

TSX Group Inc.
2006 First Quarter Report
to Shareholders

CEO'S LETTER TO SHAREHOLDERS

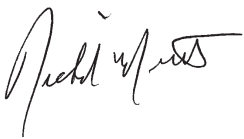
I am pleased to report strong results for the first quarter 2006. We saw record numbers in the quarter for the value of securities traded, the number of transactions on our equity exchanges, the number of market data subscriptions and volumes in energy trading on NGX.

Revenue was \$88.0 million, up 26% over the first quarter of 2005, reflecting increased revenue across the primary revenue streams of listing, trading and market data. Net income was \$34.7 million, or 50 cents per common share, an increase of 50% compared with the same quarter last year, due mainly to higher revenue and a slight reduction in expenses.

Over the past few months we have announced several initiatives, all of which are targeted at enhancing our competitive position within North America. On the technology side, we are launching TSXPress. This is an innovative series of trading system enhancements aimed at optimizing execution speeds for algorithmic traders. From a product perspective, we intend to launch ATX, an all-new high-speed TSX trading facility that is being designed to match firm order flow against in-house interest as well as the undeclared interest of other market participants.

Finally, in a continuing effort to increase trading volumes on our equity markets and attract new participants, we announced changes to our trading fee model. Effective July 1, 2006, we plan to introduce a volume-based trading fee structure for most issues listed on Toronto Stock Exchange and TSX Venture Exchange. The extension of a volume-based fee structure is intended to better align trading fees with the prevailing model in U.S. marketplaces and will replace the current value-based fee model for these issues. This model has been structured so that market participants have an incentive to enter orders in the central limit order book. The proposed changes to the trading fee structure, and the potential impact, are outlined in this report. We believe that our focus on technology, products and pricing will position us for continued success in the future.

In summary, we enjoyed a strong first quarter in 2006 and I look forward to updating you again in the summer.



RICHARD NESBITT

Chief Executive Officer

TSX Group Inc.

April 26, 2006

Q1-2006 MANAGEMENT'S DISCUSSION AND ANALYSIS

Note: All references to earnings per common share, net income per common share, dividends per common share, common shares issued and outstanding, common shares reserved for issuance, and options outstanding have been restated to reflect the impact of the two-for-one stock split which was effective May 17, 2005.

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, 2006 compared with the quarter ended March 31, 2005 or the year ended December 31, 2005, as applicable. This MD&A is dated April 26, 2006. It should be read carefully together with our Q1/06 Unaudited Consolidated Financial Statements and related notes, as well as our 2005 Audited Consolidated Financial Statements, related notes and MD&A, filed with Canadian securities regulators, and accessible through www.sedar.com, or our website at www.tsx.com. All amounts are in Canadian dollars 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.

Non-GAAP Financial Measures

Certain measures used in this MD&A, specifically listing fees received, initial listing fees received and additional listing fees received do not have standardized meanings prescribed by Canadian GAAP. We present these measures as an indication of how initial and additional listing activity in the period presented and the fees received for these activities impact the financial performance and cash flows of the business. These measures are unlikely to be comparable to similar measures presented by other issuers.

Quarter Ended March 31, 2006 compared to Quarter Ended March 31, 2005

Net income was \$34.7 million, or 51 cents per common share (50 cents on a diluted basis) for Q1/06, compared to net income of \$23.1 million, or 34 cents per common share (on both a basic and diluted basis) for the same period in 2005, representing an increase of 50%. The increase was mainly attributable to higher revenue across the primary revenue streams of listing, trading and market data.

REVENUE

Revenue was \$88.0 million for Q1/06, up 26% as compared to revenue of \$69.7 million for the same period in 2005, reflecting increased revenue in the primary revenue streams.

Listing Revenue

The following is a summary of listing fees reported and listing fees received* (reconciled below in this section) in Q1/06 and Q1/05. We present the latter measures as an indication of how initial and additional listing activity and the fees received for these activities impact the financial performance and cash flows of the business:

(in millions of dollars)

	Reported			Received*		
	Q1/06	Q1/05	% increase	Q1/06	Q1/05	% increase
Initial listing fees	\$ 2.6	\$ 2.1	24%	\$ 6.1	\$ 6.1	No change
Additional listing fees	\$ 8.3	\$ 6.9	20%	\$ 18.8	\$ 15.2	24%
Sustaining listing fees**	\$ 15.0	\$ 11.8	27%	\$ 15.0	\$ 11.8	27%
Total listing fees	\$ 25.9	\$ 20.8	25%	\$ 39.9	\$ 33.1	21%

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

**Sustaining listing fees received, 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.

Initial and additional listing fees are non-refundable fees received from listed issuers, which 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. The following is a reconciliation of listing fees received* to listing fees reported.

