

TSX Group Inc.

Revised 2004 Management's Discussion and Analysis

On November 16, 2005, TSX Group Inc. ("TSX Group") restated its consolidated financial statements for the years ended December 31, 2004 and 2003 to reflect a change in accounting policy related to recognition of revenue from initial and additional listing fees. The information contained in this Management's Discussion and Analysis ("MD&A") has been revised to reflect the restatement and should be read in conjunction with these restated financial statements and related notes.

Restatement of Initial and Additional Listing Fee Revenue

TSX Group has retroactively changed its revenue recognition policy for initial and additional listing fees to comply with the Canadian Institute of Chartered Accountants' Emerging Issues Committee Abstract-141 ("EIC-141"). EIC-141 specifies that certain non-refundable fees be deferred and recognized systematically over future accounting periods. EIC-141 was effective for fiscal years commencing on or after January 1, 2004.

Before the adoption of EIC-141, non-refundable fees were recognized at the time such fees were received. TSX Group, in consultation with its auditors, reviewed its revenue recognition policy for initial and additional listing fees when EIC-141 became effective in January 2004. As a result of that review, TSX Group continued to recognize initial and additional listing fees as they were received. Since that time, the interpretation of EIC-141 has evolved and precedents have been established. As a result, TSX Group again reviewed the application of EIC-141, and in consultation with its auditors, TSX Group has changed its accounting policy for recognizing initial and additional listing fees.

The effect of this change is that TSX Group now recognizes revenue from initial and additional listing fees amortized on a straight-line basis over an estimated service period of ten years. Unamortized balances are recorded as deferred revenue—initial and additional listing fees on the consolidated balance sheet. For Toronto Stock Exchange, revenue from initial and additional listing fees has been recalculated for the ten years preceding the periods presented in the financial statements to which this revised MD&A relates. In the case of TSX Venture Exchange, which was acquired on August 1, 2001, initial and additional listing fee revenue has been recalculated from the date of acquisition. Since Natural Gas Exchange (“NGX”) does not charge listing fees, no restatement of its revenue is required.

The following tables summarize the impact of the accounting change on the financial statements related to this revised MD&A:

2004

(In millions of dollars, except per share amounts)

	Previously Reported[∇]	Change	Restated
Revenue	\$ 295.6	\$ (52.2)	\$ 243.4
Income taxes	56.2	(22.2)	34.0
Net income	98.4	(29.9)	68.5
Earnings per share:			
Basic	2.91	(0.89)	2.02
Diluted	2.88	(0.88)	2.00
Future Tax Asset	48.7	68.9	117.6
Deferred revenue – initial and additional listing fees	-	220.2	220.2
Shareholders' Equity	280.8	(151.3)	129.5

[∇] These amounts do not give effect to the implementation of EIC-141 and therefore do not have standardized meanings prescribed by Canadian GAAP.

2003

(In millions of dollars, except per share amounts)

	Previously Reported[∇]	Change	Restated
Revenue	\$ 233.7	\$ (37.2)	\$ 196.5
Income taxes	31.3	(20.7)	10.6
Net income	76.4	(16.5)	59.9
Earnings per share:			
Basic	2.26	(0.49)	1.77
Diluted	2.25	(0.49)	1.76
Future Tax Asset	54.5	46.6	101.1
Deferred revenue – initial and additional listing fees	-	168.0	168.0
Shareholders' Equity	217.3	(121.4)	95.9

The implementation of EIC-141 has not changed TSX Group's business operations, cash flows or cash position.

Overview of the Business

TSX Group, including its consolidated subsidiaries, owns and operates Canada's two national stock exchanges, Toronto Stock Exchange and TSX Venture Exchange, providing venues for capital formation and liquidity. The total market capitalization of the 3,630 issuers listed on TSX Group's equity exchanges at December 31, 2004 was almost \$1.6 trillion, making the combined equity exchanges operated by TSX Group the third largest in North America and the eighth largest in the world. The total value of securities traded in 2004 on TSX Group's equity exchanges was over \$844 billion. TSX Group's success is dependent upon balancing the needs of issuers, intermediaries and investors to provide efficient, quality marketplaces.

On March 1, 2004, TSX Group expanded into energy products through its acquisition of NGX Canada Inc. NGX operates a North American exchange for the trading and

[∇] These amounts do not give effect to the implementation of EIC-141 and therefore do not have standardized meanings prescribed by Canadian GAAP.

clearing of natural gas and electricity contracts. From that date to December 31, 2004, 6.4 million terajoules in natural gas and electricity contracts were traded on NGX.

TSX Group's vision is to demonstrate Canadian leadership in global markets, providing the global financial community with access to Canada's equity capital and energy markets.

Core Business of TSX Group

In 2004, TSX Group earned restated net income of \$68.5 million on restated revenue of \$243.4 million. Without giving effect to the implementation of EIC-141, net income would have been \$98.4 million for 2004 on revenue of \$295.6 million.* TSX Group derives its revenue from three principal sources – listings, trading, and market data.

Listings – Toronto Stock Exchange and TSX Venture Exchange

TSX Group conducts its listings operations through Toronto Stock Exchange, its senior market and TSX Venture Exchange, its junior market. In addition, TSX Venture Exchange has a board for issuers that have fallen below its ongoing listing standards, referred to as NEX.^{II}

At December 31, 2004, 1,421 issuers were listed on Toronto Stock Exchange with an aggregate market cap of \$1.5 trillion and 2,209 issuers were listed on TSX Venture Exchange with an aggregate market cap of \$24.2 billion. In 2004 and 2003, restated revenue from listing fees paid by listed issuers on the two exchanges represented \$75.0 million, or 31%, and \$61.1 million, or 31%, respectively, of TSX Group's revenue.

* Revenue, net income and earnings per common share (basic and diluted) without giving effect to the implementation of EIC-141 are non-GAAP financial measures. See discussion under the heading Non-GAAP Financial Measures.

^{II} Unless otherwise noted, market statistics and financial information includes information for NEX.

Without giving effect to the implementation of EIC-141, in 2004 and 2003 revenue from listing fees paid by listed issuers on the two exchanges was \$127.1 million and \$98.2 million, respectively.**

In general, issuers initially list on Toronto Stock Exchange either in connection with their initial public offerings (“IPOs”), or by graduating from TSX Venture Exchange. During 2004, 58 issuers graduated, representing 28% of the new listed issuers on Toronto Stock Exchange during this period. Junior companies generally list on TSX Venture Exchange either in connection with their IPOs or through alternative methods such as TSX Venture Exchange’s Capital Pool Company™ (CPC™) program or reverse takeovers.

Issuers list a number of different types of securities including conventional securities such as common shares, preferred shares, rights and warrants, and an expanding variety of alternative types of securities such as exchangeable shares, convertible debt instruments, limited partnership units, exchange-traded fund units and income trust units.

Issuers that meet initial and ongoing listing requirements of Toronto Stock Exchange or TSX Venture Exchange receive a range of benefits, including opportunities to efficiently access public capital, liquidity for existing investors, mentorship programs and the prestige and market exposure associated with being listed on one of Canada’s national stock exchanges.

TSX Group generates revenue through its listing activities by charging issuers the following types of listing fees:

Initial Listing Fees

Through 2003, issuers listing their securities on Toronto Stock Exchange for the first time paid initial listing fees, based on the number of securities listed or reserved, subject to

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

minimum and maximum fees. In 2004, the fee structure was modified so that Toronto Stock Exchange issuers pay initial fees based on the value of the securities to be listed or reserved, subject to minimum and maximum fees. In 2003 and 2004, issuers listing their securities on TSX Venture Exchange for the first time paid initial listing fees based on the number of securities issued or reserved. For 2005, the fee structure has been modified so that TSX Venture Exchange issuers pay initial fees based on the value of the securities to be listed or reserved, subject to minimum and maximum fees. Initial listing fees are amortized over a ten year period as described in **Restatement of Initial and Additional Listing Fee Revenue** (see Page 1).

