

TSX Group Inc.

Q1-2008 Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) of TSX Group Inc.'s (TSX Group) financial condition and results of operations is provided to enable a reader to assess our financial condition, material changes in our financial condition and our results of operations, including our liquidity and capital resources, for the quarter ended March 31, 2008, compared with the quarter ended March 31, 2007, or the year ended December 31, 2007, as applicable. This MD&A is dated April 30, 2008 and should be read carefully together with our Q1/08 unaudited interim consolidated financial statements and related notes for the corresponding period as well as our 2007 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.tsx.com. All amounts are in Canadian dollars unless otherwise indicated and are based on financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP), unless otherwise specified.

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

Non-GAAP Financial Measures

In April 2007, TSX Group began to bill Toronto Stock Exchange customers for initial and additional listing fees. Prior to this date, these fees were paid upon the listing or reserving of securities. For TSX Venture Exchange issuers, initial and additional listing fees are paid either prior to or at the time of listing or reserving securities. With the adoption of this system, there is a lag between the time when securities are issued or reserved and the time when these listing fees are paid for Toronto Stock Exchange listed issuers. In order to reflect this change, we have adopted the terms issuer services fees billed, initial listing fees billed and additional listing fees billed. These terms replace "*listing fees received*", "*initial listing fees received*" and "*additional listing fees received*", which have been used in previous financial reporting. The composition of these measures, however, is unchanged.

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

We present adjusted earnings per share prior to loss on termination of joint venture as an indication of operating performance exclusive of the payment made to ISE Ventures, LLC (ISE Ventures), a wholly-owned subsidiary of International Securities Exchange Holdings, Inc. (ISE), related to terminating our previously announced joint venture to operate DEX, a new Canadian derivatives exchange. This measure is unlikely to be comparable to similar measures presented by other issuers. Management believes this measure allows it to assess the operating performance excluding this type of payment.

Quarter Ended March 31, 2008 compared with Quarter Ended March 31, 2007

Net income was \$32.7 million, or 49 cents per common share (on both a basic and diluted basis) for Q1/08, compared with net income of \$36.4 million, or 53 cents per common share on both a basic and diluted basis for the same period in 2007. Net income for Q1/08 decreased by 10% over Q1/07 due to a payment of \$15.2 million to ISE Ventures related to terminating our previously announced joint venture to operate DEX. The impact of this charge, which is not being deducted for income tax purposes, more than offset the positive impact of increased revenue and lower expenses in Q1/08 compared with Q1/07. Adjusted earnings per share prior to loss on termination of joint venture* for Q1/08 was 72 cents (on both a basic and diluted basis).

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

Reconciliation for Q1/08 and Q1/07

	Q1/08		Q1/07	
	Basic	Diluted	Basic	Diluted
<i>Earnings per share</i>	\$0.49	\$0.49	\$0.53	\$0.53
<i>Adjustment related to loss on termination of joint venture</i>	<u>\$0.23</u>	<u>\$0.23</u>	=	=
<i>Adjusted earnings per share prior to loss on termination of joint venture*</i>	<u>\$0.72</u>	<u>\$0.72</u>	<u>\$0.53</u>	<u>\$0.53</u>

Revenue

Revenue in Q1/08 was \$112.4 million, up \$11.3 million, or 11% as compared with \$101.1 million in Q1/07 primarily reflecting increased issuer services and market data revenue, partially offset by a slight decrease in trading revenue. Revenue in Q1/08 included \$4.0 million from The Equicom Group Inc. (Equicom), acquired in Q2/07.

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

Issuer Services Revenue

The following is a summary of issuer services revenue reported and issuer services fees billed* (reconciled below in this section) in Q1/08 and Q1/07.

(in millions of dollars)

	<i>Reported</i>				<i>Billed*</i>			
	Q1/08	Q1/07	\$ increase	% increase	Q1/08	Q1/07	\$ increase/ (decrease)	% increase/ (decrease)
<i>Initial listing fees</i>	\$ 3.9	\$ 3.2	\$ 0.7	22%	\$ 6.4	\$ 6.6	(\$ 0.2)	(3%)
<i>Additional listing fees</i>	\$ 12.2	\$ 10.1	\$ 2.1	21%	\$ 19.4	\$ 24.4	(\$ 5.0)	(20%)
<i>Sustaining listing fees**</i>	\$ 17.2	\$ 16.8	\$ 0.4	2%	\$ 17.2	\$ 16.8	\$ 0.4	2%
<i>Other issuer services</i>	<u>\$ 4.3</u>	<u>-</u>	<u>\$ 4.3</u>	-	<u>\$ 4.3</u>	<u>-</u>	<u>\$ 4.3</u>	-
<i>Total listing fees</i>	<u>\$ 37.6</u>	<u>\$ 30.1</u>	<u>\$ 7.5</u>	25%	<u>\$ 47.3</u>	<u>\$ 47.8</u>	<u>(\$ 0.5)</u>	(1%)

