

Consolidated Financial Statements of

TSX GROUP INC.

Years ended December 31, 2004 and 2003
Restated (note 1.b)



KPMG LLP
Chartered Accountants
Suite 3300 Commerce Court West
PO Box 31 Stn Commerce Court
Toronto ON M5L 1B2
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of TSX Group Inc. as at December 31, 2004 and 2003 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants

Toronto, Canada

January 25, 2005, except
as to note 1(b) which is
as of November 16, 2005

TSX GROUP INC.

Consolidated Balance Sheets
(In thousands of dollars)
December 31, 2004 and 2003
Restated (note 1.b)

	2004	2003
Assets		
Current assets:		
Cash	\$ 17,424	\$ 8,230
Marketable securities (notes 3 and 4)	154,126	109,400
Accounts receivable	19,751	14,263
Energy contracts receivable (notes 9 and 10)	608,383	—
Prepaid expenses	2,592	2,371
Future tax asset (note 21)	5,694	3,937
	<u>807,970</u>	<u>138,201</u>
Premises and equipment (note 5)	31,484	31,184
Future tax asset (note 21)	111,873	97,178
Other assets (note 6)	14,686	12,243
Investment in affiliate (note 8)	12,132	13,342
Intangible assets (note 11)	33,208	23,108
Goodwill (note 11)	24,941	5,963
	<u>\$1,036,294</u>	<u>\$ 321,219</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 31,852	\$ 26,864
Energy contracts payable (notes 9 and 10)	607,537	—
Deferred revenue	2,828	588
Current portion of obligation under capital lease (note 12)	533	288
Income taxes payable	19,587	6,034
	<u>662,337</u>	<u>33,774</u>
Long term liabilities:		
Accrued employee benefits liability (note 7)	7,220	6,487
Obligation under capital lease (note 12)	1,282	1,277
Other liabilities (note 14)	15,784	15,746
	<u>24,286</u>	<u>23,510</u>
Deferred revenue-initial and additional listing fees (note 15)	220,155	168,032
Shareholders' equity (note 16):		
Share capital	375,765	372,004
Reserve for share option plan	1,662	1,018
Deficit	(247,911)	(277,119)
	<u>129,516</u>	<u>95,903</u>
Commitments and contingent liability (notes 12 and 24)		
	<u>\$1,036,294</u>	<u>\$ 321,219</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

“Wayne Fox” _____

Chair

“J. Spencer Lanthier” _____

Director

TSX GROUP INC.

Consolidated Statements of Income
(In thousands of dollars, except per share amounts)
Years ended December 31, 2004 and 2003
Restated (note 1.b)

	2004	2003
Revenue:		
Listing	\$ 75,022	\$ 61,072
Trading and related	99,629	71,882
Market data	58,793	52,589
Business services (note 22)	8,367	9,148
Other	1,619	1,812
	<hr/> 243,430	<hr/> 196,503
Expenses:		
Compensation and benefits	73,639	73,176
Information and trading systems	15,798	17,286
General and administration	42,118	33,287
Amortization	12,976	11,249
	<hr/> 144,531	<hr/> 134,998
Income from operations	98,899	61,505
Loss from investment in affiliate	(1,210)	(1,182)
Investment income	4,772	10,151
	<hr/> 102,461	<hr/> 70,474
Income before income taxes	102,461	70,474
Income taxes (note 21)	33,971	10,594
	<hr/> \$ 68,490	<hr/> \$ 59,880
Net income		
Earnings per share (note 20):		
Basic	\$ 2.02	\$ 1.77
Diluted	\$ 2.00	\$ 1.76

See accompanying notes to consolidated financial statements.

TSX GROUP INC.

Consolidated Statements of Changes in Shareholders' Equity

(In thousands of dollars)

Years ended December 31, 2004 and 2003

Restated (note 1.b)

	2004	2003
Common shares:		
Balance, beginning of year	\$ 372,004	\$ 372,004
Proceeds on options exercised	2,981	—
Cost of exercised options	780	—
Balance, end of year	375,765	372,004
Reserve for share option plan:		
Balance, beginning of year	1,018	—
Cost of exercised options	(780)	—
Cost of share option plan	1,424	1,018
Balance, end of year	1,662	1,018
Deficit:		
Balance, beginning of year, as previously presented	(155,735)	(40,050)
Retroactive impact of change in accounting policy (note 1.b)	(121,384)	(104,911)
Balance, beginning of year, as restated	(277,119)	(144,961)
Net income	68,490	59,880
Dividends on common shares	(39,282)	(192,038)
Balance, end of year	(247,911)	(277,119)
Shareholders' equity, end of year	\$ 129,516	\$ 95,903

See accompanying notes to consolidated financial statements.

TSX GROUP INC.