Initial Listing Fees (in millions of dollars)

	Q1/06	Q1/05
Initial listing fees received*	\$ 6.1	\$ 6.1
Initial listing fees received* in the quarter and deferred to future periods	(\$ 6.0)	(\$ 6.0)
Recognition of initial listing fees received* in prior periods and previously included in deferred revenue	<u>\$ 2.5</u>	<u>\$ 2.0</u>
Initial listing fee revenue reported	<u>\$ 2.6</u>	<u>\$ 2.1</u>

Additional Listing Fees (in millions of dollars)

	Q1/06	Q1/05
Additional listing fees received*	\$ 18.8	\$ 15.2
Additional listing fees received* in the quarter and deferred to future periods	(\$ 18.5)	(\$ 14.8)
Recognition of additional listing fees received* in prior periods and previously included in deferred revenue	<u>\$ 8.0</u>	<u>\$ 6.5</u>
Additional listing fee revenue reported	<u>\$ 8.3</u>	<u>\$ 6.9</u>

- *Initial and additional listing fees reported* increased due to capital market activity and fee increases during the period from April 1, 1996 to March 31, 2006 compared with the period from April 1, 1995 to March 31, 2005.
- *Initial listing fees received** were unchanged. There was an increase in new issuers listed on Toronto Stock Exchange (52 in Q1/06 versus 50 in Q1/05) and on TSX Venture Exchange (44 in Q1/06 versus 35 in Q1/05). The value of initial financings on TSX Venture Exchange increased by 30% (\$68.9 million raised in Q1/06 versus \$53.1 million in Q1/05) whereas the value of initial financings on Toronto Stock Exchange decreased by 16% (\$4.3 billion raised in Q1/06 versus \$5.1 billion in Q1/05). In addition, there was a price increase on Toronto Stock Exchange that was effective January 1, 2006.
- *Additional listing fees received** increased by 24%. There was a 42% increase in the value of additional financings on TSX Venture Exchange (\$1.7 billion raised in Q1/06 versus \$1.2 billion in Q1/05), and a price increase on Toronto Stock Exchange that was effective January 1, 2006. However, there was a 23% decrease in the value of additional financings on Toronto Stock Exchange (\$6.4 billion raised in Q1/06 versus \$8.3 billion during Q1/05).
- *Sustaining listing fees* increased due to the overall higher market capitalization of listed issuers at the end of 2005 compared with the end of 2004. Issuers listed on Toronto Stock Exchange and TSX Venture Exchange pay annual fees primarily based on the market capitalization at the end of the prior calendar year, subject to minimum and maximum fees. In addition, sustaining listing fees increased due to a price increase on each equity exchange that was effective January 1, 2006.

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

Trading and Related Revenue

(in millions of dollars)

	Q1/06	Q1/05	% increase
<i>Capital Markets</i>	\$ 36.6	\$ 26.8	37%
<i>Energy Markets</i>	\$ 4.4	\$ 3.7	19%
<i>Total trading and related fees</i>	\$ 41.0	\$ 30.5	34%

Capital Markets

- The total value of securities traded in Q1/06 on Toronto Stock Exchange and TSX Venture Exchange increased by 37% over Q1/05 (\$367.5 billion in Q1/06 versus \$267.5 billion in Q1/05).
- The number of transactions in Q1/06 on Toronto Stock Exchange and TSX Venture Exchange increased by 67% over Q1/05 (22.7 million in Q1/06 versus 13.6 million in Q1/05).
- The increase was partially offset by pricing changes on Toronto Stock Exchange effective October 1, 2005 and January 1, 2006, which resulted in an overall fee reduction for our customers.

Energy Markets

- The volumes traded and/or cleared in natural gas and electricity contracts on Natural Gas Exchange ("NGX") in Q1/06 increased by 30% over Q1/05 (2.6 million terajoules in Q1/06 versus 2.0 million terajoules in Q1/05). Revenue for Q1/06 was somewhat reduced as a result of deferring a portion of fees related to forward contacts.