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, effective April 2007, customers are billed for initial and additional listing fees. Prior to this date, these fees were paid upon the listing or reserving of securities. With the adoption of this system, there is a lag between the time when securities are issued or reserved and the time when these listing fees are paid for Toronto Stock Exchange listed issuers. For TSX Venture Exchange issuers, initial and additional listing 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:

<i>Initial Listing Fees</i> (in millions of dollars)	Q1/08	Q1/07
Initial listing fees billed*	\$ 6.4	\$ 6.6
Initial listing fees billed* and deferred to future periods	(\$ 6.3)	(\$ 6.5)
Recognition of initial listing fees billed* and previously included in deferred revenue	<u>\$ 3.8</u>	<u>\$ 3.1</u>
Initial listing fee revenue reported	<u>\$ 3.9</u>	<u>\$ 3.2</u>

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

** Sustaining listing fees billed, as shown in this table, represents the amount recognized for accounting purposes during the quarter. Sustaining listing fees are billed during the first quarter of the year, recorded as deferred revenue and amortized over the year on a straight-line basis.

<i>Additional Listing Fees</i> (in millions of dollars)	Q1/08	Q1/07
Additional listing fees billed*	\$ 19.4	\$ 24.4
Additional listing fees billed* and deferred to future periods	(\$ 19.1)	(\$ 24.0)
Recognition of additional listing fees billed* and previously included in deferred revenue	<u>\$ 11.9</u>	<u>\$ 9.7</u>
Additional listing fee revenue reported	<u>\$ 12.2</u>	<u>\$ 10.1</u>

- *Initial and additional listing fees reported* increased due to capital market activity and listing fees increases during the period from April 1, 1998 to March 31, 2008 compared with the period from April 1, 1997 to March 31, 2007. *Initial and additional listing fees billed** in Q1/08, as compared with Q1/07, reflect changes in the number and value of securities listed and reserved in the respective quarters, as well as changes to the pricing model for each equity exchange that were effective January 1, 2008.
- Issuers listed on Toronto Stock Exchange and TSX Venture Exchange pay annual sustaining listing fees primarily based on their market capitalization at the end of the prior calendar year, subject to minimum and maximum fees. The increase in *sustaining listing fees* was due to fee increases on TSX Venture Exchange that were effective January 1, 2008, and the overall higher market capitalization of listed issuers at the end of 2007 compared with the end of 2006, partially offset by a decrease in *sustaining listing fees* from issuers listed on Toronto Stock Exchange.
- *Other issuer services* includes revenue of \$4.0 million from Equicom, acquired in June 2007. Equicom provides investor relations and related corporate communications services to public issuers in Canada.

Trading and Related Revenue

(in millions of dollars)

	Q1/08	Q1/07	\$ increase/ (decrease)	% increase/ (decrease)
<i>Capital markets:</i>				
• <i>Toronto Stock Exchange</i>	\$ 24.2	\$ 25.7	(\$ 1.5)	(6%)
• <i>TSX Venture Exchange</i>	\$ 8.0	\$ 8.4	(\$ 0.4)	(5%)
• <i>Shorcan</i>	<u>\$ 3.2</u>	<u>\$ 3.2</u>	-	-
<i>Capital markets revenue</i>	\$ 35.4	\$ 37.3	(\$ 1.9)	(5%)
<i>Energy markets revenue</i>	<u>\$ 6.6</u>	<u>\$ 4.8</u>	<u>\$ 1.8</u>	38%
<i>Total trading and related</i>	<u>\$ 42.0</u>	<u>\$ 42.1</u>	<u>(\$ 0.1)</u>	-

revenue

Capital Markets

- The decrease in revenue reflects pricing changes on both of our equity exchanges, which were effective November 1, 2007.
- The total volume of securities traded in Q1/08 on Toronto Stock Exchange and TSX Venture Exchange decreased by 1% over Q1/07 (37.0 billion securities in Q1/08 versus 37.2 billion securities in Q1/07). The volume of securities traded in Q1/08 on Toronto Stock Exchange increased by 8% over Q1/07 (25.5 billion securities in Q1/08 versus 23.7 billion securities in Q1/07) and the volume of securities traded in Q1/08 on TSX Venture Exchange decreased by 15% over Q1/07 (11.5 billion securities in Q1/08 versus 13.5 billion securities in Q1/07).

