

Financial Section

annual report 2006



The following discussion and analysis provides information concerning our operating results and financial condition for the fiscal year-end December 31, 2006 compared to the same period in 2005. The information contained in this management report takes into account all major events that occurred up to February 14, 2007.

This discussion should be read in conjunction with our audited consolidated financial statements and accompanying notes. Unless otherwise indicated, the financial information presented in this report including the amounts appearing in the tables, is expressed in Canadian dollars and prepared in accordance with Canadian generally accepted accounting principles (GAAP). This discussion contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by these statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below.

Background

MISSION

Our mission is to operate and develop high-quality market and clearing services for our Canadian and international clients as well as to commercialize our internally developed technology solutions. We aim to accomplish our mission by remaining at the forefront of worldwide developments in risk management, market technology, market models and regulation, as well as outsourcing services. To fulfill our mission, we rely on employee teams that continually strive to improve their skills and client service practices.

SEGMENTS AND MAIN ACTIVITIES

We have two reporting segments, Exchange and Clearing House.

Exchange

Within our Exchange segment, our principal business activities are conducted through our Financial Markets business unit (which we refer to as "MX-FM"), which includes our financial markets activities as well as activities related to our training service and the sale of market data, our Information Technology Solutions business unit (which we refer to as "MX-ITS"), in which we undertake our technology services and solutions, including the development, operation, enhancement and licencing of our SOLA® suite of products, and our Regulatory Division. In 2006, our Exchange segment generated 83% of our revenues.

MX-FM

MX is Canada's only standardized financial derivatives exchange, offering an extensive range of interest rates, index and equity derivatives. We connect participants to our market, build business relationships with them and work with them to ensure that our offering of derivatives meets investor needs.

MX-ITS

Our MX-ITS business unit offers high-quality professional services and innovative software solutions for internal use and to third parties. MX-ITS has developed a state-of-the-art robust, scalable, reliable and exportable electronic trading platform, called SOLA®, currently in use as the electronic trading platform at MX and BOX. MX-ITS is also currently developing a suite of products complementary to our proprietary SOLA® Trading platform, namely SOLA® Surveillance, a market surveillance software, and SOLA® Clearing, a clearing software. Completion and delivery of these products are currently expected this year.

MX-ITS has strong financial software expertise and a valuable pool of proprietary intellectual capital. We have a dedicated team focused on the commercialization of our proprietary SOLA® Trading platform and which actively reviews other prospects in order to broaden our customer base.

REGULATORY DIVISION

We are a self-regulatory organization ("SRO") that has a major stake in maintaining the transparency, credibility and integrity of the exchange-traded derivatives market in Canada. Our Regulatory Division, which is operated independently of our other operations, is responsible for the regulation of our markets and its participants. Our Regulatory Division is subject to the sole internal oversight of our Special Committee—Regulatory Division. Our Special Committee—Regulatory Division, which is appointed by the Board of Directors of MX, is composed of a majority of independent members, none of whom are members of the Board of Directors of MX or CDCC. Our Regulatory Division operates on a non-profit/cost-recovery basis.

Clearing House

Our Clearing House segment generates revenues from clearing and settlement, as well as from options and futures exercise activities. We offer central counterparty and clearing, and settlement services through our wholly-owned subsidiary, CDCC. CDCC is the issuer of options traded on our markets and the clearing house and guarantor for options and futures contracts traded on our markets. CDCC reduces investor risk by guaranteeing all contractual commitments made between parties during transactions executed on our markets. In 2006, our Clearing House segment generated 17% of our revenues.

RECENT MARKET ACTIVITY

In July 2006, together with CCX, we announced the signing of an agreement that created MCeX, which aims to become the first regulated market in Canada for emissions-related and environment-related derivative products. We own 51% of MCeX and CCX owns the other 49%, and we will jointly manage this vehicle. The new MCeX market allies our electronic exchange expertise with that of CCX, which operates the only greenhouse gas emissions trading system in North America. CCX is also a world leader in building and operating environmental markets. Following the presentation of the Clean Air Act by the Canadian Federal Government on October 19, 2006, MCeX announced its intention to launch a market as soon as the Canadian legal and regulatory framework is established. We currently anticipate that trading on MCeX may begin in 2007, subject to regulatory approvals.