Market Data Revenue

(in millions of dollars)

	Q1/06	Q1/05	% increase
	\$ 18.5	\$ 15.8	17%

- *Market Data Revenue* increased due to a 12% increase in the number of professional and equivalent real-time data subscriptions in both Canada and the U.S. (over 123,000 at March 31, 2006 versus over 110,000 at March 31, 2005).
- The increase was also attributable to price increases that were effective May 1, 2005, and the launch of new market data products.
- The increase was reduced by the negative impact of the appreciation of the Canadian dollar against the U.S. dollar since Q1/05.

Business Services Revenue

(in millions of dollars)

	Q1/06	Q1/05	
	\$ 2.1	\$ 2.1	No change

- *Business Services Revenue* remained unchanged from Q1/05.
- Market Regulation Services Inc. paid us \$1.7 million in Q1/06 for technology related services as compared to \$1.8 million in Q1/05.

EXPENSES

Expenses were \$36.3 million in Q1/06, a decrease of 1% from \$36.8 million in Q1/05. The decrease was largely due to lower compensation and benefits costs as well as lower general and administration costs, partially offset by an increase in information and trading systems costs.

Compensation and Benefits

(in millions of dollars)

	Q1/06	Q1/05	% (decrease)
	\$ 20.3	\$ 20.8	(2%)

- *Compensation and Benefits* costs decreased due to lower organizational transition costs somewhat offset by higher costs related to annual salary increases and higher performance incentive accruals partially due to share price appreciation.
- The decrease was also due to a reduction in the number of employees (508 employees at March 31, 2006 versus 530 employees at March 31, 2005).

Information and Trading Systems

(in millions of dollars)

	Q1/06	Q1/05	% increase
	\$ 5.1	\$ 4.4	16%

- *Information and Trading Systems* costs increased due to higher hardware lease costs relating in part to expansion of trading system capacity required to accommodate the substantial growth in the number of orders and transactions.

General and Administration

(in millions of dollars)

	Q1/06	Q1/05	% (decrease)
	\$ 7.9	\$ 8.5	(7%)

- *General and Administration* costs decreased due to reduced spending on marketing activities somewhat offset by higher fees paid to external advisors.
- We paid Market Regulation Services Inc. \$1.0 million for regulation services in Q1/06, unchanged from Q1/05.

Amortization

(in millions of dollars)

	Q1/06	Q1/05	
	\$ 3.1	\$ 3.1	No change

- *Amortization* remained unchanged from Q1/05.

Loss from Investment in Affiliate

(in millions of dollars)

	Q1/06	Q1/05	
	\$ 0.1	\$ 0.1	No change

- *Loss from Investment in Affiliate*, which remained unchanged from Q1/05, represents our share of CanDeal.ca Inc.'s (CanDeal) loss for Q1/06 based on a 45% interest in CanDeal.

Investment Income

(in millions of dollars)

	Q1/06	Q1/05	% increase
	\$ 2.2	\$ 1.6	38%

- There was an increase in cash and marketable securities during Q1/06 versus Q1/05, generating higher investment income. This was partially offset by a reduction in the value of short-term bond and mortgage fund investments.

Income Taxes

(in millions of dollars)

	Q1/06	Q1/05	Effective tax rate (%)	
			Q1/06	Q1/05
	\$ 19.0	\$ 11.4	35%	33%

- The tax rate in Q1/05 was lower partly due to the receipt of scientific research and experimental development grants during that quarter.

Liquidity and Capital Resources

Cash and Marketable Securities

(in millions of dollars)

	March 31, 2006	December 31, 2005	Increase
	\$ 313.6	\$ 276.2	\$ 37.4

- The increase was primarily due to \$ 57.3 million in cash from operations in Q1/06 offset by a dividend of \$0.33 per common share, or \$22.5 million in aggregate.