Energy Markets

- In Q1/08, the volumes of natural gas and electricity contracts traded or cleared on Natural Gas Exchange (NGX) increased by 54% over Q1/07 (3.7 million terajoules in Q1/08 versus 2.4 million terajoules in Q1/07). This excludes the Alberta Watt Exchange Limited (Watt-Ex) volumes, which represent electric operating reserve procurement for the Alberta Electric System Operator.
- The increased volumes reflect the launch of our arrangement with IntercontinentalExchange Inc. (ICE) on February 9, 2008 which provided us with access to substantially more customers and included the launch of new products.
- The increase in revenue also reflects a price increase that was effective in January, 2008.
- In Q1/08, on a net basis, NGX deferred \$0.8 million more revenue than in Q1/07, which somewhat offset the increase in revenue.

Market Data Revenue

(in millions of dollars)

Q1/08	Q1/07	\$ increase	% increase
\$ 29.1	\$ 26.6	\$ 2.5	9%

- *Market data* revenue increased due to a 14% increase in the number of professional and equivalent real-time market data subscriptions (over 164,000 at the end of Q1/08 versus over 144,000 at the end of Q1/07). This increase reflects increased sales to both Canadian and U.S. customers.

- The increase was also attributable to fee changes that were effective January 1, 2008 and the inclusion of revenue from PC-Bond, which increased by \$0.4 million in Q1/08 over Q1/07.
- The increase was partially offset by lower revenue from usage-based quotes and by the negative impact of the appreciation of the Canadian dollar against the U.S. dollar since Q1/07.

Business Services and Other Revenue

(in millions of dollars)

Q1/08	Q1/07	\$ increase	% increase
\$ 3.6	\$ 2.2	\$ 1.4	64%

- *Other* revenue increased due to foreign exchange gains on U.S. dollar denominated accounts receivable.
- We billed Market Regulation Services Inc. (RS) \$1.6 million in Q1/08 for technology related services, compared with \$1.7 million Q1/07.

Expenses

Expenses in Q1/08 were \$45.0 million, a decrease of \$2.0 million, or 4%, as compared with \$47.0 million in Q1/07. The decrease was due to lower overall expenses, partially offset by \$3.1 million of expenses related to the business operations of Equicom, acquired in Q2/07.

Compensation and Benefits

(in millions of dollars)

Q1/08	Q1/07	\$ (decrease)	% (decrease)
\$ 23.4	\$ 25.5	(\$ 2.1)	(8%)

- *Compensation and benefits* costs decreased primarily due to lower expenses associated with the long-term incentive plan and lower organizational transition costs.
- The decrease in Q1/08 compared with Q1/07 was also due to the impact of capitalizing \$1.2 million of internal development costs related to the TSX Quantum trading engine.
- The decrease was somewhat offset by \$1.5 million in costs related to the business operations of Equicom, acquired in Q2/07.
- There were 606 employees at March 31, 2008 versus 554 at March 31, 2007. On June 1, 2007, we acquired Equicom, which had 58 employees. In addition, in Q2/07,

13 employees that perform investigative research, previously employed by Market Regulation Services Inc., were transferred to TSX Inc. The insourcing of the investigative research function has resulted in a reduction of *General and administration* costs. These increases were partially offset by a net reduction of 19 employees in our overall businesses.

Information and Trading Systems

(in millions of dollars)

Q1/08	Q1/07	\$ increase	% increase
\$ 7.2	\$ 6.6	\$ 0.6	9%

- *Information and trading systems* costs increased due to ongoing expenses primarily related to our initiative with ICE.
- The increase also included \$0.1 million in costs related to the business operations of Equicom, which was acquired in Q2/07.

General and Administration

(in millions of dollars)

Q1/08	Q1/07	\$ (decrease)	% (decrease)
\$ 10.2	\$ 11.1	(\$ 0.9)	(8%)

- *General and administration* costs decreased due to lower promotional expenses, a decrease in fees paid to external advisors and reduced costs from insourcing the investigative research function from RS in Q2/07. We paid RS \$0.6 million in Q1/08 compared with \$0.9 million in Q1/07.
- The decrease was partially offset by \$1.2 million in costs associated with the business operations of Equicom, which was acquired in Q2/07.

Amortization

(in millions of dollars)

Q1/08	Q1/07	\$ increase	% increase
\$ 4.2	\$ 3.7	\$ 0.5	14%

- *Amortization* costs increased reflecting increased amortization from intangible assets primarily related to TSX Quantum and amortization of \$0.3 million related to Equicom, acquired in Q2/07.