Consolidated Statements of Cash Flows
(In thousands of dollars)
Years ended December 31, 2004 and 2003
Restated (note 1.b)

	2004	2003
Cash flows from (used in) operating activities:		
Net income	\$ 68,490	\$ 59,880
Items not involving cash:		
Amortization	12,976	11,249
Loss from investment in affiliate	1,210	1,182
Cost of share option plan	1,424	1,018
Loss on disposal of equipment	227	14
Decrease (increase) in future tax asset	<u>(20,623)</u>	<u>(24,831)</u>
	63,704	48,512
Change in non-cash working capital:		
Increase in energy contracts receivable	(211,826)	-
Increase in accounts receivable and prepaid expenses	(5,471)	(615)
Increase in other assets	(2,443)	(6,364)
Increase in accounts payable and accrued liabilities	5,091	3,794
Increase in energy contracts payable	210,819	-
Increase (decrease) in long term other liabilities	(13)	5,760
Increase in deferred revenue	53,481	37,600
Increase (decrease) in income taxes payable	13,679	(6,725)
	<u>127,021</u>	<u>81,962</u>
Cash flows from (used in) financing activities:		
Reduction in obligation under capital lease	(288)	(251)
Exercised options	2,981	-
Dividends on common shares	<u>(39,282)</u>	<u>(192,038)</u>
	(36,589)	(192,289)
Cash flows from (used in) investing activities:		
Additions to premises and equipment	(9,347)	(7,093)
Proceeds on disposal of equipment	18	36
Purchase of NGX Canada Inc., net of cash acquired (note 2)	(27,183)	-
Decrease (increase) in marketable securities	<u>(44,726)</u>	<u>117,298</u>
	<u>(81,238)</u>	<u>110,241</u>
Increase (decrease) in cash	9,194	(86)
Cash, beginning of year	8,230	8,316
Cash, end of year	<u>\$ 17,424</u>	<u>\$ 8,230</u>
Supplemental cash flow information:		
Interest paid	\$ 502	\$ 263
Interest received	\$ 5,172	\$ 9,747
Income taxes paid	\$ 42,441	\$ 42,471

See accompanying notes to consolidated financial statements.

TSX GROUP INC.

Notes to Consolidated Financial Statements
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated(note 1.b)

TSX Group Inc. (the "Company") owns and operates Canada's two national stock exchanges serving the senior equity and public venture equity markets as well as Natural Gas Exchange Inc. ("NGX"), a leading North American exchange for the trading and clearing of natural gas and electricity contracts.

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, TSX Inc., NGX and TSX Inc.'s wholly owned subsidiary, TSX Venture Exchange Inc. Intercompany balances and transactions have been eliminated upon consolidation.

(b) Change in accounting policy:

The Company has retroactively changed its accounting policy for initial listing fees and additional listing fees to comply with the evolving interpretation of The Canadian Institute of Chartered Accountants' Emerging Issues Committee Abstract 141-Revenue Recognition. Previously, non-refundable initial and additional listing fees were recognized at the time such fees were received. The Company now recognizes such fees on a straight-line basis over an estimated service period of ten years.

For Toronto Stock Exchange, reported revenue from initial and additional listing fees has been recalculated for the ten years preceding the periods presented in these financial statements. For TSX Venture Exchange, which was acquired on August 1, 2001, reported revenue from initial and additional listing fees has been recalculated from the date of acquisition.

The effect of the restatement relating to revenue recognition is a decrease in revenue for the year ended December 31, 2004 of \$52,123 (2003 - \$37,177). Income taxes for the year ended December 31, 2004 decreased by \$22,216 (2003 - \$20,704). Net income for the year ended December 31, 2004 decreased \$29,907 (2003 - \$16,473). The effect of the change on basic earnings per share for the year ended December 31, 2004 was a decrease of \$0.89 (2003 - \$0.49).

The effect on the consolidated balance sheet at December 31, 2004 and at December 31, 2003 is an increase in the future tax asset of \$68,864 and \$46,648 respectively, and an increase in deferred revenue-initial and additional listing fees of \$220,155 and \$168,032 respectively, with a corresponding increase in deficit of \$151,291 and \$121,384 respectively.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

1. Significant accounting policies (continued):

c) Investments:

The investment portfolio includes pooled fund investments.

Pooled funds are managed by an external investment fund manager and are carried at the lower of carrying value or market value. Market values for securities held by the pooled funds are determined by reference to quoted market prices. To the extent that the value of the underlying assets in the pooled funds decrease, the value of the units will decrease. There is no contractual maturity date for the investment in pooled funds.

Investment income is recognized in the period it is earned. Realized gains or losses on investments are recorded in the period in which they occur.

The Company's investment in an affiliate, which is subject to significant influence, is accounted for using the equity method of accounting.

(d) Derivative financial instruments:

The Company has restricted and deferred share units that are awarded to directors and senior management. The Company uses derivatives to manage the exposure of the restricted share units and deferred share units to the TSX Group Inc.'s share price fluctuations. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets or liabilities on the balance sheet. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Company purchases total return forward contracts to hedge against the market price fluctuations of the Company stock. Any increase in the Company's share price results in an increase in the liability to directors and senior management and a corresponding increase in the return on the hedged units. The reverse situation arises in the case of a price decline. The only impact to the income statement is for the cost of the hedge itself. 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.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

1. Significant accounting policies (continued):

(e) Amortization:

Amortization is provided over the following useful lives of the assets:

Asset	Basis	Rate
Premises under capital lease	Straight line	25 years
Computers and electronic trading equipment	Straight line	3 - 5 years
Furniture, fixtures and other equipment	Straight line	5 years
Leasehold improvements	Straight line	Over terms of various leases to a maximum of 15 years
Intangible assets comprising:		
TSX Venture Exchange listed issuer base	Declining balance	7.3%
NGX customer base	Declining balance	8.0%

(f) Revenue recognition:

Revenue for goods and services is recognized when the services are provided or the goods are sold.

Trading and related revenues for capital markets are recorded and recognized as revenue in the month in which the trades are executed or when the related services are provided.