Total Assets

(in millions of dollars)

	March 31, 2006	December 31, 2005	Decrease
	\$ 1,170.8	\$ 1,557.2	\$ 386.4

- *Total Assets* decreased by \$386.4 million due to lower energy contracts receivable of \$567.9 million at March 31, 2006 related to the clearing operations of NGX compared with \$1,004.3 million at the end of 2005. The reduced level of receivables reflected lower natural gas prices in March 2006 compared with December 2005. (As the clearing counterparty to every trade, NGX also carries offsetting liabilities in the form of energy contracts payable, which were \$567.9 million at March 31, 2006 compared with \$1,004.3 million at the end of 2005.)
- The decrease was offset by increases in cash and marketable securities, accounts receivable and the long-term portion of the future tax asset.

Shareholders' Equity

(in millions of dollars)

	March 31, 2006	December 31, 2005	Increase
	\$ 194.0	\$ 177.8	\$ 16.2

- *Shareholders' Equity* increased primarily due to net income of \$34.7 million, offset by the dividend payment in Q1/06 of \$22.5 million. Net income from NGX was \$1.0 million in Q1/06 and \$0.8 million in Q1/05.
- At both March 31, 2006 and April 25, 2006, there were 68,309,628 common shares issued and outstanding. There were 5,600,000 common shares originally reserved for issuance under a share option plan of which 216,610 common shares were issued on the exercise of stock options in Q1/06. At both March 31, 2006 and April 25, 2006, there were 1,197,830 options outstanding.

Cash Flows from Operating Activities

(in millions of dollars)

	Q1/06	Q1/05	Increase/ (decrease)
<i>Cash Flows from Operating Activities</i>	\$ 57.3	\$ 35.1	\$ 22.2

Cash Flows from Operating Activities were \$ 22.2 million higher in Q1/06 compared with Q1/05 due to:

	Q1/06	Q1/05	Increase/ (decrease)
Net income	\$ 34.7	\$ 23.1	\$ 11.6
Amortization	\$ 3.1	\$ 3.1	-
Increase in deferred revenue primarily related to receipt of sustaining listing fees	\$ 62.7	\$ 49.7	\$ 13.0
Increase in accounts receivable and prepaid expenses	(\$ 10.2)	(\$ 14.2)	\$ 4.0
Decrease in accounts payable and accrued liabilities	(\$ 10.0)	(\$ 8.5)	(\$ 1.5)
Decrease in income taxes payable	(\$ 21.1)	(\$ 16.7)	(\$ 4.4)
Net decrease in other items	(\$ 1.9)	(\$ 1.4)	(\$ 0.5)
<i>Cash Flows from Operating Activities</i>	<u>\$ 57.3</u>	<u>\$ 35.1</u>	<u>\$ 22.2</u>

Cash Flows Used in Investing Activities

(in millions of dollars)

	Q1/06	Q1/05	Increase/ (decrease)
<i>Cash Flows Used in Investing Activities</i>	\$ 36.4	\$ 26.5	\$ 9.9

Cash Flows Used in Investing Activities were \$ 9.9 million higher in Q1/06 compared with Q1/05 due to:

	Q1/06	Q1/05	Increase/ (decrease)
Capital expenditures primarily related to leasehold improvements and technology investments	\$ 0.6	\$ 0.8	(\$ 0.2)
Increase in purchase of marketable securities	<u>\$ 35.8</u>	<u>\$ 25.7</u>	<u>\$ 10.1</u>
<i>Cash Flows Used in Investing Activities</i>	<u>\$ 36.4</u>	<u>\$ 26.5</u>	<u>\$ 9.9</u>

NGX Collateral Arrangements and Clearing Backstop Fund

As part of its clearing operations, NGX becomes the counterparty to each transaction, thereby guaranteeing the performance of every contract that is executed on its electronic trading platform. To backstop its clearing operations, NGX has a credit agreement in place with a Canadian chartered bank. We are NGX's guarantor for this credit agreement up to a maximum of \$30.0 million. We have pledged \$30.0 million of marketable securities related to our obligations as guarantor. In addition, NGX has covenanted under the agreement to maintain a minimum of \$9.0 million of tangible net worth. If NGX suffers a loss on its clearing operations, it could lose its entire tangible net worth. The bank could also realize up to a maximum of \$30.0 million on our guarantee, to the extent required to cover a loss.

NGX requires each counterparty (the "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 a 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 the same Canadian chartered bank by NGX, which acts as trustee for these funds. The cash collateral deposits, together with letters of credit provided by all the Contracting Parties, exceed all of the outstanding credit exposure, as determined by NGX, for all its unsettled contractual obligations at any point in time.