Income from Investment in Affiliate

(in millions of dollars)

Q1/08	Q1/07	\$ increase
\$ 0.1	\$ 0.0	\$ 0.1

- *Income from investment in affiliate* represents TSX Group's share of CanDeal.ca Inc.'s (CanDeal) income for Q1/08 based on a 47% interest in CanDeal. The improvement in CanDeal's Q1/08 revenue over Q1/07 was due to the introduction of transaction fees and CanDeal's continued progress in adding buy-side institutional investors. Also, in July 2007, CanDeal's six liquidity providers renewed their commitments to CanDeal, which had a positive impact on revenues in Q1/08.

Investment Income

(in millions of dollars)

Q1/08	Q1/07	\$ increase	% increase
\$ 4.4	\$ 4.0	\$ 0.4	10%

- *Investment income* increased due to higher returns on short-term bond and mortgage investments during Q1/08 versus Q1/07.

Loss on Termination of Joint Venture

(in millions of dollars)

Q1/08	Q1/07	\$ increase
\$ 15.2	\$ -	\$ 15.2

- In August, 2007, TSX Group and ISE Ventures announced the execution of a shareholders' agreement for CDEX Inc. (CDEX), which was created to operate DEX™, a new Canadian derivatives exchange scheduled to begin operations in March, 2009.
- In connection with the agreement to combine with Montréal Exchange Inc. (MX), we provided ISE Ventures with a notice of a competing transaction as required under the terms of the CDEX shareholders' agreement. If the parties were unable to agree to an alternative business arrangement, originally by January 10, 2008 and subsequently extended to March 31, 2008 we would be required to pay ISE Ventures \$15.2 million. We were unable to conclude an alternative business arrangement by March 31, 2008, and we paid ISE Ventures \$15.2 million on April 1, 2008, which was accrued in Q1/08.

Income Taxes

(in millions of dollars)

Q1/08	Q1/07	Effective tax rate (%)	
		Q1/08	Q1/07
\$ 24.0	\$ 21.7	42%	37%

- The effective tax rate of 42% in Q1/08 was higher than our effective tax rate of 37% in Q1/07 as a result of making the payment of \$15.2 million to ISE Ventures, which is not being deducted for income tax purposes.
- Excluding the impact of this payment of \$15.2 million, our effective tax rate would have been 33% for Q1/08. This 33% effective tax rate for Q1/08 was lower than the effective tax rate of 37% for Q1/07, partially due to a reduction in federal corporate tax rates. In addition, the effective tax rate in Q1/07 was somewhat higher due to adjustments in the value of the future tax asset.

Liquidity and Capital Resources

Cash and Marketable Securities

(in millions of dollars)

March 31, 2008	December 31, 2007	\$ increase
\$ 349.0	\$ 302.8	\$ 46.2

- The increase was primarily due to cash generated from operations of \$67.8 million, offset by a dividend payment of \$0.38 per common share, or \$25.2 million in aggregate.

Total Assets

(in millions of dollars)

March 31, 2008	December 31, 2007	\$ increase
\$ 1,701.0	\$ 1,523.9	\$ 177.1

- *Total assets* increased primarily due to an increase in current assets related to the fair value of open energy contracts (\$160.2 million as at March 31, 2008, compared with \$74.9 million at December 31, 2007). The higher level of receivables reflected higher natural gas prices at the end of March 2008 compared with the end of December 2007. NGX also carried offsetting liabilities related to the fair value of open energy contracts which were \$160.2 million at March 31, 2008 compared with \$74.9 million at December 31, 2007.

- The overall increase was also due to higher energy contracts receivable of \$779.8 million at March 31, 2008 related to the clearing operations of NGX, compared with \$745.4 million at the end of 2007. The higher level of receivables reflected higher natural gas prices at the end of March 2008 compared with the end of December 2007. As the clearing counterparty to every trade, NGX also carries offsetting liabilities in the form of energy contracts payable, which were \$779.8 million at March 31, 2008 compared with \$745.4 million at the end of 2007.
- *Total assets* included an increase in cash and marketable securities of \$46.2 million.

Shareholders' Equity

(in millions of dollars)