Fees relating to NGX trading are recognized when the service is provided.

Listing revenues are derived primarily from recurring annual sustaining fees and transaction-based fees for initial and additional listings. Sustaining fees are billed during the first quarter of the year and the amount is recorded as deferred revenue and amortized over the year on a straight-line basis. Initial and additional listing fees are recorded as deferred revenue and are recognized on a straight line basis over an estimated service period of ten years.

Real time market data revenue is recognized based on usage as reported by customers and vendors. The Company conducts periodic audits of the information provided. Other Market Data and Business Services revenue are recorded and recognized as revenue in the month in which the services are provided.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

1. Significant accounting policies (continued):

(g) Development expenditures:

Development expenditures, including application software, are expensed as they are incurred.

(h) Income taxes:

Future income taxes are provided in recognition of temporary differences between the carrying amount of assets and liabilities and their respective tax bases, operating losses and tax credit carryforwards made for financial reporting and income tax purposes. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be removed or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the substantive enactment occurs.

(i) Employee future benefits:

TSX Inc., TSX Venture Exchange Inc. and NGX have registered pension plans with a defined benefits tier and a defined contributions tier covering substantially all of their employees, as well as a retirement compensation arrangement ("RCA") for senior management. Benefits are based on years of service and the employee's compensation. The costs of these programs are being funded currently. In addition, the Company provides other employee future benefits, such as supplementary medical and dental coverage, to defined eligible employees ("other benefit plans"). The cost of the other benefit plans is not being funded; however, a provision for this has been made in the accounts.

The Company accrues its obligations under employee defined benefit plans as the employees render the services necessary to earn pension and other employee future benefits.

The Company has adopted the following policies for its benefit plans:

- (i) The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages and expected health care cost.
- (ii) For the purpose of calculating expected return on plan assets, those assets are valued at fair value.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

1. Significant accounting policies (continued):

- (iii) Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the time of the amendment.
- (iv) Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees.
- (v) When a restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(j) Intangible assets:

Intangible assets are reviewed annually. When the carrying amount of the reporting unit's intangible asset exceeds the implied fair value of the intangible asset, an impairment loss is recognized as an amount equal to the excess and is identified separately on the statement of income.

(k) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

1. Significant accounting policies (continued):

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is recorded in the statement of income before extraordinary items and discontinued operations.

(l) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(m) Earnings per share:

Earnings per share are calculated using the treasury stock method.

Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of share options, if dilutive. The number of additional shares is calculated by assuming that outstanding share options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

(n) Related party transactions:

Any transactions entered into between the Company and related parties are on terms and conditions that are at least as favourable to the Company as market terms and conditions and are recorded at the agreed upon exchange amount.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

1. Significant accounting policies (continued):

(o) Share based compensation:

The Company has a share-based compensation plan, which is described in note 17. The Company accounts for all share-based payments to employees that call for settlement by the issuance of equity instruments, granted on or after January 1, 2003, using the fair value based method. Under the fair value based method, compensation cost attributable to options to employees is measured at fair value at the grant date and amortized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost.

For options that vest at the end of the vesting period, compensation cost is recognized on a straight-line basis. No compensation cost is recognized for options that employees forfeit if they fail to satisfy the service requirement for vesting.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

2. Purchase of NGX Canada Inc.:

On March 1, 2004, the Company acquired 100% of the outstanding common shares of a predecessor of Natural Gas Exchange Inc. ("NGX"). NGX is a Canadian exchange that trades and clears natural gas and electricity contracts. The acquisition of NGX was accounted for using the purchase method.

The purchase price was \$39,338 in cash plus closing costs of \$834. In addition, a payment that considers the memorandum of agreement signed in 1999 was made to the Bourse de Montreal totalling \$5,000. The allocation of the purchase price, including the valuation of goodwill and intangible asset, was completed at the end of April 2004.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of acquisition:

As at March 1, 2004:	
Cash	\$ 12,989
Current assets	396,794
Premises and equipment	1,116
Future income taxes	386
Intangible asset	12,620
Goodwill	18,978
	<hr/>
	442,883
Current liabilities	398,153
Future tax liability	4,558
	<hr/>
Purchase price	\$ 40,172

The results of NGX are included from the date of acquisition.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

3. Marketable securities:

The carrying and fair values of the investment portfolio are as follows:

	2004		2003	
	Carrying value	Fair value	Carrying value	Fair value
Money market fund	\$ 92,085	\$ 92,085	\$ 48,909	\$ 48,909
Short-term bond and mortgage fund	62,041	62,576	60,491	60,491
	<u>\$ 154,126</u>	<u>\$ 154,661</u>	<u>\$ 109,400</u>	<u>\$ 109,400</u>

4. Derivative financial instruments:

TSX Inc. has entered into total return swaps which synthetically replicate the economics of TSX Inc. purchasing the Company's shares as a partial hedge to the share appreciation rights of restricted share units and deferred share units that are awarded to directors and senior management of the Company and its affiliates. The Company has purchased derivative financial instruments to effectively hedge against the impact of its share price fluctuations on the non-performance based portion of the long-term incentive plan.

The counterparty creates a hedge and delivers the cash proceeds net of borrowing costs to TSX Inc. at maturity. TSX Inc. has pledged assets with a market value of \$11,934 (2003 - \$12,376) at December 31, 2004 in a collateral account at The Canadian Depository for Securities Limited but retains beneficial ownership. This enables the counterparty to purchase the derivative instrument in return for a competitive financing charge.