Sustaining Listing Fees

Issuers listed on one of TSX Group's equity exchanges pay annual fees to maintain their listing, based on their market capitalization at the end of the prior calendar year, subject to minimum and maximum fees. Sustaining listing fees provide a relatively stable, recurring revenue stream.

Additional Listing Fees

Issuers listed on one of TSX Group's equity exchanges pay fees in connection with capital market transactions, such as the raising of new capital through the sale of additional securities. Through 2003, issuers listed on Toronto Stock Exchange paid additional listing fees based on the number of additional securities listed or reserved, subject to minimum and maximum fees. In 2004, the fee structure was modified so that Toronto Stock Exchange issuers pay additional fees based on the value of the securities to be listed or reserved, subject to minimum and maximum fees. Issuers listing or reserving additional securities on TSX Venture Exchange also pay additional listing fees based on the value of the securities to be listed or reserved. Additional listing fees are amortized over a ten year period as described in **Restatement of Initial and Additional Listing Fee Revenue** (see Page 1).

Trading – TSX Markets and NGX

TSX Markets

TSX Group's trading operations for both Toronto Stock Exchange and TSX Venture Exchange are conducted by TSX Markets. Participating Organizations and Member Firms (collectively "POs"), acting as principals or agents for retail and institutional investors, place orders to buy or sell listed securities using TSX Markets' fully electronic trading systems. In both 2004 and 2003, trading and related fees paid by POs represented \$88.8 million, or 36% and \$71.9 million, or 37%, respectively of TSX Group's restated revenue.

Trading occurs through continuous electronic auction markets or through crosses in which POs internally match orders and report them through the exchanges. All trades are subsequently settled through The Canadian Depository for Securities Limited ("CDS"), in which TSX Group has an approximate 18% interest, with the balance being held by the major Canadian chartered banks and by the Investment Dealers Association of Canada ("IDA").

For trades of securities listed on Toronto Stock Exchange, POs pay fees to TSX Markets based on the value of each trade up to a fixed cap per trade. Fees are charged to the PO which enters an order that is matched against an existing order. TSX Markets offers discounts to POs that achieve certain minimum total monthly trading value on Toronto Stock Exchange to further encourage trading on that exchange. Beginning in 2004, in addition to offering discounts based on monthly trading value, TSX Markets offers alternative discounts to POs based on achieving a minimum number of trades for a month.

For trades of securities listed on TSX Venture Exchange, POs pay a percentage fee based on a combination of the value and volume of each trade, subject to minimum and maximum fee levels.

In 1997, Toronto Stock Exchange was the first major exchange in North America (and one of the first globally) to move from a traditional floor-based stock exchange to a fully automated exchange where trading takes place entirely through electronic systems, thereby increasing the speed of execution, accessibility to the exchange and the number of transactions that can be processed. In May 2001, TSX Markets' original electronic trading systems were replaced with a more reliable, flexible and scalable system. The system hardware was upgraded in 2004 and was benchmarked over a standard trading window to handle approximately 2.5 times the historical market peak activity using a representative mix of orders and trades. TSX Markets has recently experienced an increase in orders, and has continued to respond with systems upgrades.

TSX Group has a business continuity plan designed to provide the means for TSX Group to continue to operate in the event of a disruption to its main facility. As part of this plan, TSX Group operates two data centres in separate locations, allowing for back-up recovery in the event that one of the centres experiences a failure. During 2004, TSX Markets offered 99.998% trading system availability.

On December 1, 2001 regulatory changes were introduced to permit the creation of alternative trading systems ("ATs") as competing marketplaces. Part of TSX Markets' strategy is to provide a competitive response to ATS marketplaces and other exchanges as well as to continually implement new trading features and methodologies to meet diverse customer requirements for trade execution. In 2004, TSX Markets launched the Market On Close (MOC) facility, designed to increase liquidity and lower levels of volatility at the close of the trading session. TSX Markets' product offering also includes Specialty Price Crosses (designed to decrease costs associated with advanced trading techniques), voluntary attribution (allows traders to anonymously execute transactions) and Iceberg orders (large size orders may be entered while disclosing only a small portion of the total order size at any time). In 2004, TSX Markets discontinued its POSIT^{TM+}

⁺ POSIT is a trademark of the POSIT joint venture, a joint venture between Barra POSIT, Inc. and ITG Software, Inc.

Canada call market (large orders could be entered anonymously outside the continuous market) due to a lack of market interest.

Market integrity is an essential element of any marketplace. Historically, Toronto Stock Exchange and TSX Venture Exchange monitored and enforced market integrity directly. In order to make this regulatory function independent from its business operations, TSX Inc. proposed the creation of a separate corporate entity, Market Regulation Services Inc. (“RS”), that would administer a set of universal market integrity rules for all marketplaces trading equities in Canada. RS is owned 50% by TSX Inc., a wholly-owned subsidiary of TSX Group, and 50% by the IDA. RS is recognized by the Ontario, Manitoba, Alberta and British Columbia securities commissions, as well as in Quebec, by the Autorité des marchés financiers, as a self-regulatory organization to act as a regulation services provider under National Instrument 21-101-*Marketplace Operation* and National Instrument 23-101-*Trading Rules* (together, the “ATS Rules”). In March 2002, RS was retained to provide regulation services to Toronto Stock Exchange and TSX Venture Exchange under the ATS Rules as agent for each of them. RS monitors and enforces compliance with those requirements by the POs, their directors, officers, employees and affiliates and performs other regulatory functions as delegated to RS by TSX Group’s equity exchanges.

Trading activity is affected when listed issuers seek additional listings on foreign exchanges, principally in the United States (often referred to as interlisting or dual listings). Interlistings generally raise the profile of issuers in the global market, and trading volumes for these issuers’ securities often increase across all markets as well as on Toronto Stock Exchange. Whether a significant portion of trading of a particular issuer remains in Canada following its interlisting depends on a number of factors, including the location of the issuer’s shareholder base and the location of research analysts who cover the issuer.

Toronto Stock Exchange’s share of trading in Canadian-based interlisted issues, based on value traded, increased from \$434.7 billion in 2003 to \$533.0 billion in 2004; however, its share of trading in these interlisted stocks declined from 60% in 2003 to 47% in 2004.

This related primarily to increased investor interest in the United States in securities that are widely held in both Canada and the United States.

In 2004, TSX Markets introduced U.S. dollar trading for 30 companies listed on Toronto Stock Exchange. Initiatives such as the U.S. dollar book and an increased U.S. sales effort are targeted at capturing an increasing proportion of executable order flow from U.S. based investors. TSX Markets has a dedicated sales team focused on U.S. accounts with the goal of raising the level of awareness regarding the benefits of trading on Toronto Stock Exchange and TSX Venture Exchange.

NGX

On March 1, 2004, TSX Group acquired NGX, a Canadian-based energy exchange that provides customers with an electronic platform for the trading and clearing of natural gas and electricity contracts. NGX generates trading and clearing revenue by applying fees to all transactions based on the contract volume traded and/or centrally cleared through the exchange, and charges a monthly fixed subscription fee to each trading customer who utilizes the exchange. NGX's revenue from trading and clearing activities for the ten months ended December 31, 2004 was \$10.8 million, or 4% of TSX Group's 2004 restated revenue.

Market Data - TSX Datalinx

Through TSX Datalinx, TSX Group sells its real-time trading and quotation data, historical data and corporate information to market participants on a global basis. Timely and comprehensive information about market activity and listed issuers assists POs and investors in their decision-making processes and facilitates efficient markets. In 2004 and 2003, data fees represented \$58.8 million, or 24%, and \$52.6 million, or 27%, respectively, of TSX Group's restated revenue.