Strategy and Outlook

Trading Fee Revisions

In a continuing effort to increase trading volumes and attract new participants, TSX Markets is introducing further revisions to its trading fee model. Recent reductions in trading fees have contributed to strengthened customer relationships, a 32% increase in volumes traded on Toronto Stock Exchange compared with Q1/05, a 37% increase in trading and related revenue from capital markets over Q1/05 and enhanced liquidity. The trading fee revisions are one element of TSX Group's strategy to profitably increase its share of interlisted stock trading. This strategy also includes offering best-in-class technology solutions and innovative new product initiatives.

On October 1, 2005, TSX Markets implemented a volume based trading fee model for issues interlisted on Toronto Stock Exchange and either NASDAQ or AMEX. Effective July 1, 2006, TSX Markets plans to introduce a volume-based trading fee structure to include most issues listed on Toronto Stock Exchange and TSX Venture Exchange. The extension of a volume-based fee structure is intended to better align trading fees with the prevailing model in U.S. marketplaces and will replace the current value based fee model for these issues. This model has been structured so that market participants have an incentive to enter orders in the central limit order book. When liquidity is added to the central limit order book, executed passive orders will receive a credit on a per share basis, and when liquidity is removed from the central limit order book, each executed active order will be charged on a per share basis. While we are implementing a volume-based model for TSX Venture Exchange issues, there will be no credits provided for passive order flow. To further incent trading on our equity exchanges, discounts will be available to customers based on the volume of shares traded. Details are available on tsx.com.

Based on revenues and trading activity in Q1/06, it is possible that changes to the trading fee structure could reduce trading and related revenue by about 12 to 15 percent on an annual basis if offsetting benefits are not realized. However, lower transaction costs tend to augment liquidity by increasing the attractiveness of Toronto Stock Exchange and TSX Venture Exchange as trading venues, and should improve TSX Group's competitive position within North America.

Outlook

We remain confident in achieving our previously stated goal of long-term annual earnings per share growth in the ten to twelve percent range although we expect to see variation in growth rates on both a quarterly and annual basis. We remain committed to pursuing the opportunities that surround us through enhancing our core business, extending our pre-eminent domestic position through diversification, both horizontally and vertically, as well as by expanding beyond Canada.

Forward-Looking Statements, Risks and Uncertainties

This MD&A, in particular the section under the heading **Strategy and Outlook** includes forward-looking statements, which are not historical facts but are based on certain assumptions and reflect our current expectations. Our business and 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 or events to differ materially from current expectations are: levels of market activity that are outside of our control; our cost structure being largely fixed; competition from other marketplaces, including alternative trading systems; the trend for exchanges to form alliances or consolidate and become for-profit and publicly traded; new technologies; adverse effect of new business activities; failure to implement our strategy; failure to develop or gain acceptance of new products; dependence of the trading and market data operations on a small number of clients and vendors; dependence on the economy of Canada; dependence on information technology; failure to retain and attract qualified personnel; risks of litigation; changes in regulation; and the risks associated with NGX's clearing operations. A description of the above mentioned items and certain additional risk factors are discussed in our materials, including our 2005 Annual MD&A and Annual Information Form, filed with the securities regulatory authorities in Canada from time to time. The risk factors outlined in the previously mentioned documents are specifically incorporated herein by reference. Our business, financial condition or operating results could be materially adversely affected if any of these risks and uncertainties were to materialize. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Quarterly Information

(in thousands of dollars except per share amounts)

	Q1/06	Q4/05	Q3/05	Q2/05	Q1/05	Q4/04	Q3/04	Q2/04
Revenue	\$ 88,013	\$ 76,264	\$ 75,333	\$ 68,621	\$ 69,746	\$ 63,786	\$ 59,472	\$ 59,342
Net Income	34,727	27,813	28,717	23,748	23,075	18,600	15,587	16,187
Earnings per share:								
Basic	0.51	0.41	0.42	0.35	0.34	0.27	0.23	0.24
Diluted	0.50	0.40	0.42	0.35	0.34	0.27	0.23	0.24

2004

- *Net income* for Q3/04 declined when compared with *net income* for Q2/04 primarily due to higher general and administration costs. Trading activity increased in September, 2004 and continued into Q4/04, resulting in significantly increased trading revenue.
- *Net income* for Q4/04 increased compared with *net income* for each of the second and third quarters of 2004 primarily due to increased *revenue* related to increased trading activity and lower general and administration costs.