As at December 31, 2004:

	Remaining term to maturity (notional amount)			Fair value		
	Under 1 year	1 to 3 years	Total	Gain	Loss	Net
Equity Swap Contract #2	\$ 10,174	\$ -	\$ 10,174	\$ 3,291	\$ -	\$ 3,291
Equity Swap Contract #3	711	-	711	33	-	33
Equity Swap Contract #4	-	772	772	36	-	36
	<u>\$ 10,885</u>	<u>\$ 772</u>	<u>\$ 11,657</u>	<u>\$ 3,360</u>	<u>\$ -</u>	<u>\$ 3,360</u>

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

4. Derivative financial instruments (continued):

As at December 31, 2003:

	Remaining term to maturity (notional amount)			Fair value		
	Under 1 year	1 to 3 years	Total	Gain	Loss	Net
Equity Swap Contract #1	\$ 1,000	\$ –	\$ 1,000	\$ 64	\$ –	\$ 64
Equity Swap Contract #2	–	10,174	10,174	646	–	646
	\$ 1,000	\$ 10,174	\$ 11,174	\$ 710	\$ –	\$ 710

5. Premises and equipment:

2004	Cost	Accumulated amortization	Net book value
Premises under capital lease	\$ 12,317	\$ 10,162	\$ 2,155
Computers and electronic trading equipment	49,372	37,412	11,960
Furniture, fixtures and other equipment	16,579	14,264	2,315
Leasehold improvements	37,496	22,442	15,054
	\$ 115,764	\$ 84,280	\$ 31,484

2003	Cost	Accumulated amortization	Net book value
Premises under capital lease	\$ 12,317	\$ 9,506	\$ 2,811
Computers and electronic trading equipment	41,019	29,069	11,950
Furniture, fixtures and other equipment	15,783	13,496	2,287
Leasehold improvements	33,611	19,475	14,136
	\$ 102,730	\$ 71,546	\$ 31,184

Amortization charged for the year \$10,456 (2003 - \$9,424)

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

6. Other assets:

	2004	2003
Accrued benefit asset (note 7)	\$ 9,317	\$11,281
Other assets	5,369	962
	<u>\$ 14,686</u>	<u>\$12,243</u>

7. Employee future benefits:

Information about the Company's benefit plans is as follows:

Total cash amounts recognized as paid or payable for employee future benefits in 2004, consisting of employer contributions to the defined benefit pension plans, employer contributions to the other benefit plans, and employer contributions to the defined contribution plans, was \$1,881 (2003-\$9,892).

Defined benefit plans:

Commencing January 1, 2004, the Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at September 30 of each year (2003 - December 31). The most recent actuarial valuation of the pension plans for funding purposes was as at December 31, 2002, and the next required valuation will be as at December 31, 2005.

	Pension and RCA plans		Other benefit plans	
	2004	2003	2004	2003
Accrued benefit obligation:				
Balance, beginning of year	\$ 37,719	\$ 37,532	\$ 5,762	\$ 5,113
Current service cost	1,715	1,557	408	373
Interest cost	2,410	2,281	436	380
Benefits paid	(1,244)	(3,652)	(111)	(104)
Employee contributions	266	438	-	-
Actuarial losses (gains)	(945)	1,822	929	-
Transfers	-	(2,259)	-	-
Special termination benefits	238	-	-	-
Acquisitions	837	-	142	-
Balance, end of year	<u>\$ 40,996</u>	<u>\$ 37,719</u>	<u>\$ 7,566</u>	<u>\$ 5,762</u>

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

7. Employee future benefits (continued):

	Pension and RCA plans		Other benefit plans	
	2004	2003	2004	2003
Plan assets:				
Fair value, beginning of year	\$ 42,544	\$ 35,621	\$ -	\$ -
Actual return on plan assets	1,356	3,861	-	-
Employer contributions	19	8,264	-	-
Employee contributions	266	438	-	-
Benefits paid	(1,244)	(3,652)	-	-
Acquisitions	465	-	-	-
Transfers	-	(1,988)	-	-
Fair value, end of year	\$ 43,406	\$ 42,544	\$ -	\$ -
Funded status - plan surplus (deficiency)				
	\$ 2,410	\$ 4,825	\$ (7,566)	\$ (5,762)
Unamortized net actuarial loss (gain)	5,465	4,941	210	(725)
Employer contributions after measurement date	7	-	-	-
Unamortized transitional obligation	74	-	-	-
Unamortized past service costs	1,361	1,515	136	-
Accrued benefit asset (liability)	\$ 9,317	\$ 11,281	\$ (7,220)	\$ (6,487)

The accrued benefit asset and accrued benefit obligation is included in the Company's consolidated balance sheet as follows:

	Pension and RCA plans		Other benefit plans	
	2004	2003	2004	2003
Other assets	\$9,317	\$11,281	\$ -	\$ -
Long term liabilities	-	-	(7,220)	(6,487)
Total	\$9,317	\$11,281	\$(7,220)	\$(6,487)

Plan assets consist of:

Asset category	Percentage of plan assets	
	2004	2003
Equity securities	54%	48%
Debt securities	32%	39%
Canada Revenue Agency refundable tax account	14%	13%
	100%	100%

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

7. Employee future benefits (continued):

The elements of the Company's defined benefit plan costs recognized in the year are as follows:

	Pension and RCA plans		Other benefit plans	
	2004	2003	2004	2003
Current service cost, net of employees' contributions	\$ 1,715	\$ 1,557	\$ 408	\$ 373
Interest cost	2,410	2,281	436	380
Actual return on plan assets	(1,356)	(3,861)	—	—
Amortization of past service costs	—	—	6	—
Special termination benefits	238	—	—	—
Actuarial losses (gains)	(945)	1,822	(6)	(9)
	2,062	1,799	844	744
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between expected return and actual return on plan assets for year (a)	(1,224)	1,702		
Difference between actuarial (gains) losses recognized for year and actual actuarial (gains) losses on accrued benefit obligation for the year (b)	1,036	(1,822)		
Difference between amortization of past service costs for year and actual plan amendments for the year (c)	154	154		
Difference between costs arising in the period and costs recognized in the period in respect of transitional obligation (asset)	13	—		
Net benefit plan expense	\$ 2,041	\$ 1,833	\$ 844	\$ 744

- (a) Expected return on plan assets of \$2,580 (2003 - \$ 2,159) less the actual return on plan assets of \$1,356 (2003 - \$ 3,861).
- (b) Actuarial (gain) loss recognized for the year of \$91 (2003 - \$nil) less the actual actuarial (gain) loss on accrued benefit obligation of \$(945) (2003 - \$1,822).
- (c) Amortization of past service costs for the year of \$154 (2003 - \$ 154) less the actual plan amendments for year of \$nil (2003 - \$nil).

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

7. Employee future benefits (continued):

The significant actuarial assumptions adopted in measuring the obligation are as follows (weighted average):

	Pension and RCA plans		Other benefit plans	
	2004	2003	2004	2003
Discount rate	6.25%	6.25%	6.50%	7.0%
Rate of compensation increase	4.25%	4.0%	n/a	n/a
Expected long-term rate of return on plan assets	7.0%	7.0%	n/a	n/a

The assumed health care cost trend rate at December 31, 2004 was 7.3% (2003 – 5.9 %), decreasing to 4.6% (2003 – 4.5%) over seven years.

Increasing or decreasing the assumed health care cost trend rates by one percentage point would have the following effects for 2004.

	<u>Increase</u>	<u>Decrease</u>
Total of service and interest cost	\$ 221	\$ (194)
Accrued benefit obligation	\$ 1,714	\$ (1,316)

In 2004, the Company contributed and expensed \$1,855 (2003 - \$1,628) to the defined contribution tier, which amounts are not included in the recognized defined benefit costs above.

The average remaining service period of the active employees covered by the pension plans is 12 years (2003 – 15 years). The average remaining service period of the active employees covered by the other retirement benefits plans is 24 years (2003 – 24 years).

8. Investment in affiliate:

On July 8, 2002, the Company paid \$15,000 plus closing costs of \$126, to acquire approximately 40% equity interest in CanDeal.ca Inc. ("CanDeal"), which owns an electronic trading system for the institutional debt market. As part of the investment, the Company and CanDeal entered into an agreement under which the Company would provide technological services in support of CanDeal's electronic trading system.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

8. Investment in affiliate (continued):

On April 10, 2003, CanDeal acquired for redemption, shares previously issued to Basis 100, a technology provider, resulting in the Company's equity interest increasing to approximately 45%. The other shareholders of CanDeal includes its founders, Canada's six largest investment dealers, which represent the majority of the institutional debt trading market in Canada, and a service provider.

The investment is accounted for using the equity method. The purchase price exceeded the proportionate share of the fair value of tangible net assets acquired by \$16,069. This amount represents intangible assets and goodwill.

In 2004 the Company charged \$710 (2003 - \$763) for technology services.

9. NGX collateral arrangements and clearing backstop fund:

As part of its clearing operations, NGX becomes the counterparty to each transaction, thereby guaranteeing the fulfillment of every contract that is executed on its electronic trading platform. To manage the risks associated with its clearing activities NGX is fully collateralized and maintains a \$30,000 clearing backstop fund. The Company is the guarantor of this fund, and has pledged \$30,000 of marketable securities related to its obligations as a guarantor.

NGX requires each counterparty (the "Contracting Party") to provide collateral in the form of cash or letters of credit based on the magnitude of its unsettled contractual obligations which may be accessed in the event of default by a 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 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.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

10. NGX clearing risk:

As an electronic exchange for energy products, NGX is a party to offsetting contracts for the physical delivery of energy products in future periods at fixed prices for all energy products traded on NGX between buyers and sellers. Prices are determined by the electronic matching of bids and offers from NGX customers at the time the trade contracts are initiated. NGX is also a party to offsetting financial swap contracts with customers which call for the payment of the differential between fixed prices, as agreed through the bid offer process, and specified market indices at future dates.

NGX does not participate in the price risk associated with these trading contracts and does not take physical delivery of energy products traded on NGX. In the event of non-performance by one of the customers in a trade, NGX has arranged for third party physical backstopping on trades with all related costs payable by the non-performing customer. As NGX handles the clearing of all payments related to trading contracts, it bears credit risk associated with customer obligations.

The terms of physical contracts traded on NGX range from same day to October 31, 2008 and the terms for swap contracts traded on NGX range from near month to October 31, 2008.