During 2006, we entered into a commitment to acquire a further 13.3% in BOX from BSE for consideration of US\$34.2 million (\$39.8 million at December 31, 2006). Should this transaction be completed, our interest in BOX would increase from 31.4% to 44.7%. This acquisition is subject to the prior approval of the SEC as well as customary closing conditions. The formal filing of the regulatory approval application is currently expected to occur in the first half of 2007. There is no assurance that this acquisition will be approved by the SEC or that it will close.

In late September 2006, we signed a series of international co-operation agreements (Memoranda of Understanding or MOUs) with four Chinese exchanges with aim of strengthening the development of derivative markets between the two countries and eventually entering into licencing agreements with respect to the SOLA® Trading platform. The MOUs were signed with the Shenzhen Stock Exchange, the Dalian Commodity Exchange, the Zhengzhou Commodity Exchange and the Shanghai Stock Exchange. We anticipate that delegations from these exchanges will visit Montréal in the first half of 2007, giving us an opportunity to demonstrate our advanced electronic trading platform.

Since October 19, 2006, we have, through CDCC, been offering a new clearing service to participants in the OTC market, namely the clearing of equity options contracts. The Canadian OTC market for equity options now benefits from a central counterparty clearing solution that offers superior risk management standards to those prevailing in the bilateral OTC markets.

On February 14, 2007, we entered into a term sheet with NYMEX pursuant to which MX and NYMEX intend to create a business venture for the trading and clearing of OTC (in the first phase) and on-exchange (in the second phase) futures and options contracts with financial and physical settlement relating to Canadian natural gas, heavy crude oil, power and potentially others, such as metals and soft commodities. In connection with the MX-NYMEX Venture, NYMEX has agreed to purchase, and we have agreed to sell, newly-issued common shares representing 10% of our outstanding share capital after giving effect to the NYMEX Investment. We currently intend to enter into the definitive agreements relating to the MX-NYMEX Venture, and to close the related share issuance and purchase on or about March 7, 2007. Based on our outstanding capital on the date of the term sheet of 9,273,155 common shares (prior to our Stock Split), we currently expect to issue 1,030,350 common shares (3,091,050 common shares on a post-Stock Split basis) to NYMEX for aggregate gross cash proceeds to MX of approximately \$90.7 million. For more information on these transactions, as well as the contemplated use of proceeds of this issuance, see note 24 to our audited consolidated financial statements.

Strategy and Outlook

To achieve our objectives, we have built a strategy around the following elements:

- Expand our current market business by adding new market participants, expanding our access network, and offering a range of products that remains adapted to client needs. Our development efforts are designed to promote greater use of derivatives in Canada.
- Expand the range of clearing services that we may offer to a larger clientele, including in the OTC and the commodities markets, including energy products.
- Continue to make regular investments to keep the SOLA® suite at the leading edge of market solutions, and complete the development of the SOLA® suite of products, with the completion and delivery of the SOLA® Surveillance and SOLA® Clearing components, which are currently expected in 2007.
- Continue commercialization efforts with respect to our SOLA® Trading platform, and, ultimately, our full suite of SOLA® products.
- Expand and enhance our alliances' operations and take advantage of new strategic opportunities.
- Manage costs to increase profitability and shareholder value.

Use of Non-GAAP Performance Measures

In this discussion, we refer to "operating earnings", a performance measure that is not recognized under Canadian GAAP. Although operating earnings is typically understood to be a non-GAAP performance measure, in our case operating earnings is equivalent to the line item "earnings before investment income, other items and income taxes" in our audited consolidated financial statements presented under Canadian GAAP. Other companies may calculate operating earnings differently, limiting its usefulness as a comparative measure.

In this discussion, we also use a supplemental financial measure, namely, assets excluding certain clearing assets, that is not calculated in accordance with Canadian GAAP to assess our financial performance. This measure is not required by or recognized under Canadian GAAP. We define assets excluding certain clearing assets as total assets less daily settlements due from clearing members, clearing members' cash margin deposits and clearing fund cash deposits. Since these excluded clearing assets have a corresponding liability and that the values of these assets vary with market volatility, we believe that the measure assets excluding certain clearing assets is more effective for analysing our assets relating to our ongoing operating activities. You should not consider this non-GAAP measure in isolation from, or as a substitute for analysis of, our financial information reported under Canadian GAAP. You should note that other companies, including other companies in our industry, may not use such a measure or may calculate the measure differently than as presented here, limiting its usefulness as a comparative measure.