Real-Time Data

Trading activity on TSX Group's equity exchanges produces a stream of real-time data reflecting orders and executed transactions. This stream of data is packaged by TSX Datalinx into real-time market data products and delivered to end users via more than 75 Canadian and global market data vendors that sell feeds and desktop information services. These information services allow end users to view the real-time market activity of several exchanges and marketplaces, as well as provide supporting reference data, corporate actions and news. These services also enable the end user to transfer the data to applications that allow further manipulation and analysis.

The TSX Datalinx market data distribution platform offers a flexible and reliable environment over which TSX Datalinx distributes a wide range of data simultaneously to a large number of clients. TSX Datalinx carries data from other sources including stocks traded on the Canadian Trading and Quotation System Inc., an exchange for micro-cap stocks, and CanDeal.ca Inc. ("CanDeal"), an institutional fixed income trading system, of which TSX Inc. owns approximately 45%. During 2004, TSX Datalinx offered 99.992% real time feed availability.

Subscribers for TSX Datalinx data generally pay fixed monthly rates, which differ depending on the number of end users and the depth of information accessed. In addition, some subscribers are charged a fee on a per quote basis. Real-time data fees are primarily driven by the number of data subscriptions and therefore are partly related to industry employment. Market data vendors are charged a fixed monthly access fee for each connection to TSX Datalinx. Sales of real-time data represented approximately 95% of TSX Datalinx revenue in both 2004 and 2003.

In 2003, TSX Group and Canada NewsWire Ltd. ("CNW") announced the creation of CNX Marketlink⁺⁺, which provides an investor communications and disclosure network

⁺⁺ CNX Marketlink is a trademark of Canada NewsWire Limited and is used under license.

for publicly listed companies for press release dissemination. Among other offerings such as web casting and conference call services, CNX Marketlink provides regulatory filing services to public companies using the service to facilitate timely compliance with applicable filing and other disclosure requirements under applicable securities law. TSX Group receives a portion of the revenue from the sale of CNX Marketlink products.

NGX data is currently accessed by customers through a fully electronic, independent trading platform. NGX applies a monthly fixed viewing fee to firms who wish to subscribe to market data services.

Historical Market Data and Corporate Information

Historical market data products include market information (such as historical pricing, index constituents and weightings) and corporate information (such as dividends and corporate actions). This information is generally made available at the end of the trading day and is used in research, analysis and trade clearing.

Historical data products are generally sold for a fixed amount per product accessed. Fees vary depending on the type of end use. Data products to be used for commercial purposes require an enterprise-wide license for internal redistribution. TSX Datalinx produces two historical data publications for each exchange, a Daily Record, distributed electronically, and a Monthly Review, both of which are sold on a subscription basis.

Index Products

TSX Group has long supported indices to facilitate the measurement of equity market performance. The first Canadian indices were introduced by Toronto Stock Exchange in 1934 and were subsequently modified to reflect a substantial increase in listings. The Toronto 35 was introduced in 1987 and was the basis for the world's first exchange-traded fund, TIPS® (Toronto 35 Index Participation Units). TSX Datalinx and Standard & Poor's ("S&P") collaborated in 1998 to bring global recognition to the Canadian markets through the well-known S&P brand. Several new indices were introduced,

including the S&P/TSX 60^{TM+++} Index (the large capitalization index for the Canadian equity market) and in 2002, the S&P/TSX Composite Index (the “Index”). The S&P/TSX Composite (formerly the TSE 300 Composite Index®) is the most quoted index for the Canadian equity marketplace, appearing with a high degree of frequency in business media and thereby strengthening brand awareness of TSX Group. In addition, an independent fixed-income index is expected to be launched in the first quarter of 2005. S&P intends to calculate and distribute the index in collaboration with CIBC World Markets, RBC Capital Markets and TSX Inc.

TSX Datalinx has an arrangement with S&P under which license fees received from organizations that create products, such as mutual funds and exchange-traded funds, based on the S&P/TSX indices, are shared. In general, these license fees are based on a percentage of funds under management in respect of those products.

Business Services – TSX Technologies

Through the development of its internal technology systems, TSX Group has gained extensive expertise in the area of exchange technology. Since 2001, TSX Group has developed and implemented an information technology plan to ensure the ongoing modernization and streamlining of its technology infrastructure. The execution of the plan has included recruiting a seasoned team of exchange technology professionals with extensive industry experience in installing and operating trading and related systems at other global exchanges. In 2004 and 2003, business services revenue represented \$8.4 million, or 3%, and \$9.1 million, or 5%, of TSX Group’s restated revenue.

TSX Group currently provides RS technology and related services necessary to conduct its review and real-time monitoring of trading. RS pays TSX Group fees for these services, negotiated on an arm’s length basis, in accordance with an agreement which

⁺⁺⁺ S&P is a trademark owned by The McGraw-Hill Companies, Inc. and is used under license.

also details service levels. TSX Group also has an agreement with CanDeal to provide technological services for a fee in support of its institutional fixed-income trading system.

Review of Operations – 2004

TSX Group's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and in Canadian dollars. TSX Group has filed its 2004 audited restated consolidated financial statements with Canadian securities regulators, and these statements may be accessed through www.sedar.com, or on the TSX Group website at www.tsx.com. Additional information about TSX Group, including its Revised 2004 Annual Information Form (when refiled), is available through www.sedar.com.

Restated Year Ended December 31, 2004 compared with Restated Year Ended December 31, 2003

Restated net income was \$68.5 million, or \$2.02 per common share (\$2.00 on a diluted basis) for 2004, compared with restated net income of \$59.9 million, or \$1.77 per common share (\$1.76 on a diluted basis) for 2003, representing an increase of 14%. These results reflect increased revenue, partially offset by higher expenses, higher income taxes and lower investment income.

Without giving effect to the implementation of EIC-141, net income would have been \$98.4 million or \$2.91 per common share (\$2.88 on a diluted basis) for 2004, compared with net income of \$76.4 million, or \$2.26 per common share (\$2.25 on a diluted basis)

for 2003, representing an increase of 29%. These results reflect increased revenue, partially offset by higher expenses, higher income taxes and lower investment income.*

Revenue

Restated revenue of \$243.4 million in 2004 increased by \$46.9 million, or 24%, from restated revenue of \$196.5 million in 2003 due to increased revenue from the three primary revenue streams of listing, trading and market data.

Without giving effect to the implementation of EIC-141, revenue would have been \$295.6 million for 2004, up 26% as compared with \$233.7 million for 2003, reflecting increased revenue from the three primary revenue streams of listing, trading and market data.*

Listing Revenue

Restated listing revenue of \$75.0 million in 2004 increased by \$13.9 million, or 23%, compared with restated listing revenue of \$61.1 million in 2003. Restated listing revenue on Toronto Stock Exchange of \$63.4 million in 2004 increased by \$11.0 million, or 21%, from \$52.4 million in 2003. There are no planned changes in pricing or listing fee structure on Toronto Stock Exchange for 2005. Restated listing revenue on TSX Venture Exchange of \$11.6 million in 2004 increased by \$2.9 million, or 33%, compared with \$8.7 million in 2003.

* Revenue, net income and earnings per common share (basic and diluted) without giving effect to the implementation of EIC-141 are non-GAAP financial measures. See discussion under the heading Non-GAAP Financial Measures.

Sustaining Listing Fees

Sustaining listing fees of \$43.4 million increased by \$6.3 million, or 17%, in 2004 compared with \$37.1 million in 2003, reflecting overall higher market capitalization of issuers at December 31, 2003 compared with December 31, 2002. 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. The accounting policy relating to the revenue recognition of sustaining listing fees is unchanged. For 2005, sustaining listing fees will be based on the December 31, 2004 market capitalization.