2005

- *Revenue* in Q1/05 improved over *revenue* in Q4/04 due to higher trading, listing and market data revenue related to market activity. This increased *revenue* was the primary driver of the increase in *net income* for Q1/05 compared with *net income* for Q4/04.
- *Revenue* in Q2/05 declined slightly from *revenue* in Q1/05 primarily due to lower trading revenue. *Net income* for Q2/05 improved over *net income* for Q1/05 primarily due to lower compensation and benefits costs.
- *Revenue* in Q3/05 improved over the *revenue* in Q2/05 primarily due to higher trading, listing and market data revenue. *Net income* for Q3/05 improved over *net income* in Q2/05 primarily due to increased *revenue* combined with lower general and administration costs.
- *Revenue* in Q4/05 improved over *revenue* in Q3/05 primarily due to higher listing and market data revenue somewhat offset by lower trading revenue. *Net income* for Q4/05 declined over *net income* from Q3/05 primarily due to higher overall expenses.

2006

- *Revenue* in Q1/06 improved over *revenue* in Q4/05 primarily due to higher trading, listing and market data revenue. *Net income* for Q1/06 increased over *net income* for Q4/05, primarily due to the increased *revenue* partially offset by higher overall expenses.

April 26, 2006

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars) (Unaudited)

	March 31, 2006	December 31, 2005
Assets		
Current assets:		
Cash	\$ 30,031	\$ 28,485
Marketable securities	283,611	247,747
Accounts receivable	35,050	24,511
Energy contracts receivable	567,943	1,004,320
Prepaid expenses	2,327	2,691
Future tax asset	17,150	16,532

	936,112	1,324,286
Premises and equipment	23,867	25,776
Future tax asset	131,701	127,057
Other assets	12,715	13,026
Investment in affiliate	11,311	11,439
Intangible assets	30,120	30,700
Goodwill	24,941	24,941

	\$ 1,170,767	\$ 1,557,225
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 24,090	\$ 34,116
Energy contracts payable	567,943	1,004,320
Deferred revenue	51,778	3,006
Deferred revenue-initial and additional listing fees	43,168	41,238
Obligation under capital lease	833	833
Income taxes payable	6,776	27,872

	694,588	1,111,385
Accrued employee benefits liability	8,924	8,524
Obligation under capital lease	706	903
Other liabilities	23,025	21,081
Deferred revenue-initial and additional listing fees	249,533	237,537

	976,776	1,379,430
Shareholders' equity:		
Share capital	385,217	380,925
Reserve for share option plan (note 2)	2,371	2,669
Deficit	(193,597)	(205,799)

	193,991	177,795

	\$ 1,170,767	\$ 1,557,225

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of dollars, except per share amounts) (Unaudited)

	Three months ended March 31,	
	2006	2005
Revenue:		
Listing	\$ 25,937	\$ 20,772
Trading and related	41,013	30,495
Market data	18,504	15,848
Business services	2,086	2,142
Other	473	489
	<u>88,013</u>	<u>69,746</u>
Expenses:		
Compensation and benefits	20,307	20,815
Information and trading systems	5,079	4,404
General and administration	7,894	8,473
Amortization	3,062	3,130
	<u>36,342</u>	<u>36,822</u>
Income from operations	51,671	32,924
Loss from investment in affiliate	(129)	(83)
Investment income	2,185	1,633
Income before income taxes	53,727	34,474
Income taxes	19,000	11,399
Net income	<u>\$ 34,727</u>	<u>\$ 23,075</u>
Earnings per share (note 3):		
Basic	0.51	0.34
Diluted	<u>0.50</u>	<u>0.34</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of dollars) (Unaudited)

	Three months ended March 31,	
	2006	2005
Common shares:		
Balance, beginning of period	\$ 380,925	\$ 375,765
Proceeds on options exercised	3,443	2,668
Cost of exercised options	849	666
Balance, end of period	385,217	379,099
Reserve for share option plan:		
Balance, beginning of period	2,669	1,662
Cost of exercised options	(849)	(666)
Cost of share option plan	551	445
Balance, end of period	2,371	1,441
Deficit:		
Balance, beginning of period	(205,799)	(247,911)
Net income	34,727	23,075
Dividends on common shares	(22,525)	(13,597)
Balance, end of period	(193,597)	(238,433)
Shareholders' equity, end of period	<u>\$ 193,991</u>	<u>\$ 142,107</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars) (Unaudited)