March 31, 2008	December 31, 2007	\$ increase
\$ 185.6	\$ 171.9	\$ 13.7

- *Shareholders' equity* increased primarily due to net income of \$32.7 million in Q1/08, including net income from NGX of \$1.7 million in Q1/08 compared with net income of \$0.6 million in Q1/07, offset by dividend payments totaling \$25.2 million. In addition, proceeds of \$5.7 million were received on the exercise of options in the quarter.
- At March 31, 2008 there were 66,547,166 common shares issued and outstanding. In Q1/08, 268,796 common shares were issued on the exercise of share options. At March 31, 2008, 4,153,154 common shares were reserved for issuance upon the exercise of options granted under the share option plan. At March 31, 2008, there were 808,978 options outstanding.
- We have obtained approval from Toronto Stock Exchange to issue up to 1.5 million common shares in connection with the purchase price payable for NetThruPut Inc. (NTP) if we exercise our right to acquire NTP from Enbridge Inc. and Circuit Technology Ltd. In addition, we have obtained conditional approval from Toronto Stock Exchange to issue up to 15.3 million common shares in connection with the combination with MX.
- At April 29, 2008, there were 66,548,246 common shares issued and outstanding and 806,172 options outstanding under the share option plan.
- In connection with our existing normal course issuer bid (NCIB) announced on August 1, 2007, we intend to enter into a new pre-defined plan with our designated broker to allow for the repurchase of common shares at times when we would not ordinarily be active in the market due to our own internal trading blackout periods, insider trading rules or otherwise.

Cash Flows from Operating Activities

(in millions of dollars)

	Q1/08	Q1/07	(Decrease) in cash
<i>Cash Flows from Operating Activities</i>	\$ 67.8	\$ 69.3	(\$ 1.5)

Cash Flows from Operating Activities were \$1.5 million lower in Q1/08 compared with Q1/07 due to:

(in millions of dollars)

	Q1/08	Q1/07	Increase/ (decrease) in cash
Net income	\$ 32.7	\$ 36.4	(\$ 3.7)
Amortization	\$ 4.2	\$ 3.7	\$ 0.5
(Increase) in future tax asset	(\$ 0.4)	(\$ 4.1)	\$ 3.7
(Increase) in accounts receivable and prepaid expenses	(\$ 9.7)	(\$ 10.3)	\$ 0.6
Net (decrease) in accounts payable and accrued liabilities	(\$ 13.8)	(\$ 10.3)	(\$ 3.5)
Increase in deferred revenue primarily related to billing of sustaining listing fees	\$ 67.3	\$ 72.5	(\$ 5.2)
(Decrease) in income taxes payable	(\$ 11.3)	(\$ 20.1)	\$ 8.8
Net increase/(decrease) in other items	<u>(\$ 1.2)</u>	<u>\$ 1.5</u>	<u>(\$ 2.7)</u>
<i>Cash Flows from Operating Activities</i>	<u>\$ 67.8</u>	<u>\$ 69.3</u>	<u>(\$ 1.5)</u>

Cash Flows from (Used in) Financing Activities

(in millions of dollars)

	Q1/08	Q1/07	Increase in cash
<i>Cash Flows from (used in) Financing Activities</i>	(\$ 19.6)	(\$ 23.2)	\$ 3.6

Cash Flows (used in) Financing Activities were \$3.6 million lower in Q1/08 compared with Q1/07 due to:

(in millions of dollars)

	Q1/08	Q1/07	Increase/ (decrease) in cash
(Decrease) in obligation under capital lease	(\$ 0.1)	(\$ 0.2)	\$ 0.1
Proceeds from exercised options	\$ 5.7	\$ 3.1	\$ 2.6
Dividends paid on common shares	<u>(\$ 25.2)</u>	<u>(\$ 26.1)</u>	<u>\$ 0.9</u>
<i>Cash Flows from (used in) Financing Activities</i>	<u>(\$ 19.6)</u>	<u>(\$ 23.2)</u>	<u>\$ 3.6</u>

Cash Flows from (Used in) Investing Activities

(in millions of dollars)

	Q1/08	Q1/07	(Decrease) in cash
<i>Cash Flows from (used in) Investing Activities</i>	(\$ 37.9)	(\$ 34.3)	(\$ 3.6)

Cash Flows (used in) Investing Activities were \$3.6 million higher in Q1/08 compared with Q1/07 due to:

(in millions of dollars)

	Q1/08	Q1/07	(Decrease) in cash
Capital expenditures primarily related to leasehold improvements and technology investments	(\$ 1.4)	(\$ 1.0)	(\$ 0.4)
Additions to intangible assets including TSX Quantum internal development costs	(\$ 1.4)	-	(\$ 1.4)
Net (purchase) of marketable securities	<u>(\$ 35.1)</u>	<u>(\$ 33.3)</u>	<u>(\$ 1.8)</u>
<i>Cash Flows from (used in) Investing Activities</i>	<u>(\$ 37.9)</u>	<u>(\$ 34.3)</u>	<u>(\$ 3.6)</u>

Financial Instruments

Cash and Marketable Securities

Our financial instruments include cash and investments in marketable securities. This primarily includes units in a money market fund and a short-term bond and mortgage fund. The primary risks related to these marketable securities are variation in interest rates and credit risk. For a description of these risks, please refer to “*Credit risk – Financial Instruments*” and “*Interest rate risk – Financial Instruments*”.