Initial and Additional Listing Fees

The following is a summary of revenue from initial and additional listing fees for 2004 compared with revenue from initial and additional listing fees for 2003, both as reported under EIC-141 (“Initial and Additional Listing Fees Reported”), and as calculated without giving effect to EIC-141 (“Initial Listing Fees Received”^{**} and “Additional Listing Fees Received”^{**}). The latter measures are consistent with our historical method of reporting revenue from initial and additional financing activities. TSX Group believes that Initial Listing Fees Received and Additional Listing Fees Received are important measures of performance that reflect the cash generated from actual initial and additional listing activity during the year.

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

(In millions of dollars)

	Year Ended December 31, 2004		Year Ended December 31, 2003	
	Listing Fees Reported (Restated)	Listing Fees Received (Non-GAAP)**	Listing Fees Reported (Restated)	Listing Fees Received (Non-GAAP)**
Initial and Additional	\$31.6	\$83.8	\$24.0	\$61.1

Initial and Additional Listing Fees Reported

Restated Initial and Additional Listing Fees Reported of \$31.6 million increased by \$7.6 million, or 32%, in 2004 compared with \$24.0 million of restated Initial and Additional Listing Fees Reported for 2003. The change reflects increased capital market activity and fee increases during the period from April 1, 1994 to December 31, 2004 when compared with the period from April 1, 1993 to December 31, 2003.

Initial Listing Fees Received**

Initial Listing Fees Received of \$24.7 million increased by \$11.4 million, or 86%, in 2004 compared with \$13.3 million of Initial Listing Fees Received in 2003. In terms of initial offerings, the \$15.8 billion raised on Toronto Stock Exchange and TSX Venture Exchange during 2004 was 39% higher than the \$11.4 billion raised during 2003. There were 204 new issuers listed on Toronto Stock Exchange and 142 new issuers listed on TSX Venture Exchange in 2004. This compares with 128 and 76 new issuers listed on Toronto Stock Exchange and TSX Venture Exchange, respectively, in 2003.

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

Additional Listing Fees Received**

Additional Listing Fees Received of \$59.1 million increased by \$11.3 million, or 24%, in 2004 compared with \$47.8 million of Additional Listing Fees Received in 2003. In terms of additional financing, the \$26.8 billion raised (excluding supplementary financings) on Toronto Stock Exchange and TSX Venture Exchange during 2004 was 33% higher than the \$20.1 billion raised during 2003.

Trading and Related Revenue

Trading and related revenue of \$99.6 million in 2004 increased by \$27.7 million, or 39%, compared with \$71.9 million in 2003, largely due to an increase in both the total value of securities traded and number of transactions. Trading and related revenue on Toronto Stock Exchange of \$76.1 million in 2004 increased by \$13.5 million, or 22%, compared with \$62.6 million in 2003. Trading and related revenue on TSX Venture Exchange of \$12.7 million in 2004 increased by \$3.4 million, or 37%, compared with \$9.3 million in 2003. The total value of securities traded on Toronto Stock Exchange and TSX Venture Exchange was \$844.8 billion in 2004, a 29% increase over the \$655.3 billion in value traded during 2003. The number of transactions on Toronto Stock Exchange and TSX Venture Exchange increased by 31% to 43.1 million in 2004 from 33.0 million in 2003.

In addition, revenue of \$10.8 million from NGX for the period from March 1, 2004 to December 31, 2004 has been included in trading and related revenue. In the period from March 1, 2004 to December 31, 2004, 6.4 million terajoules in natural gas and electricity contracts were traded on NGX, a 19% increase over 5.4 million terajoules traded in this ten month period during 2003.

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

Market Data Revenue

Market data revenue of \$58.8 million in 2004 increased by \$6.2 million, or 12%, compared with \$52.6 million in 2003. The increase reflects a higher number of professional and real-time data subscriptions. The 107,610 professional and equivalent real-time data subscriptions at the end of 2004 are higher by approximately 6% when compared with 101,795 at the end of 2003, partly reflecting sales of premium products that display the full order book. In addition, the increase reflects the benefits from increased retail activity, and the revenue from CNX Marketlink, a joint initiative launched with CNW during the fourth quarter of 2003. As well, during the third quarter of 2004, there were revenue recoveries of approximately \$1.5 million related to under-reported usage of real-time quotes.

The revenue growth was somewhat offset by the impact of certain users converting to an alternate fee model under which the fees for usage based quotes are capped. While most users, who would benefit, had converted to this model by the end of 2004, revenue growth in 2005 could be affected by this factor. The growth in market data revenue was also somewhat offset by the negative impact of the appreciation of the Canadian dollar versus the U.S. dollar during 2004. TSX Group derived approximately \$18.1 million Canadian in both 2004 and 2003 from market data sales to customers paying in U.S. dollars.

Market data revenue on Toronto Stock Exchange of \$45.2 million in 2004 increased by \$5.2 million, or 13%, compared with \$40.0 million in 2003. Market data revenue on TSX Venture Exchange of \$13.2 million in 2004, increased by \$0.6 million, or 5%, compared with \$12.6 million in 2003.

Business Services Revenue

Business services revenue of \$8.4 million in 2004 decreased by \$0.7 million, or 8%, compared with \$9.1 million in 2003. The decrease is primarily related to a change in the pricing for technology services provided to RS, reflecting cost savings from migrating to

a more cost efficient technology solution. RS paid TSX Group \$7.3 million in 2004 for technology related services as compared with \$8.1 million in 2003.

Expenses

Expenses of \$144.5 million in 2004 increased by \$9.5 million, or 7%, from \$135.0 million in 2003. The increase was largely due to higher general and administrative costs and the inclusion of NGX expenses for the ten month period ended December 31, 2004, partially offset by a decrease in information and trading systems costs for the same period.

Compensation and Benefits

Compensation and benefits costs of \$73.6 million for 2004 increased by \$0.4 million, or 1%, from \$73.2 million in 2003. The change is attributable to the inclusion of costs pertaining to NGX employees for the period from March 1, 2004 to December 31, 2004 and salary increases, which were largely offset by reduced long term compensation expense related to both share options and share appreciation rights. During the fourth quarter of 2003, a program was established to effectively hedge non-performance based compensation expense related to share price appreciation, which mitigated the impact in 2004.

The number of employees at December 31, 2004 was 553, including 30 NGX employees, compared with 524 at December 31, 2003.

Information and Trading Systems

Information and trading systems costs of \$15.8 million for 2004 decreased by \$1.5 million, or 9%, from \$17.3 million in 2003. The decrease is primarily attributable to savings from lower lease and maintenance costs as operational efficiencies were realized.

General and Administrative

General and administrative costs of \$42.1 million increased by \$8.8 million, or 26%, from \$33.3 million in 2003. The increase is partially attributable to the inclusion of NGX costs for the period from March 1, 2004 to December 31, 2004 and higher expenses related to product and brand marketing compared with 2003. The increase is also related to the settlement of arbitration proceedings with Ashton Technology Canada Inc. (“Ashton”). TSX Inc. was a defendant in arbitration proceedings commenced by Ashton on June 11, 2003. On September 20, 2004, an arbitrator held that TSX Inc. had breached an agreement with Ashton dated June 7, 2000 to develop and integrate a volume-weighted average price order (eVWAP) facility, and held that Ashton was entitled to recover damages and reasonable costs sustained as a result of that breach. On October 22, 2004, the parties settled the matter for \$3.6 million.

TSX Group paid RS \$3.1 million for regulation services in 2004 as compared with \$3.6 million in 2003. The decrease related to lower fees charged for the RS services.