	Three months ended March 31,	
	2006	2005
Cash flows from (used in) operating activities:		
Net income	\$ 34,727	\$ 23,075
Items not involving cash:		
Amortization	3,062	3,130
Loss from investment in affiliate	129	83
Cost of share option plan	551	445
Gain on disposal of equipment	-	(4)
Increase in future tax asset	(5,262)	(4,888)

	33,207	21,841
Decrease in energy contracts receivable	436,377	49,905
Increase in accounts receivable and prepaid expenses	(10,175)	(14,219)
Decrease (increase) in other assets	311	(71)
Decrease in accounts payable and accrued liabilities	(10,026)	(8,478)
Decrease in energy contracts payable	(436,377)	(50,262)
Increase in long term other liabilities	2,344	3,430
Increase in deferred revenue	62,698	49,681
Decrease in income taxes payable	(21,096)	(16,741)

	57,263	35,086
Cash flows from (used in) financing activities:		
Reduction in obligation under capital lease	(211)	(186)
Exercised options	3,443	2,668
Dividends on common shares	(22,525)	(13,597)

	(19,293)	(11,115)
Cash flows from (used in) investing activities:		
Additions to premises and equipment	(560)	(800)
Proceeds on disposal of equipment	-	4
Increase in marketable securities	(35,864)	(25,687)

	(36,424)	(26,483)
Increase (decrease) in cash	1,546	(2,512)
Cash, beginning of period	28,485	17,424

Cash, end of period	\$ 30,031	\$ 14,912
Supplemental cash flow information:		
Interest paid	\$ 201	\$ 71
Interest received	3,432	1,817
Income taxes paid	45,584	33,386

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2006 and 2005 (in thousands of dollars, except per share amounts) (Unaudited)

The unaudited interim consolidated financial statements of TSX Group Inc. (the “Company”) have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).

These financial statements follow the same accounting policies and their methods of application as the Company’s consolidated financial statements for the year ended December 31, 2005. The Company’s interim consolidated financial statements do not include all disclosures required by Canadian GAAP for annual financial statements and accordingly, should be read in conjunction with the consolidated financial statements for the year ended December 31, 2005.

All references to earnings per common share, net income, net income per common share, dividends per common share, common shares issued and outstanding, common shares reserved for issuance, and options outstanding have been restated to reflect the impact of the two-for-one stock split which was effective May 17, 2005.

1. SEGMENTED INFORMATION:

The Company operates in two reportable segments. In the Capital Markets segment, the Company owns and operates Canada’s two national stock exchanges, Toronto Stock Exchange and TSX Venture Exchange. The Energy Markets segment is engaged in trading and clearing natural gas and electricity contracts through Natural Gas Exchange Inc.

2006	Three months ended March 31,		
	Capital Markets	Energy Markets	Total
Total Revenue	\$ 83,349	\$ 4,664	\$ 88,013
Net Income	33,710	1,017	34,727
Goodwill	5,963	18,978	24,941
Total Assets	554,476	616,291	1,170,767

2005	Three months ended March 31,		
	Capital Markets	Energy Markets	Total
Total Revenue	\$ 65,863	\$ 3,883	\$ 69,746
Net Income	22,311	764	23,075
Goodwill	5,963	18,978	24,941
Total Assets	426,294	600,696	1,026,990

2. SHARE OPTION PLAN:

The Company established a share option plan in the year of its initial public offering. All employees of the Company and its affiliates are eligible to be granted options under the option plan. The share option plan, together with all of the Company's other share compensation arrangements, cannot result in the number of shares reserved for issuance under share options held by any one person exceeding 5% of the outstanding common shares issued. 4,790,554 common shares of the Company remain reserved for issuance upon exercise of options granted under this plan, representing approximately 7% of the outstanding common shares of the Company.

In February 2006, 180,404 options were granted to eligible employees. In 2006, 216,610 options were exercised, 14,426 options were forfeited, resulting in 1,197,830 options remaining outstanding under the share option plan. Options granted in 2006 have strike prices of \$49.635.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2006: dividend yield of 2.75 percent; expected volatility of 25 percent; risk-free interest rate of 3.96 percent and expected life of 7.0 years.