As the clearing counterparty to every trade, NGX is exposed to credit risk in the event that a buyer fails to pay the required funds for energy products purchased and the market risk if buyers or sellers fail to take or deliver energy products which have been contracted at prices less favourable than market prices at the time of the contract delivery period or if a customer fails to settle their financial trade commitments. To mitigate these risks, NGX employs a customized energy market margining model secured by liquid collateral deposits from all Contracting Parties with exposure.

NGX will provide the counterparty with an invoice on or before the 15th day of each calendar month for deliveries and receipts of energy products during the prior calendar month pursuant to physical contracts which are payable in the same currency, setting forth a net amount owing by or to the counterparty itemizing and applying set-off to each of any purchase amount payable or receivable in respect of any such physical contracts, any amounts payable for fees to NGX, and any amounts payable for GST. Physical and financial trading contracts which have not yet been settled, as well as the revenues and expenses related to the value of energy products traded or swap differential payments made during the year, are not recognized in these consolidated financial statements as NGX does not function as a principal in these trading activities. NGX energy contract receivable and payable positions are recognized for all trading contracts where physical delivery has occurred prior to the period end but payments had not yet been made.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

10. NGX clearing risk (continued):

NGX monitors and measures total potential exposure for each Contracting Party's portfolio on a real-time basis as the aggregate of:

(i) outstanding accounts receivable positions;

(ii) "Variation Margin", which is comprised of the aggregate "mark to market" exposure for all outstanding purchase and sale contracts with a negative value from the perspective of the customer; and

(iii) "Initial Margin", which is an amount expressed as a rate in dollars per unit of energy that estimates the worst expected loss that a position might incur under normal market conditions during a liquidation period.

NGX maintains credit policies and practices with regard to its customers that management believes significantly minimize overall clearing risk. These policies and practices include a continuous monitoring of aggregate margin requirements for each customer to ensure that the customer has posted sufficient collateral in compliance with the Risk Management Policy of the Contracting Party's Agreement which is a standardized agreement that allows for netting of positive and negative exposures associated with a single customer. In addition, NGX monitors the customer's (and its credit support providers, if any) financial condition to ensure full compliance with the representations and warranties of the contracting party. In the event of default by any contracting party, which includes a failure to take delivery of product, a failure to make delivery of product, failure to pay, failure to deposit collateral, or insolvency, NGX will liquidate the defaulting customer's open positions, draw down the collateral to cover the liquidation, and terminate such contracting party from trading on NGX.

11. Goodwill and intangible assets:

Goodwill is tested for impairment annually. The impairment test is carried out in two steps. In the first step, the Company compared the carrying amounts of its reporting units with their fair values. The test was performed in the fourth quarter of 2004. The measurement methodology used to determine whether impairment exists was recoverability based on discounted future cash flows. The Company found that the fair values of its reporting units were not impaired. Therefore, the second step of the impairment test was not required.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

11. Goodwill and intangible assets (continued):

The Company recorded an intangible asset related to the purchase value of the listed issuer base of TSX Venture Exchange Inc. The intangible asset is amortized at 7.3% per year on a declining balance.

An intangible asset representing the value of the customer base resulted from the acquisition of an additional subsidiary, NGX Canada Inc. (now Natural Gas Exchange Inc.), and is amortized at 8.0% per year on a declining balance.

	2004	2003
Intangible assets, beginning of year	\$ 23,108	\$ 24,933
Acquisition of intangible asset (note 2)	12,620	—
Less amortization of intangible assets	(2,520)	(1,825)
Intangible assets, end of year	\$ 33,208	\$ 23,108

12. Lease commitments:

The Company is committed under long-term leases as follows:

- (a) The rental of office space, under various long-term operating leases with remaining terms of up to 14 years and a capital lease for an initial term of 25 years with an additional 10-year renewal option.
- (b) The rental of computer hardware and software for terms of one to three years.

Current lease obligations over the remaining terms of the operating leases are as follows:

Years ending December 31:

2005	\$11,213
2006	10,362
2007	7,829
2008	3,806
2009	3,700
Thereafter	21,984
	<hr/>
	\$58,894

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

12. Lease commitments (continued):

The obligations under capital leases are as follows:

	2004	2003
Total minimum lease payments	\$ 2,138	\$ 2,093
Less amounts representing interest	323	528
	1,815	1,565
Less current portion	533	288
	\$ 1,282	\$ 1,277

Interest on the obligations under capital leases amounted to \$204 (2003 - \$242).

Current lease obligations over the remaining terms of the capital leases are as follows:

Years ending December 31:

2005	\$ 715
2006	715
2007	586
2008	122
Thereafter	—
	\$ 2,138

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

13. 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 NGX.

	Capital Markets restated	Energy Markets [*]	Total restated
2004			
Total Revenue	\$ 232,051	\$ 11,379	\$ 243,430
Net Income	67,091	1,399	68,490
Goodwill	5,963	18,978	24,941
Total Assets	412,424	623,870	1,036,294
2003			
Total Revenue	\$ 196,503	\$ –	\$ 196,503
Net Income	59,880	–	59,880
Goodwill	5,963	–	5,963
Total Assets	321,219	–	321,219

* Results from date of acquisition.

14. Other liabilities:

Other liabilities include amounts payable under the long term incentive plan (note 18) and liabilities due to the contraction of office space.

15. Deferred revenue-initial and additional listing fees:

Deferred revenue-initial and additional listing fees represents non-refundable fees received from listed issuers. This deferred revenue will be recognized on a straight line basis over an estimated service period of ten years.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

16. Share capital:

The authorized capital of the Company consists of an unlimited number of common shares, an unlimited number of preference shares, issuable in series and an unlimited number of choice shares.