These investments are recorded at fair value and unrealized gains of \$0.8 million were recorded in investment income in Q1/08, compared with unrealized losses of \$0.5 million in Q1/07.

Derivative Financial Instruments

Total Return Swaps

We have entered into total return swaps which synthetically replicate the economics of TSX Inc. purchasing our shares as a partial fair value hedge to the share appreciation rights of deferred share units (DSUs) and restricted share units (RSUs) that are awarded to our directors and employees. The contracts are settled in cash upon maturity. The obligation to unit holders is reflected on the balance sheet. These total return swaps are subject to credit risk and market risk. For a description of these risks, please refer to “*Credit risk-Derivative Financial Instruments*” and “*Market risk – Derivative Financial Instruments*”. We mark to market the value of the hedged units as an adjustment to income, and simultaneously mark to market the liability to unit holders as an adjustment to income. The fair values of the total return swaps were a liability of \$2.1 million at March 31, 2008 and an asset of \$2.2 million at March 31, 2007. During Q1/08, unrealized losses of \$5.6 million were reflected as an increase in compensation and benefits costs and general and administration costs. During Q1/07, unrealized gains of \$1.3 million were reflected as a decrease in compensation and benefits costs and general and administration costs.

NGX - Fair Value of Open Energy Contracts

As part of its clearing operations, NGX becomes the central counterparty to each transaction. We record NGX’s energy contract receivables and offsetting payables for all contracts where physical delivery has occurred or financial settlement amounts have been determined prior to the period end but payments have not been made. The fair value at the balance sheet date of the undelivered physically settled trading contracts and the forward financially settled trading contracts is recognized in the consolidated assets and liabilities as open energy contracts. There is no impact on the consolidated statement of income. The primary risks related to these financial instruments are credit risk and market risk. For a description of these risks, please refer to “*Credit risk – NGX*” and “*Market risk – NGX*”.

Combination with Montreal Exchange Inc.

On December 10, 2007, we entered into a combination agreement, as amended on January 10, 2008 and April 10, 2008 (Agreement) with MX to create TMX Group Inc., a leading multi-asset class exchange group. Under the terms of the Agreement, we will indirectly acquire all of MX's common shares for a total consideration of approximately 15.3 million common shares and \$428.2 million in cash. The total purchase price, based on preliminary estimates, is \$1.25 billion. The combination was approved by MX shareholders on February 13, 2008 and has received the regulatory approvals to permit the transaction to be completed. The effective date of the combination is set for May 1, 2008.

For further information on the combination, please refer to our 2007 Annual MD&A (which is available on SEDAR at www.sedar.com and on our website www.tsx.com) and the MX Management Information Circular filed with Canadian securities regulators on January 14, 2008 (and available at www.sedar.com) including unaudited pro-forma condensed combined financial information of TSX Group, giving effect to the amalgamation as at September 30, 2007, for the year ended December 31, 2006 and the nine month period ended September 30, 2007.

Quarterly Information

(in thousands of dollars except per share amounts)

	Mar. 31 /08	Dec. 31 /07	Sept. 30 /07	June 30/07	Mar. 31 /07	Dec. 31 /06	Sept. 30 /06	June 30/06
<i>Revenue</i>	\$112,353	\$111,191	\$106,127	\$106,230	\$101,102 ⁺	\$91,025	\$81,197	\$92,612
<i>Net Income</i>	32,746	30,439	42,682	39,128	36,448	35,116	33,217	28,464
<i>Earnings per share:</i>								
<i>Basic</i>	0.49	0.46	0.63	0.57	0.53	0.51	0.49	0.42
<i>Diluted</i>	0.49	0.45	0.62	0.57	0.53	0.51	0.48	0.41

2006

- Revenue in Q3/06 declined over revenue in Q2/06 largely due to lower trading revenue, reflecting lower trading volumes and following the introduction of a volume-based fee structure for most issuers listed on Toronto Stock Exchange and TSX Venture Exchange, effective July 1, 2006. Net income for Q3/06 increased over Q2/06 primarily due to higher investment income as well as lower income taxes. The increase was partially offset by the decreased revenue and higher overall expenses.

⁺ Revenue adjusted to reflect reclassification of interest income from Business Services and Other Revenue to Investment Income.

- Revenue in Q4/06 improved over revenue in Q3/06 primarily due to higher trading, market data and issuer services revenue. Net income for Q4/06 increased over Q3/06 primarily due to the increased revenue partially offset by higher overall expenses.