Amortization

Amortization of \$13.0 million for 2004 increased by \$1.8 million, or 16%, from \$11.2 million in 2003, primarily reflecting \$1.7 million of amortization of the tangible and intangible assets associated with the acquisition of NGX.

Loss from Investment in Affiliate

Loss from investment in affiliate of \$1.2 million represents TSX Group’s approximate 45% share of CanDeal’s loss for 2004, and is essentially unchanged from the loss in 2003.

Investment Income

Investment income of \$4.8 million for 2004 decreased by \$5.4 million, or 53%, compared with \$10.2 million in 2003. The decrease was primarily attributable to a lower amount of cash available for investment following the payment of a special dividend of \$168.7 million on December 31, 2003.

Income Taxes

Restated income taxes were \$34.0 million in 2004, compared with restated income taxes of \$10.6 million in 2003. The effective tax rate increased from approximately 15% as restated for 2003, to approximately 33% as restated for 2004. The lower tax rate as restated in 2003 related primarily to an adjustment of \$11.6 million in the value of the restated future tax asset in 2003. In December, 2003, the Ontario government enacted legislation to increase the provincial corporate income tax rate from 12.5% to 14.0% effective January 1, 2004. As a result of this change in the provincial tax rate, the value of the restated future tax asset was increased and restated income tax expense was reduced for 2003.

Liquidity, Capital Resources and Deferred Revenue

Cash and Marketable Securities

Cash and marketable securities were \$171.6 million at December 31, 2004, an increase of \$54.0 million from \$117.6 million at the end of 2003. Cash generated from operating activities was \$127.0 million for 2004, compared with \$82.0 million in 2003. The implementation of EIC-141 had no impact on cash flows from operating activities. On March 1, 2004, there was a net cash outflow of \$27.2 million for the acquisition of NGX, as described in **Cash Flows used in Investing Activities** (see Page 27).

During 2004, TSX Group paid two dividends of \$0.25 per common share, and two dividends of \$0.33 per common share, or \$39.3 million in aggregate. The recognition order of TSX Group Inc. and TSX Inc. contains certain financial viability tests that must be met. If these tests are not met for a period of three consecutive months, dividends cannot be paid by TSX Inc. until six months after rectification without the prior approval of the Director of the Ontario Securities Commission.

Financial Instruments

TSX Group's financial instruments include cash and marketable securities. TSX Group holds units in a money market fund and a short term bond and mortgage fund. The primary risks related to these financial instruments are variation in interest rates and counterparty default. Short-term interest rate risk is managed by maintaining a mix between amounts invested in the money market fund and the short-term bond and mortgage fund. Credit risk is managed by restricting investments to counterparties with a credit rating of A or higher as determined by the Dominion Bond Rating Service.

Derivative Financial Instruments

TSX Group purchased total return forward contracts to partially hedge against the impact of market price fluctuations of TSX Group shares on the cost of restricted share units and deferred share units that are awarded to directors and senior management. Specifically in 2003, a program was established to effectively hedge non-performance based compensation costs related to share appreciation rights. Any increase in TSX Group's share price results in an increase in the liability to its employees and directors and a corresponding increase in the return on the hedged units. The reverse situation arises in the case of a price decline. In the event a designated hedged item is sold, forfeited or matures prior to the termination of the relative derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income. As part of this hedging arrangement, TSX Group pledged assets with a market value of \$11.9 million (\$12.4 million in 2003) with CDS but retains beneficial ownership. This enables

a counterparty to purchase derivative instruments in return for a competitive financing charge. To manage credit risk, TSX Group's arrangement is with a Schedule I Canadian chartered bank.

NGX Collateral Arrangements and Clearing Backstop Fund

As part of its clearing operations, NGX becomes the central counterparty to each transaction, thereby guaranteeing the performance of every contract that is executed on its electronic trading platform. To manage the risks associated with its clearing activities, NGX holds collateral to cover each counterparty's ("Contracting Party") exposure and maintains a \$30.0 million clearing backstop fund. TSX Group is the guarantor of this fund, and has pledged \$30.0 million of marketable securities related to its obligations as guarantor.

NGX requires each Contracting Party to provide collateral in the form of cash or letters of credit based on the margins required for its unsettled contractual obligations, which may be accessed in the event of default by such Contracting Party. The collateral provided in the form of cash (the "cash collateral deposits") is segregated in individually designated bank accounts held at a major Canadian chartered bank by NGX which acts as trustee for these funds. The cash collateral deposits, together with letters of credit provided by all Contracting Parties, exceed all of the outstanding credit exposure, as determined by NGX, for all its unsettled contractual obligations at any point in time.

Total Assets

Restated total assets were \$1,036.3 million at December 31, 2004, an increase of \$715.1 million from restated total assets of \$321.2 million at December 31, 2003. The increase is primarily due to the inclusion of energy contract receivables of \$608.4 million related to the clearing operations of NGX. As the clearing counterparty to every trade, NGX also carries offsetting liabilities in the form of energy contract payables, which were \$607.5 million at December 31, 2004. In addition, \$31.6 million was recorded in 2004 to reflect

the goodwill and intangible asset associated with the purchase of NGX. As well, cash and marketable securities at the end of 2004 increased by \$54.0 million over the total at the end of 2003.

Deferred Revenue – Initial and Additional Listing Fees

Deferred revenue - initial and additional listing fees was \$220.2 million at December 31, 2004, an increase of \$52.2 million from \$168.0 million at December 31, 2003. Prior to adopting EIC-141, there was no deferred revenue related to initial listing fees and additional listing fees. This deferred revenue represents non-refundable initial and additional listing fees received from listed issuers, and is recognized on a straight line basis over an estimated service period of ten years.

The estimated service period of ten years was determined by conducting an historical review of listing activity. TSX Group determined that the average period of time that an issuer remained listed on Toronto Stock Exchange was approximately ten years. In addition, turnover rates were calculated for a Toronto Stock Exchange listed issuer and for a TSX Venture Exchange listed issuer, and were determined to be in the range of ten to twelve years. Examining historical data allowed TSX Group to consider the impact of economic cycles and other trends in capital markets over time. The service period selected affects the rate at which deferred revenue is recognized, as well as the future tax asset related to these fees.

Shareholders' Equity

Restated shareholders' equity was \$129.5 million at December 31, 2004, an increase of \$33.6 million from \$95.9 million as restated at the end of 2003. The increase is primarily attributable to restated net income of \$68.5 million, offset by dividend payments in 2004 of \$39.3 million. As a result of legislation passed by the Ontario Legislature on December 14, 1999, effective April 3, 2000, Toronto Stock Exchange continued from a not-for-profit corporation to a for-profit taxable business corporation, The Toronto Stock

Exchange Inc. (subsequently renamed TSX Inc.). At the time of the continuance, any accumulated excess in revenue over expenses was internally restricted and could not be distributed to the shareholders, except on a windup of TSX Inc. As at December 31, 2004, this amount was \$64.5 million compared with \$64.9 million at December 31, 2003.

At both December 31, 2004 and January 25, 2005, there were 33,890,291 common shares issued and outstanding. There were 2,800,000 common shares originally reserved for issuance under a share option plan of which 140,200 common shares were issued on the exercise of stock options in 2004. At both December 31, 2004 and January 25, 2005, 665,950 options were outstanding.

On January 25, 2005, the Board of Directors approved, subject to shareholder and regulatory approval, a subdivision of TSX Group's shares on a two for one basis.

