading systems costs as well as reduced general and administration expenses.
- Revenue in Q4/10 increased over revenue in Q3/10 primarily due to significantly higher issuer services and cash markets trading revenue as well as higher derivatives trading and clearing revenue, partially offset by lower technology services revenue. Net income attributable to TMX Group shareholders was higher in Q4/10 compared with Q3/10. The increase in revenue was partially offset by higher compensation and benefits costs, information and trading systems costs and general and administration costs and lower finance income (formerly investment income). In addition, there was a write-down to estimated fair value of \$1.7 million on our 19.9% interest in EDX in Q4/10.

## **CHANGES IN ACCOUNTING POLICIES**

### **Future Changes in Accounting Policies**

The following two amendments to IFRS are effective for TMX Group from January 1, 2012, but there was no impact on the financial statements as a result of their application:

- IFRS 7, Financial instruments – disclosure - Amendments regarding transfers of financial assets

- IAS 12, Income taxes – Amendments regarding deferred income tax - Recovery of underlying assets

A number of other new standards and amendments to standards and interpretations are not yet effective for the year ending December 31, 2012, and have not been applied in preparing the financial statements. In particular, the following new and amended standards and interpretations are required to be implemented for financial years beginning on or after January 1, 2013, unless otherwise noted:

- IFRS 9, Financial instruments (effective for annual periods beginning on or after January 1, 2015)
- IFRS 10, Consolidated financial statements
- IFRS 11, Joint arrangements
- IFRS 12, Disclosure of interests in other entities
- IFRS 13, Fair value measurement
- IAS 27, Separate financial statements
- IAS 28, Investments in associates and joint ventures
- IAS 1, Presentation of financial statements: Presentation of items of other comprehensive income – Amendments requiring the grouping of items within other comprehensive income (effective for annual periods beginning on or after July 1, 2012)
- IAS 19, Employee benefits – Amendments regarding the recognition of gains and losses, the presentation of changes in assets and liabilities, and enhanced disclosure requirements
- IFRS 7, Financial instruments – disclosure - Amendments relating to the offsetting of financial assets and financial liabilities
- IAS 32, Financial Instruments – presentation – Amendments relating to the offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after January 1, 2014).

We are reviewing these new standards and amendments to determine the potential impact, if any, on our financial statements. No significant impact is expected.

In June 2010, the IASB issued an Exposure Draft on Revenue from Contracts from Customers (ED) and requested comments by October 22, 2010. The IASB issued a revised ED in November 2011 based on feedback received and requested comments by March 13, 2012.

The ED proposes an effective date for the revised standard of no earlier than annual reporting periods beginning on or after 1 January 2015; however, it proposes that the amendments be applied retrospectively. We are currently considering the impact that this ED would have on our recognition of Issuer Services Revenue in particular. It is possible that the final revised standard once released may result in changes to our current revenue recognition policies.

## Caution Regarding Forward-Looking Information

This MD&A of TMX Group 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 including changes in business cycles that impact our sector; 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 or regulatory proceedings; dependence on adequate numbers of customers; failure to develop, market 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 on third party suppliers and service providers; dependence of trading operations on a small number of clients; risks associated with our clearing operations; challenges related to international expansion; restrictions on ownership of TMX Group shares; inability to protect our intellectual property; 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; business development and marketing and sales activity; 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 and client acceptance of new products; successful introduction of various technology assets and capabilities; 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 2011 Annual MD&A under the heading **Risks and Uncertainties**.