Options granted will expire in 2011, 2012 and 2013.

Share options

	Three months ended March 31 2006		Three months ended March 31 2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	1,248,462	\$ 18.980	1,331,900	\$ 13.937
Granted	180,404	49.640	377,686	29.636
Forfeited	(14,426)	21.930	(151,594)	14.977
Exercised	(216,610)	15.900	(213,902)	12.430
Outstanding, end of period	1,197,830	\$ 24.120	1,344,090	\$ 17.059

383,990 options were fully vested and exercisable at strike prices in the range of \$10.53 to \$29.64 at March 31, 2006.

During the period, the Company recognized compensation cost of \$551 (year to date March 2005 - \$445) in respect of its share option plan.

3. EARNINGS PER SHARE:

	Three months ended March 31,	
	2006	2005
Net income	\$ 34,727	\$ 23,075
Weighted average number of common shares outstanding	68,208,178	67,906,748
Basic earnings per share	\$ 0.51	\$ 0.34
Diluted weighted average number of common shares outstanding	68,993,600	68,488,776
Diluted earnings per share	\$ 0.50	\$ 0.34

4. EMPLOYEE FUTURE BENEFITS:

Total retirement benefit cost for the quarter ended March 31, 2006 was \$1,558 (2005 - \$1,240).

5. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the financial presentation adopted in the current period. Specifically, as at December 31, 2005, Deferred revenue-initial and additional listing fees of \$41,238 have been reclassified as Current liabilities: Deferred revenue-initial and additional listing fees and Future tax asset of \$11,961 have been reclassified as Current assets: Future tax asset.

MARKET STATISTICS*

(Unaudited)

	Three months ended March 31,	
	2006	2005
Toronto Stock Exchange:		
Volume (millions)	22,368.9	16,902.1
Value (\$ billions)	358.1	262.7
Transactions (000s)	20,819.3	12,552.9
Issuers Listed	1,549	1,450
New Issuers Listed:		
Number of Initial Public Offerings	52	50
Number of graduates from TSX Venture/NEX	34	35
	13	6
New Equity Financing: (\$ millions)	10,705.9	13,416.0
Initial Public Offering Financings (\$ millions)	4,297.1	5,145.0
Secondary Offering Financings ¹ (\$ millions)	4,981.4	3,876.9
Supplementary Financings (\$ millions)	1,427.4	4,394.1
Market Cap of Issuers Listed (\$ billions)	1,978.4	1,599.7
S&P/TSX Composite Index ² Close	12,110.6	9,612.4
TSX Venture Exchange: ³		
Volume (millions)	11,388.7	6,400.5
Value (\$ millions)	9,379.1	4,801.4
Transactions (000s)	1,843.7	1,068.4
Issuers Listed	2,229	2,218
New Issuers Listed		
	44	35
New Equity Financing: (\$ millions)	1,726.4	1,276.8
Initial Public Offering Financings (\$ millions)	68.9	53.1
Secondary Offering Financings ¹ (\$ millions)	1,657.5	1,223.7
Market Cap of Issuers Listed: (\$ billions)	50.4	27.6
S&P/TSX Venture Composite Index ² Close	2,913.0	1,886.5
Toronto Stock Exchange and TSX Venture Exchange:		
Professional and Equivalent Real-time Data Subscriptions	123,561	110,422

¹ Secondary Offering Financings includes prospectus offerings on both a treasury and secondary basis.

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³ TSX Venture Exchange market statistics do not include data for debt securities. 'New Issuers Listed' and 'S&P/TSX Venture Composite Index Close' statistics exclude data for issuers on NEX. All other TSX Venture Exchange market statistics include data for issuers on NEX, which is a board that was established on August 18, 2003 for issuers that have fallen below TSX Venture's listing standards (199 issuers at March 31, 2006 and 251 issuers at March 31, 2005).

* Certain comparative figures have been restated.

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Le rapport du premier trimestre est également disponible en français.

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FORWARD-LOOKING STATEMENTS

This quarterly report 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. Please see Forward-Looking Statements, Risks and Uncertainties in the Q1-2006 Management's Discussion and Analysis for some of the risk factors that could cause actual events or results to differ materially from current expectations.