Cash Flows from Operating Activities

Cash flows from operating activities were \$127.0 million in 2004 compared with \$82.0 million for 2003, representing an increase of \$45.0 million. The implementation of EIC-141 had no impact on cash flows from operating activities. A significant contributor to cash flows in 2004 was \$81.5 million of restated net income excluding amortization** (\$71.1 million as restated for 2003). In addition, cash flows were increased by the receipt of initial and additional listing fees, which is reflected in the increase in restated deferred revenue of \$53.5 million (as compared with an increase in deferred revenue of \$37.6 million as restated for 2003). There was also an increase in cash flows resulting from an increase of \$13.7 million in income taxes payable in 2004 (as compared with a decrease in cash flows resulting from a decrease in income taxes payable of \$6.7 million in 2003). Finally, cash flows were reduced by the increase in the restated future tax asset of \$20.6

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

million for 2004 (as compared with an increase in the future tax asset of \$24.8 million as restated for 2003).

Cash Flows Used in Investing Activities

Cash flows used in investing activities were \$81.2 million in 2004, compared with \$110.2 million generated from investing activities in 2003, representing a decrease of \$191.4 million. During 2004, \$44.7 million was invested in marketable securities (\$117.3 million (net) in marketable securities were sold in 2003). On March 1, 2004, TSX Group acquired NGX at a purchase price of \$39.4 million plus \$0.8 million of closing costs, less cash held by NGX of \$13.0 million at March 1, 2004, for a net cash outflow of \$27.2 million.

Capital and Other Asset Expenditures

Capital expenditures in 2004 were \$9.3 million primarily related to further technology investments targeted at maintaining best in class systems and leasehold improvements associated with the business continuity plan. Capital expenditures were \$7.1 million in 2003 primarily related to the renovation of TSX Broadcast & Conference Centre in the second quarter of 2003.

Contractual Obligations

(\$ Thousands)	Total	Payments Due by Period		
		Less than 1 year	1 – 3 years	4+ years
Lease Commitments				
Capital Lease Obligations	2,138	715	1,423	–
Operating Leases	58,894	11,213	21,997	25,684
Total Lease Commitments	61,032	11,928	23,420	25,684

Initial Adoption of Accounting Policies

Employee Future Benefits

In the second quarter of 2004, TSX Group adopted the amendments published by the Canadian Institute of Chartered Accountants for reporting Employee Future Benefits, which is effective for periods ending on or after June 30, 2004. The total net retirement benefit cost was \$4.7 million for 2004 (\$4.2 million for 2003). Commencing January 1, 2004, TSX Group measured its accrued benefit obligations and the fair value of plan assets for accounting purposes as at September 30 of each year (as at December 31 for 2003).

Selected Annual Information

In this section, revenue, net income, total assets, deferred revenue-initial and additional listing fees and earnings per common share (basic and diluted) have been restated due to the implementation of EIC-141:

(in thousands of dollars, except per share amounts)

	2004 (Restated)	2003 (Restated)	2002 ¹ (Restated)
Revenue	\$ 243,430	\$ 196,503	\$ 189,649
Net income	\$ 68,490	\$ 59,880	\$ 39,862
Total assets	\$ 1,036,294	\$ 321,219	\$ 412,182
Long-term liabilities	\$ 24,286	\$ 23,510	\$ 17,398
Deferred revenue – initial and additional listing fees	\$ 220,155	\$ 168,032	\$ 130,490
Earnings per share: Basic	\$ 2.02	\$ 1.77	\$ 1.18
Diluted	\$ 2.00	\$ 1.76	\$ 1.18
Cash dividends declared per common share	\$ 1.16	\$ 5.69	\$ 0.59 ²

¹ On November 12, 2002, TSX Inc. completed a reorganization under a court-approved plan of arrangement. As a result of this reorganization, TSX Group became the holding company for TSX Inc. and its operating subsidiaries and divisions. The financial information contained in this table is the consolidated financial information of TSX Inc. prior to November 12, 2002, and has been presented as a continuity of interests of TSX Inc. from and after

November 12, 2002. The reorganization would not have had a material effect on TSX Group's financial results if it had been implemented at the beginning of the financial year ended December 31, 2002.

² Restated after giving effect to the conversion of one share for 12,688 shares in November 2002.

For the year ended December 31, 2004, net income was \$68.5 million, or \$2.02 per common share (\$2.00 on a diluted basis), on total revenue of \$243.4 million, representing an increase of \$8.6 million, or 14%, compared with \$59.9 million, or \$1.77 per common share (\$1.76 on a diluted basis) for the year ended December 31, 2003. The 2004 results reflect significantly higher revenue across all of the primary business areas, partially offset by an increase in expenses and income taxes and lower investment income.

For the year ended December 31, 2003, net income was \$59.9 million, or \$1.77 per common share (\$1.76 on a diluted basis), on total revenue of \$196.5 million, representing an increase of \$20.0 million, or 50% compared with \$39.9 million, or \$1.18 per common share (on a basic and diluted basis), for the year ended December 31, 2002. This increase was primarily due to increased trading and related revenue as well as increased restated listing revenue somewhat offset by lower market data revenue. The results also reflected the achievement of operational efficiencies, a reduction in discretionary spending and lower income taxes primarily related to an increase in the value of the future tax asset of \$8.7 million in 2003.

During 2004, total assets of \$1,036.3 million increased by \$715.1 million over \$321.2 million in 2003 primarily as a result of the inclusion of energy contract receivables of \$608.4 million related to the clearing operations of NGX. As the clearing counterparty to every trade, NGX also carries offsetting liabilities in the form of energy contract payables, which were \$607.5 million at December 31, 2004. In addition, \$31.6 million was recorded in 2004 to reflect the goodwill and intangible asset associated with the purchase of NGX. As well, cash and marketable securities at the end of 2004 increased by \$54.0 million over the total at the end of 2003.

Deferred revenue-initial and additional listing fees increased from 2002 through 2004 as the fees received from initial and additional listings during this period were higher than the amount of revenue recognized for these fees related to prior periods.

During 2003, TSX Group paid \$192.0 million in dividends (including a special dividend of \$5.00 per common share, or \$168.7 million) which was the primary reason for the decrease in total assets between December 31, 2002 and December 31, 2003.

Quarterly Information

The following is a summary of quarterly unaudited results. In this section, revenue, net income and earnings per common share (basic and diluted) have been restated due to the implementation of EIC-141:

(in thousands of dollars except per share amounts)

	Dec 31 /04 (Restated)	Sept 30 /04 (Restated)	June 30 /04 (Restated)	Mar 31 /04 (Restated)	Dec 31 /03 (Restated)	Sept 30 /03 (Restated)	June 30 /03 (Restated)	Mar 31 /03 (Restated)
Revenue	\$63,786	\$59,472	\$59,342	\$60,830	\$53,518	\$48,820	\$46,827	\$47,338
Net Income	18,600	15,587	16,187	18,116	23,532	13,077	12,780	10,491
Earnings per share:								
Basic	0.55	0.46	0.48	0.54	0.70	0.39	0.38	0.31
Diluted	0.54	0.46	0.47	0.53	0.70	0.39	0.38	0.31

In 2003, revenue for both the first and second quarters was impacted by geopolitical events, which created market uncertainty. Revenue improved in the third and fourth quarters of 2003 primarily due to increased trading activity. While TSX Group has a largely fixed cost structure, a portion of spending is discretionary with respect to timing and amount for certain initiatives. During 2003, discretionary spending was limited. TSX Group's 2003 quarterly spending level was consistent throughout the year with the exception of the fourth quarter, due to additional share-based compensation expense. In the fourth quarter of 2003, the Ontario government enacted legislation to increase the provincial corporate income tax rate from 12.5% to 14.0% effective January 1, 2004. As a result of this change in the provincial corporate tax rate, the value of the restated future tax asset was increased and restated income tax expense decreased by \$11.6 million.