2007

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

2008

- Revenue in Q1/08 increased over revenue in Q4/07 primarily due to higher market data and issuer services revenue. Net income for Q1/08 increased over Q4/07 primarily due to a decrease in expenses and higher revenue. Net income for Q1/08 was reduced due to a payment of \$15.2 million to ISE Ventures related to exiting our previously announced joint venture to operate DEX, whereas in Q4/07, net income was reduced due to increased income taxes as a result of a \$13.3 million reduction in the value of the future tax asset.

Initial Adoption of Accounting Policies

Capital Disclosures

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

Our primary objectives in managing capital include:

- Providing sufficient capital to maintain operations and market confidence. We do this by managing our capital subject to capital maintenance requirements imposed on our subsidiaries:
- In respect of Toronto Stock Exchange by the Ontario Securities Commission (OSC) to maintain certain regulatory ratios as defined in the OSC recognition order, as follows:
 - a current ratio not less than 1.1:1;
 - a debt to cash flow ratio not greater than 4:1; and
 - a financial leverage ratio consisting of adjusted total assets to adjusted shareholders' equity not greater than 4:1;
- In respect of TSX Venture by various provincial securities commissions to maintain adequate financial resources;
- In respect of NGX to:
 - Maintain adequate financial resources by the Alberta Securities Commission; and
 - Maintain a current ratio of no less than 1:1 and a tangible net worth of not less than \$9.0 million by a major Canadian chartered bank;
- In respect of Shorcan by the Investment Dealers Association of Canada which requires Shorcan to maintain a minimum level of shareholder's equity of \$0.5 million.

We have complied with these externally imposed capital requirements.

Following the completion of the combination with the MX, MX will be a wholly-owned subsidiary of TSX Group. MX must maintain certain regulatory ratios as defined in the Autorité des marchés financiers (AMF) recognition order as follows: (i) a working capital ratio of not less than 1.5:1; (ii) cash flow to total debt outstanding of not less than 20%; and (iii) a financial leverage ratio not greater than 4.0. 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.

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

In connection with the combination with MX, TSX Group Inc. has established a non-revolving three-year term unsecured credit facility of \$430.0 million with a syndicate of seven financial institutions. In addition, we also established a revolving three year unsecured credit facility of \$50.0 million with the same syndicate. TSX Group may draw on these facilities in Canadian dollars by way of prime rate loans and/or Bankers' Acceptances or in U.S. dollars by way of LIBOR loans and/or U.S. base rate loans. On April 30, 2008, we drew \$430.0 million in Canadian dollars on the three-year term facility related to financing the cash consideration of the purchase price for MX. For the next 30 days, the drawn cost on this facility will be less than 4% per annum. These credit facilities contain customary covenants, including a requirement that TSX Group maintain: (i) a maximum debt to adjusted EBITDA ratio of 3.5:1, where adjusted EBITDA means earnings on a consolidated basis before interest, taxes, depreciation and amortization, all determined in accordance with GAAP but adjusted to include initial and additional listing fees billed and to exclude initial and additional listing fees reported as revenue; (ii) a minimum consolidated net worth covenant based on a pre-determined formula, and (iii) a debt incurrence test whereby debt to adjusted EBITDA must not exceed 3.0:1.

Financial Instruments Disclosure and Presentation

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

Credit risk

Credit risk is the risk of financial loss if a customer or a contracting party to an exchange transaction between participants ("Contracting Party") to a financial instrument fails to meet its contractual obligations, and arises principally from investments in marketable securities, swaps, accounts receivable and the clearing and/or brokerage operations of Shorcan and NGX.

Credit risk – Financial Instruments

We manage our exposure to credit risk arising from investments in marketable securities by limiting the investment in short-term bond and mortgage funds to a maximum of 90% of the investment portfolio and a minimum 10% in money market funds. Corporate bonds must have a minimum credit rating of BBB by DBRS Limited. Mortgages may not comprise more than 40% of the portfolio and must be either multi-residential conventional first mortgages or multi-residential government guaranteed mortgages. We do not have any investments in non-bank, asset-backed commercial paper. At March 31, 2008 the investment portfolio was comprised of 34% in short-term bond and mortgage funds and 66% in money market funds, compared with 45% in short-term bond and mortgage funds and 55% in money market funds at March 31, 2007.

Credit risk – Derivative Financial Instruments

We have entered into total return swaps which synthetically replicate the economics of TSX Inc. purchasing our shares as a partial economic hedge to the share appreciation rights of deferred share units (DSUs) and restricted share units (RSUs) that are awarded to our directors and employees. The contracts are settled in cash upon maturity. The obligation to unit holders is reflected on the balance sheet. To manage credit risk, we entered into these total return swaps with a Schedule I Canadian chartered bank.

Credit risk – NGX and Shorcan

Through its clearing operations, NGX becomes the central Contracting Party to each transaction. We are exposed to credit risk in the event that customers or Contracting Parties fail to settle on the contracted settlement date.