Each common share of the Company entitles its holder to one vote at all meetings of shareholders subject to certain restrictions with respect to the voting rights and the transferability of the shares. No person or combination of persons acting jointly or in concert is permitted to beneficially own or exercise control or direction over more than 10% of any class or series of voting shares of the Company without the prior approval of the Ontario Securities Commission.

Each common share of the Company is also entitled to receive dividends if, as and when declared by the Board of Directors of the Company. All dividends that the Board of Directors of the Company may declare and pay will be declared and paid in equal amounts per share on all common shares and choice shares, subject to the rights of holders of the preference shares. Holders of common shares will participate in any distribution of the net assets of the Company upon liquidation, dissolution or winding-up on an equal basis per share, together with the choice shares but subject to the rights of the holders of the preference shares.

There are no pre-emptive, redemption, purchase or conversion rights attaching to the common shares, except for the compulsory sale of shares or redemption provision described in connection with enforcing the restriction on ownership of voting shares of the Company.

Details of capital transactions are as follows:

	Common shares Number	Amount	Deficit	Reserve for share option plan	Total shareholders' equity
Balance, December 31, 2002	33,750,091	\$ 372,004	\$(144,961)	\$ –	\$ 227,043
Net income 2003	–	–	59,880	–	59,880
Dividends	–	–	(192,038)	–	(192,038)
Share option costs	–	–	–	1,018	1,018
Balance, December 31, 2003	33,750,091	372,004	(277,119)	1,018	95,903
Net income 2004	–	–	68,490	–	68,490
Dividends	–	–	(39,282)	–	(39,282)
Exercised options	140,200	3,761	–	–	3,761
Share option costs	–	–	–	644	644
Balance, December 31, 2004	33,890,291	\$ 375,765	\$(247,911)	\$ 1,662	\$ 129,516

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

16. Share capital (continued):

At the time of the continuance of the predecessor company into a for profit corporation, 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, the company determined this amount to be \$64,511 (2003 - \$64,886).

In December 2003, the company paid a special dividend of \$168,750, or \$5 per share.

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

17. Employee share purchase plan:

The Company offers an employee share purchase plan for eligible employees of the Company and its subsidiaries. Under the employee share purchase plan, contributions by the Company and by eligible employees will be used by the plan administrator, CIBC Mellon Trust Company, to make purchases of common shares of the Company on the open market. Each eligible employee may contribute up to 10% of the employee's salary to the employee share purchase plan. The Company will contribute to the plan administrator the funds required to purchase one common share of the Company for each two common shares purchased on behalf of the eligible employee, up to a maximum annual contribution of \$2.5. Shareholder approval is not required for this plan.

The Company accounts for its contribution as compensation expense when it is contributed to the plan. Compensation expense related to this plan was \$758 for the year ended December 31, 2004 (2003 - \$326).

18. Share option plan:

The Company established a share option plan in the year of its initial public offering. All officers and director level employees of the Company and its affiliates are eligible to be granted options under the option plan. The share option plan, together with the 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. 2,800,000 common shares of the Company have been reserved for issuance upon exercise of options granted under this plan, representing approximately 8% of the outstanding common shares of the Company.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

18. Share option plan (continued):

On December 17, 2002, the Board of Directors of the Company approved the granting of 725,000 options to eligible employees of the Company pursuant to the share option plan. These options were granted on January 2, 2003 and two further grants were awarded on January 30, 2003 and July 2, 2003 for options to purchase 20,000 shares and 25,000 shares, respectively. For the year ended 2003, 67,000 options were forfeited. Options granted in 2003 had strike prices in the range of \$21.057 to \$28.333.

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 2003: dividend yield of 2.7 percent; expected volatility of 25 percent; risk-free interest rate of 4.165 percent and expected life of six years.

In January 2004, 211,800 options were granted to eligible employees. On March 30, 2004 an additional 13,600 options were granted. In 2004, 140,200 options were exercised, 122,250 options were forfeited, resulting in 665,950 options remaining outstanding under the share option plan. Options granted in 2004 had strike prices in the range of \$44.806 to \$52.893.

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 2004: dividend yield of 2.5 percent; expected volatility of 25 percent; risk-free interest rate of 3.910 percent and expected life of five years.

Options granted will expire in 2013 and 2014.

Share options:

	2004		For the years ended 2003	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	703,000	\$ 21.215	–	\$ –
Granted	225,400	45.180	770,000	21.206
Forfeited	(122,250)	24.618	(67,000)	21.057
Exercised	(140,200)	21.106	–	–
Outstanding, end of year	665,950	27.874	703,000	21.215

46,800 options were fully vested and exercisable at strike prices in the range of \$21.057 and \$28.333 at December 31, 2004. During 2004, the Company recognized compensation cost of \$1,424 (2003 - \$1,018) in respect of its share option plan.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

19. Long-term incentive plan:

Effective January 1, 2001, TSX Inc. introduced an interim bonus plan (in lieu of a long-term incentive plan) for officers and director level employees of TSX Inc. and its affiliates. The interim bonus plan provided eligible employees with a deferred award based on the annual financial performance of the Company. Amounts earned in 2001 were converted into deferred share units for executive officers and restricted share units for other participants in conjunction with the public offering of the Company, with each deferred share unit or restricted share unit having an initial value equal to the price of one common share of the Company in the public offering. Amounts earned in 2002 were converted into deferred share units or restricted share units based on the share value, with each deferred share unit or restricted share unit having a value based on the value of one common share of the Company on December 31, 2002.