Trading activity was strong in the first quarter of 2004, which resulted in improved revenue compared with revenue in the fourth quarter of 2003. In the second quarter of 2004, revenue and net income were lower compared with revenue and net income in the first quarter of 2004 due to reduced trading activity. Net income for the third quarter of 2004 declined when compared with net income for both the first and second quarters of 2004 primarily due to higher general and administrative costs. Trading activity increased in September, 2004 and continued into the fourth quarter, resulting in significantly increased trading revenue. Net income for the fourth quarter of 2004 increased compared with net income for each of the first three quarters of 2004 primarily due to the increased revenue. Expenses in the fourth quarter of 2004 were significantly lower than the third quarter of 2004 due to substantially lower general and administrative costs, which also contributed to the increase in net income for the fourth quarter of 2004 compared with net income for the third quarter of 2004.

Strategy and Outlook

TSX Group has identified a number of trends that have important implications for its Strategy and Outlook. Technology is enabling and accelerating change by providing capital markets with the tools to improve efficiency and to pursue new avenues of growth. This is clearly evident as exchanges become fully electronic, as increased processing power is available at a lower cost, and access widens with rapid internet adoption as well as wireless connectivity.

Innovation is driving growth in new areas as well. This can be seen in the rapid acceleration into electronic trading of additional asset classes (fixed income and derivatives), the development of increasingly sophisticated investment products (exchange traded funds and income trusts) and the proliferation of more complex trading practices (program, quantitative, basket and hedge fund trading). Opportunities are developing to standardize Over the Counter (“OTC”) products, which is often a precursor to trading on electronic exchanges.

TSX Group believes its principal strengths are its:

- pre-eminent position in the domestic market, operating the national equity exchanges and leading energy exchange in Canada;
- leadership and demonstrated expertise in introducing technological and product innovations in the exchange industry globally; and
- international reputation for operating exchanges independently and with integrity.

TSX Group's corporate objectives are to achieve profitable growth and to maximize shareholder returns by capitalizing on these strengths and pursuing the principal strategies described below, organically and through acquisitions, strategic alliances and investments. TSX Group's goal is to achieve long-term annual earnings per share growth in the 10 to 12 per cent range although growth rates will vary both on a quarterly and annual basis.

Enhance the Core Business

To maintain its pre-eminent position in the Canadian equity capital market, TSX Group intends to further expand its product and service offerings with increased customer focus, to address the changing needs of issuers, intermediaries and investors.

- TSX Group will continue to focus on maintaining a quality marketplace with balanced standards that address the diverse needs of issuers, investors and intermediaries. By doing so, both Toronto Stock Exchange and TSX Venture Exchange expect to attract new, quality issuers and list innovative securities, which in turn is expected to continue to attract capital and investors to the marketplace. Both exchanges plan to further streamline the graduation process, an important source of new listings for Toronto Stock Exchange, and will provide venues for issuers to showcase themselves in order to attract interest and activity on the exchanges. Toronto Stock Exchange will focus on

addressing issues that affect listed issuers as public companies, through policy reforms, corporate governance workshops and by providing investor relations tools. TSX Venture Exchange will focus on addressing issues that affect listed issuers as public companies, pursuing initiatives that drive new listings, such as expansion of its CPC™ program and execution of its Public Venture Capital Campaign, and enhancing existing issuers' probability of success as public companies through mentoring programs. TSX Venture also intends to pursue growth in Central and Eastern Canada, where public venture capital markets are less developed than in Western Canada.

- TSX Group intends to continue to operate one of the world's leading electronic trading platforms that offers reliability, scalability and speed of execution. In addition, TSX Group will continue to develop and offer new customized trading products, services and features, such as those introduced in 2004 (Market on Close, Market Making Reform and the U.S. Dollar Book) in order to meet the distinct needs of its various investors and intermediaries and bring more liquidity and efficiency to the marketplace.
- TSX Group plans to leverage its existing data capabilities and infrastructure (LinxPointOne) to add new content, such as OTC data and other premium data. It will focus on expanding the existing customer base and selling premium products that display the full order book.
- TSX Group will focus on maintaining its operational excellence, while supporting new business initiatives and managing its costs of operations. TSX Group will continue to implement enhancements, such as the recent major hardware upgrades, and new products and services to support business initiatives, in compliance with its technology standards and architecture plan.

Extend our Pre-eminent Domestic Position

TSX Group will also seek growth opportunities through diversification into related markets in which it has competitive advantages and can capitalize on its strengths.

- TSX Group plans to apply its expertise in developing and operating electronic marketplaces to reach beyond its current equity securities business into other types of securities and other marketplaces, including those that are in early stages of transition to electronic trading. Examples of such marketplaces include:
 - In July 2002, TSX Group acquired an interest in CanDeal, which owns an electronic trading system for the institutional debt market in Canada. CanDeal's value traded has grown from \$50 billion in 2003 to \$88 billion in 2004. CanDeal had 65 customers at the end of 2004 compared with 46 customers at the end of 2003. CanDeal plans to add content, and increase the number of liquidity providers and customers in 2005.
 - In March 2004, TSX Group acquired NGX, an exchange that trades and clears natural gas and electricity contracts. NGX provides an efficient and secure energy trading and clearing platform to North American customers. NGX will continue to focus on developing its physical and financial contracts business in both Canada and the United States, while building capacity through improvements to its business processes and capital structuring.
- TSX Group will continue to provide select technology services to external customers by leveraging its existing infrastructure and resources and, in particular, its staff's expertise in market-related technology.

Geographic Expansion

TSX Group will look for ways to grow the business and expand beyond the borders of Canada.

- TSX Group will place greater focus in the future on making its exchanges the markets of choice for those securities and products traded in Canada by U.S. market participants. It will pursue multiple initiatives across all business areas:
 - TSX Group will seek to capture an increasing proportion of executable order flow from U.S. based investors by meeting U.S. and global connectivity standards (FIX), expanding its use of comparable pricing (in U.S.\$), demonstrating best execution, and having a dedicated team to educate the market on the benefits of trading on TSX Group's equity exchanges.
 - TSX Group plans to utilize a U.S. based sales team to deepen its relationships with all market data vendors in order to increase data sales.
 - TSX Group plans to raise the profile of the Canadian market generally in both the U.S. and further abroad, through participation in industry events, and developing and enhancing relationships with key stakeholders and strategic partners in U.S. cities and other global financial centres. Also, TSX Group will work with interlisted issuers to further understand their needs and learn their perception of the value of interlisting to enhance its offering and services.
 - TSX Group will seek to attract additional listings of global mining and other natural resource companies by capitalizing on its international reputation of having a leading marketplace for those issuers. Today, over 50% of the world's publicly traded mining companies are listed on TSX Group's exchanges.

- TSX Group believes there is an opportunity to expand its North American energy business. NGX provides a combination of electronic trading and clearing that TSX Group believes is a competitive advantage. TSX Group will conduct extensive research to identify key hubs for the NGX model and leverage its existing systems and customer base.

Forward-Looking Statements, Risks and Uncertainties

This revised MD&A, in particular the section under the heading “Strategy and Outlook”, contains forward-looking statements, which are not historical facts but are based on certain assumptions and reflect TSX Group’s current expectations. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Some of the risk factors that could cause actual results to differ materially from current expectations are those set out below.

TSX Group has in place an integrated and evolving risk management process in which the Board assumes overall stewardship responsibility for risk; the Finance & Audit Committee of the Board assesses the adequacy of risk management policies and procedures; and Senior Management oversees implementation of risk management policies and processes. The management framework supporting the risk management objectives includes regular assessments of principal risks, and implementation of risk management tactics, which are monitored and adjusted as required.