As at December 31,
(\$ in thousands)

	2006	2005
Reconciliation of total assets and assets excluding certain clearing assets disclosed herein		
Total assets	\$ 122,694	\$ 119,032
Clearing fund cash deposits	(14,807)	(4,005)
Clearing members' cash margin deposits	(2,312)	(1,041)
Daily settlements due from clearing members	(6,951)	(22,006)
Assets excluding certain clearing assets	\$ 98,624	\$ 91,980

Highlights

Selected Consolidated Annual Information

Years ended December 31,
(\$ in thousands, except per share
data, ratios and Other Data)

	2006	2005
Financial Data		
Revenues	\$ 79,260	\$ 63,164
Operating earnings	27,645	15,121
Net earnings	24,831	15,135
Basic earnings per share ⁽¹⁾	2.84	1.85
Diluted earnings per share ⁽¹⁾⁽²⁾	2.72	1.72
Dividends declared per share ⁽¹⁾	2.50	1.50
Total assets	122,694	119,032
Assets excluding certain clearing assets	98,624	91,980
Long-term financial liabilities	1,072	4,261
Cash flows from operating activities	29,563	25,139
Return on shareholders' equity	37.8%	24.8%
Operating earnings/revenues	34.9%	23.9%
Net earnings/revenues	31.3%	24.0%
Other Data		
Average daily volume (# of contracts)	161,517	114,284
SOLA [®] availability rate	99.84%	99.90% ⁽³⁾

⁽¹⁾ Does not give effect to the Stock Split that we will effect prior to our stock exchange listing or to our contemplated issuance of shares to NYMEX pursuant to the NYMEX Investment.

⁽²⁾ Diluted earnings per share reflects the dilutive effect of our outstanding stock options and shares held in guarantee by MX for loans under our previous stock option plan and our previous share purchase plan. See notes 8 and 12 to our audited consolidated financial statements.

⁽³⁾ SOLA[®] was implemented and operational beginning in October 2005.

Performance Indicators

Management believes that our key performance indicators are the following:

- Average daily volume and total annual volume;
- Operating earnings;
- Earnings per share;
- Cash flows from operating activities; and
- Reliability of our electronic trading platform, and the related information systems, measured in terms of the availability rate of the trading platform.

Overview of Revenues and Expenses

REVENUE

Exchange

Our Exchange segment derives its revenues from the following activities:

TRANSACTIONS

Our largest source of revenues is transaction revenues, representing 46% of our revenues in 2006. Transaction revenues are a function of two variables: (1) transaction fee rates, determined principally by contract type and participant status, and (2) trading volume.

Since our transaction fee rates are assessed on a per transaction basis, our transaction revenues are directly correlated to the volume of contracts traded on our markets. In 2005 and 2006, we introduced certain volume rebates pursuant to which certain of our customers benefit from volume discounts and limits on fees as part of our effort to encourage increased

liquidity in our markets. Nevertheless, while transaction fee rates and volume rebate programs are established by us, trading volume and transaction mix are primarily influenced by factors outside of our control. These external factors include interest rate or inflation volatility, changes in Canadian government monetary or fiscal policies, the Canadian stock market condition, and national and international economic and political conditions.

In recent years, total global trading volume on derivatives exchanges worldwide has been steadily increasing. We have also experienced consistent increases in our trading volumes over the last several years. Our average daily volume was 114,284 contracts in 2005 and 161,517 contracts in 2006, representing year-over-year growth of 41%. Contract trading volume levels in 2005 and 2006 were each consecutive MX record highs.

The following charts illustrate trading volumes across the different categories of products traded on our markets over the past three years.

	Annual Volumes		% change
	2006	2005	2006-2005
Interest Rate Derivatives	25,087,481	16,359,599	53%
Index Derivatives	3,156,633	2,286,301	38%
Equity Options	12,265,461	10,032,227	22%
Currency Options	31,262	7,264	330%
Total	40,540,837	28,685,391	41%

	Average Daily Volume ⁽¹⁾		% change
	2006	2005	2006-2005
Interest Rate Derivatives	100,350	65,438	53%
Index Derivatives	12,576	9,109	38%
Equity Options	48,866	39,969	22%
Currency Options	125	108	15%
Total	161,517	114,284	41%

⁽¹⁾ Average daily volume per product statistics are calculated as the total traded contracts per product divided by the number of trading days for each product and may include rounding differences. Total average daily volume is calculated as the total traded contracts divided by the overall number of trading days in the given year.