In general, deferred share units vest in accordance with the same schedule contemplated by the existing interim bonus plan, being, for deferred share units issued on conversion of 2001 amounts, one-third on each of December 31, 2002, 2003 and 2004, and, for deferred share units issued on conversion of 2002 amounts, one-third on each of December 31, 2003, 2004 and 2005, but can only be redeemed upon termination of employment or retirement. Restricted share units vest in accordance with the same three-year vesting schedule described above and will be redeemed at the end of the schedule, or in certain circumstances, on an earlier date. The deferred share unit plan and the restricted share unit plan have been established for the purpose of converting amounts earned under the interim bonus plan. No shares will be issued or transferred on redemption of deferred share units or restricted share units; only cash payments will be made. Each participant may elect to receive their incentive compensation, in whole or in part, in the form of deferred share units.

In January, 2004 the Board approved a long-term incentive plan which provides for the granting of restricted share units ("RSUs). The amount of the award payable at the end of three years will be determined by the total shareholder return at the end of the three year period. Total shareholder return represents the appreciation in share price plus dividends paid on a share, measured at the time RSUs vest.

The Company records its obligation under the plan, if any, in the period in which the award is earned. As at December 31, 2004, \$11,674 (2003 - \$10,375) has been accrued and is included in accounts payable and accrued liabilities and other liabilities. The Company has purchased derivative financial instruments to effectively hedge against the impact of its share price fluctuations on the non-performance based portion of the long-term incentive plan (note 4).

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

20. Earnings per share:

	2004	2003
Net income	\$ 68,490	\$ 59,880
Weighted average number of common shares outstanding	33,843,853	33,750,091
Basic earnings per share	\$ 2.02	\$ 1.77
Diluted weighted average number of common shares outstanding	34,199,408	33,951,954
Diluted earnings per share	\$ 2.00	\$ 1.76

21. Income taxes:

Income tax expense attributable to income from operations differs from the amounts computed by applying the combined federal and provincial income tax rate of 35.54% (2003 - 36.53%) to pre-tax income from operations as a result of the following:

	2004	2003
Income before income taxes	\$ 102,461	\$ 70,474
Computed expected tax expense	\$ 36,415	\$ 25,744
Non-deductible expenses	945	451
Share of affiliate loss	433	430
Deferred revenue not affecting tax	(3,692)	(4,142)
Impact of changes in substantively enacted income tax rates	—	(11,636)
Other	(130)	(253)
	\$ 33,971	\$ 10,594

The income tax provisions for the years ended December 31, 2004 and 2003 are as follows:

	2004	2003
Current tax expense	\$ 54,595	\$ 35,425
Future tax expense	(20,624)	(24,831)
	\$ 33,971	\$ 10,594

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

21. Income taxes (continued):

The tax effects of temporary differences that give rise to significant portions of the future tax asset at December 31, 2004 and 2003 are presented below:

	2004	2003
Non-capital loss carryforwards	\$ 1,048	\$ 654
Premises and equipment	5,279	4,805
Cumulative eligible capital	35,810	42,413
Financing costs	1,142	1,575
Deferred listing revenue	68,864	46,648
Other temporary differences	5,424	5,020
	<hr/>	<hr/>
	\$ 117,567	\$101,115
Future tax asset:		
Current	\$ 5,694	\$ 3,937
Long-term	111,873	97,178
	<hr/>	<hr/>
	\$ 117,567	\$101,115

22. Regulatory services:

Since 2002, the Securities Commissions of Alberta, British Columbia, Manitoba, Ontario and Quebec (the commissions) have recognized Market Regulation Services Inc. ("RS") as a self-regulatory organization and approved the retention of RS to perform certain market regulation functions formerly performed by TSX Inc. RS is a private corporation jointly owned by TSX Inc. and the Investment Dealers Association of Canada and operated on a not-for-profit basis in accordance with its articles. RS provides regulatory services to Canadian marketplaces (i.e., exchanges, alternative trading systems and quotation and trade reporting systems) that contract with it, in consideration of fees to be paid by such marketplaces and their participants. TSX Inc. and TSX Venture Exchange Inc. have retained RS to perform certain market regulation functions.

For the period from January 1 to December 31, 2004, \$7,292 (2003 - \$8,132) of Business Services revenue was earned for technology, payroll and human resources services provided to RS. and \$3,065 (2003 - \$3,614) was paid to RS for services provided by RS.

TSX GROUP INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Years ended December 31, 2004 and 2003
Restated (note 1.b)

23. Financial instruments:

(a) Fair values of financial assets and financial liabilities:

The fair values of the Company's cash, accounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term nature. The fair value of other assets and the obligation under capital lease is not readily determinable.

(b) Foreign currency risk:

Accounts receivable include U.S. \$ 2,069 (2003 - U.S. \$2,047), which is exposed to change in the U.S.-Canadian dollar exchange rate.

24. Contingent liability:

From time to time in connection with its operations, the Corporation is named as a defendant in actions for damages and costs sustained by plaintiffs. During the year the Corporation was named as a defendant in an action for \$10.2 million. The Corporation believes the claim is without merit and intends to vigorously defend the action. Accordingly, no provision has been made in the accounts.

25. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial presentation adopted in the current year.