TSX Group’s business, financial condition, or operating results could be materially adversely affected if any of these risks and uncertainties were to materialize, and if TSX Group was unsuccessful in mitigation any of these risks through the strategies outlined in this section. Additional risk factors are discussed in TSX Group’s materials filed with the securities regulatory authorities in Canada from time to time, including its Revised 2004 Annual Information Form (when refiled). Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Canadian Economy, Markets, Competition and New Business Activities

TSX Group's revenue is derived primarily in Canada and can be negatively affected by an economic downturn. TSX Group depends on market activity that is outside of its control. TSX Group is highly dependent upon the level of activity on TSX Group's exchanges, including the number of transactions, volume and value of securities traded, the number and market capitalization of listed issuers, the number of new listings and financing activity, the number of active traders and POs in the market, the number of market data subscribers and similar variables.

TSX Group faces competition from other securities exchanges as well as from ATSS, or electronic communication networks (ECNs), and other quotation and trading systems. This competition may intensify in the future, especially as technological advances create pressure to develop more efficient and less costly trading in global and/or regional markets.

TSX Group may enter new business activities that could have an adverse effect on TSX Group's existing profitability. While TSX Group would expect to realize new revenue from these new activities, there is a risk that any such new revenue would not be greater than costs associated with the new activities or any related decline in existing revenue sources.

TSX Group's Exchanges Depend on the Development and Acceptance of their New Products

TSX Group is dependent to a great extent on the development and introduction of new financial and trading products, services and features, and the acceptance by the investment community of those products, services and features. While TSX Group is continually reviewing its products and, in consultation with market participants, developing new products that respond to the needs of the marketplace, there can be no assurance that TSX Group will continue to develop successful new products. Current

products may become outdated or lose market favour before adequate enhancements or replacements can be developed.

Other exchanges or ATSS may introduce new products or product enhancements that reduce the attractiveness of TSX Group's products. Even if TSX Group develops an attractive new product, TSX Group could lose trading activity to another exchange or an ATS that introduces a similar or identical product because of the competitor's greater liquidity or lower cost. Furthermore, TSX Group may not receive regulatory approval in a timely manner or at all for new products it develops. Any such event could have a material adverse effect on TSX Group's results of operations.

Executing Business Strategies

In order to seek profitable growth and maximize shareholder returns, TSX Group intends to invest significant resources in executing its strategies. TSX Group may experience difficulty in executing its strategies because of, among other things, increased global competition, difficulty in developing and introducing new products, barriers to entry in other geographic markets and changes in regulatory requirements. Any of the above could have a material adverse effect on the successful execution of TSX Group's strategies.

TSX Group could Suffer Losses as a Result of NGX's Clearing Activities

TSX Group acquired NGX on March 1, 2004. In providing clearing services, NGX guarantees the performance of its cleared contracts. TSX Group could suffer a loss as a result of NGX assuming the counterparty risk, which is the risk that one or several Contracting Parties will default on their contractual obligations. NGX faces other particular risks associated with the clearing business including, market risks, settlement risks, concentration risks, operational risks and risks of default by a Contracting Party or its financial institution.

NGX provides a clearing facility to energy market participants and acts as the central counterparty to all transactions consummated through its exchange. As a clearing house, NGX is subject to the risk of the simultaneous occurrence of a counterparty default event coupled with an extreme market price movement. NGX manages this risk through standardized rules and regulations, and a conservative margining regime that utilizes globally-accepted margin concepts.

The margining regime involves a real-time market stress valuation of client portfolios and the deposit by counterparties of liquid collateral in excess of such valuations. Market stress scenarios are conducted regularly to test the ongoing integrity of the clearing operation. In addition to the margining regime, there are established policies, instructions, rules and regulations as well as procedures that are specifically designed to ensure that risks are actively managed and mitigated.

In order to backstop its clearing operations, NGX has a \$30.0 million credit facility in place with a Canadian chartered bank. If NGX draws on this facility as a result of a default and then is unable to repay when due, then TSX Group, as NGX's guarantor, will be required to repay the amount owing on the facility.

Customers, Suppliers and Other External Factors

During 2004, approximately 63% of TSX Group's trading revenue on Toronto Stock Exchange and approximately 68% of TSX Group's trading revenue on TSX Venture Exchange was accounted for by the top ten POs on each exchange. A significant reduction in revenue from any one of these POs, or consolidation among POs, could have a material adverse effect on TSX Group's business, financial condition or operating results.

If TSX Group's exchanges determine that an insufficient number of POs are able to access the markets for reasons such as their network problems or performance issues related to third party vendors, and there is not a fair market, the markets would be shut down.

TSX Group's systems and operations are vulnerable to damage or interruption from human error, natural disasters, power loss, sabotage or terrorism, computer viruses, intentional acts of vandalism and similar acts and events.

TSX Group depends on a number of third parties, such as CDS, RS, data processors, software and hardware suppliers, telecommunications businesses and suppliers of electricity for elements of its trading, data and other systems, as well as communications and networking equipment, computer hardware and software related support and maintenance. There can be no assurance that any of these providers will be able to provide these services without interruption and in an efficient, cost-effective manner or that they will be able to adequately expand their services to meet TSX Group's needs. TSX Group has active programs in place to identify and minimize its exposure to the above-mentioned risks.

TSX Group's Cost Structure is Largely Fixed

Most of TSX Group's expenses are fixed and cannot be readily lowered in response to reductions in its revenue, which could have an adverse effect on TSX Group's results of operations and financial condition.

Key Management Personnel

TSX Group's success depends to a significant extent upon the continued employment and performance of a number of key management personnel. The loss of the services of one or more of these key personnel could have a material adverse effect on TSX Group's business and results of operations. TSX Group also believes that its future success will depend in large part on TSX Group's ability to attract and retain highly skilled technical, managerial and marketing personnel. Competition for such personnel is intense, particularly as market conditions continue to improve. There can be no assurance that TSX Group will be successful in attracting and retaining the personnel it requires.

Technology

TSX Group is extremely dependent on its information technology systems, including data and communications systems (“IT Operations”). TSX Group’s trading is conducted exclusively on an electronic basis. In addition, TSX Group's trading system hardware was upgraded in 2004 and was benchmarked over a standard trading window to handle approximately 2.5 times the historical market peak activity using a representative mix of orders and trades. TSX Markets have recently experienced an increase in orders and have continued to respond with systems upgrades. There are many factors, including number of orders and executed trades, which can impact required systems capacity. The mix of order flow is subject to fluctuation depending on the trading patterns of POs and the marketplace. While TSX Group has developed and planned various measures, disaster recovery and contingency plans and back-up procedures to manage, mitigate and minimize the risk of an interruption or failure to its IT Operations and to ensure their integrity, there is always the risk that those measures, plans and procedures are not adequate and therefore the risk of a system failure or interruption cannot be eliminated.

Regulatory Environment

TSX Group and its exchanges are subject to the oversight of certain of the provincial securities regulators and their future operations may be subject to regulation in other jurisdictions. Securities regulators may impose barriers or constraints limiting TSX Group’s ability to build an efficient, competitive organization and also may limit TSX Group’s strategies for expanding foreign and global access and utilization. In addition, securities regulators impose financial and corporate governance restrictions on TSX Group. TSX Group’s exchanges’ listing standards, trading rules and features, and operations of its systems, or changes to them, are subject to oversight or approval of certain of the provincial securities regulators and compliance with mandated procedures, which may entail additional costs to TSX Group and impact timing of implementation.

Non-GAAP Financial Measures

Certain measures used in this revised MD&A, specifically Initial Listing Fees Received and Additional Listing Fees Received, revenue, revenue from listing fees, net income and earnings per common share (basic and diluted) without giving effect to the implementation of EIC-141, do not have standardized meanings prescribed by Canadian GAAP. These other measures are intended to provide an alternative view as to how fees received from initial and additional listings activity in the current period would impact the financial results of the business. In addition, net income excluding amortization does not have a standardized meaning prescribed by Canadian GAAP. These measures are unlikely to be comparable to similar measures presented by other issuers.

November 16, 2005 (as revised)