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

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

As a result of these calculations of Contracting Party exposure at March 31, 2008, NGX held cash collateral deposits of \$323.0 million and letters of credit of \$2,588.7 million, compared with cash collateral deposits of \$256.0 million and letters of credit of \$1,800.5 million at March 31, 2007.

NGX also maintains an unsecured clearing backstop fund of U.S. \$100.0 million. TSX Group is the guarantor of this fund.

Shorcan’s exposure is limited by the nature of the customers being primarily broker dealers, banks and other financial institutions. Shorcan also has the right to withdraw its normal policy of anonymity and advise the two counterparties to settle directly.

Credit risk – Accounts receivable

Our exposure to credit risk resulting from uncollectable accounts is influenced by the individual characteristics of our customers, many of whom are listed issuers or financial institutions. There

is no concentration of credit risk attributable to transactions with a single customer. In addition, customers that fail to maintain their account in good standing risk loss of listing or trading privileges.

Market risk

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

Market risk – NGX and Shorcan

We are exposed to market price risk from the activities of both Shorcan and NGX if a Contracting Party fails to take or deliver either securities or energy products on the contracted settlement date where the contracted price is less favourable than the current market price.

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

NGX's measure of total potential exposure, as described previously, includes measures of market risk which are factored into the collateral required from each Contracting Party. In the event of a default by a Contracting Party, NGX has the right to terminate and liquidate the Contracting Party's open positions, including the netting of all positive and negative exposures associated with the Contracting Party and drawing down their collateral.

Market risk- Derivative Financial Instruments

We are exposed to market risk arising from our utilization of total return swaps to partially hedge the share appreciation rights of DSUs and RSUs that are awarded to our directors and employees. The fair value of the total return swaps is based upon the excess or deficit of the volume weighted average price of our shares for the last five days of the month compared with our share price at the date of entering into the total return swaps. The change in the fair value of the total return swaps is offset by the change in the obligation to DSU and RSU holders.

Interest rate risk – Financial Instruments

We are exposed to interest rate risk on our money market and short-term bond and mortgage fund investments. We have engaged an external investment fund manager to manage the asset mix and the risks associated with these investments. At March 31, 2008, we held \$285.3 million in money market and short-term bond and mortgage fund investments, compared with \$318.6 million at March 31, 2007.

Foreign currency risk – Market data and NGX

We are exposed to foreign currency risk on sales and accounts receivable denominated in U.S. dollars. At March 31, 2008, accounts receivable included \$11.6 million, compared with \$7.7 million at March 31, 2007, which are exposed to changes in the U.S. - Canadian dollar exchange rate.

NGX also has energy contracts receivable and open energy contracts which are denominated in U.S. dollars. This foreign currency exposure is fully mitigated because NGX carries offsetting U.S. dollar denominated liabilities in the form of energy contracts payable and liabilities related to the fair value of open energy contracts.

During Q1/08 approximately 35% of our market data revenue was denominated in U.S. dollars, unchanged from Q1/07. In addition, approximately 52% of NGX's trading revenue in Q1/08 was denominated in U.S. dollars, compared with 27 % in Q1/07.

Liquidity risk

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

We manage liquidity risk through the management of our capital and on April 18, 2008, we entered into two credit facilities (*see Capital Disclosures*).

Forward-Looking Information

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

Examples of such forward looking information in this MD&A include, but are not limited to factors relating to stock and derivatives exchanges and the business, financial position, operations and prospects of TSX Group and MX, which are subject to significant risks and uncertainties, including competition from other exchanges or marketplaces, including alternative trading systems, new technologies and other sources, on a national or international basis; dependence on the economy of Canada; failure to retain and attract qualified personnel; geopolitical factors which could cause business interruption; dependence on information

technology; failure to implement our strategies; changes in regulation; risks of litigation; failure to develop or gain acceptance of new products; adverse effect of new business activities; dependence of trading operations on a small number of clients; the risks associated with NGX's clearing operations; the risks associated with the credit of customers; cost structures being largely fixed; and dependence on market activity that cannot be controlled. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward looking information contained in this MD&A.

Such forward looking information is based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions in connection with 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 TSX Group's and MX's key products; the continued availability of financing on appropriate terms for future projects; productivity at TSX Group or MX, as well as that of TSX Group's or MX's competitors; market competition; research & development activities; the successful introduction of new derivatives and equity products; tax benefits/charges; the impact on TSX Group and MX of various regulations and initiatives; TSX Group's or MX's ongoing relations with their employees; and the extent of any labour, equipment or other disruptions at any of their operations of any significance other than any planned maintenance or similar shutdowns.

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

April 30, 2008