Recent growth in our trading volume is primarily attributable to growth in trading volume of our interest rate derivatives. Interest rate products primarily consist of the "Three-Month Canadian Bankers' Acceptance Futures Contract" ("BAX") and the "Ten-Year Government of Canada Bond Futures Contract" ("CGB").

Some factors that we believe affect trading volume on our interest rate and index derivatives include expanded distribution of direct connections to our electronic trading platform (91 approved participants at December 31, 2006, of which 64 are platform-connected, compared to 85 approved participants in 2005, of which 57 were platform-connected), new liquidity provider programs and continued business development efforts focused on these products towards our customer base.

Factors that we believe affect trading volume on our equity derivatives include increased educational programs offered by our Training Service and continued business development efforts focused specifically towards retail customers.

MX-ITS

MX-ITS provides information systems services including the technical operation and maintenance of the electronic trading platform as well as the development of technology solutions. Revenues generated by MX-ITS are derived from two main sources:

- 1 licence and maintenance of the electronic trading platform, which also includes software modifications based on customer requests and fees related to the implementation of technology solutions; and
- 2 services relating to the technical operation of the electronic trading platform.

At this time, the sole external customer of our MX-ITS business unit is BOX (including BOX-R). We have entered into a service agreement with BOX pursuant to which we provide the technical operations services related to BOX's trading platform. In 2003, we also agreed to finance certain computer hardware and software assets on behalf of BOX. The capital and interest related to the capital leases for these assets are re-invoiced to BOX at cost as part of the services provided to BOX. The service agreement expires on December 31, 2011.

On March 14, 2006, BOX confirmed its selection of the new SOLA® electronic trading platform for its operations. BOX has been trading on the SOLA® platform since October 2006, and the service agreement has been updated to reflect the new SOLA® licence effective January 1, 2007.

A dedicated team is focusing its efforts on the commercialization of our SOLA® solutions and actively reviewing other prospects in order to broaden our customer base.

In 2006, our MX-ITS business unit accounted for 19% of our revenues.

MARKET DATA

MX sells real-time trading and quotation data (quotes, prices, size, trades) and historical data to market participants on a global basis. Timely and comprehensive information about market activity assists market participants and investors in their decision-making processes and facilitates efficient markets.

Revenues from the sales of our market data are principally dependant upon the number of data subscriptions, which is driven by our network of brokers and the extent of our client base, as well as our ability to remain a principal market and to respond to innovations in technology that may affect the availability, reliability and price of market data. Market data revenues are also generated by the sale of data to resellers of information as well as the sale of individual quotes via the Internet.

At December 31, 2006, our market data was displayed on over 26,300 screens, compared to approximately 23,200 at December 31, 2005, an increase of 13%. In 2006, market data revenues accounted for 13% of our revenues.

PARTICIPANTS; REGULATORY DIVISION

Our Regulatory Division's operations are performed based on the principle of self-financing and on a not-for-profit basis. The Regulatory Division financial structure is separate from that of MX and it operates on a cost-recovery basis. Any surplus in the Regulatory Division must be redistributed to our approved participants (excluding regulatory fine revenues, which are not so redistributed) and any shortfall must be made up by a special assessment by our approved participants or by MX upon recommendation of the Special Committee—Regulatory Division.

Revenues generated by the Regulatory Division are from two sources: (1) regulatory fees, and (2) regulatory fine revenues. Regulatory fees are principally comprised of market surveillance fees collected by MX on behalf of its Regulatory Division. These market surveillance fees can be broken down in two broad categories: a fixed annual fee paid on a quarterly basis by all our approved participants, regardless of their level of activity on our markets; and a fee per contract traded on our markets. This fee is charged on each side of each transaction (to the buyer and to the seller), and billed to approved participants on a monthly basis.

Other fees are also charged for the approval of individuals employed by our approved participants seeking direct access to our electronic trading platform and for the annual renewal of these approvals. These fees do not represent a significant portion of the total regulatory fees collected by our Regulatory Division.

Regulatory fine revenues are generated from fines levied by our Regulatory Division as it regulates and monitors our markets and approved participants' compliance with applicable law and with our Rules and Policies. Regulatory fines result from disciplinary action taken by our Regulatory Division based upon the actions of our approved participants or of their employees on our markets. The frequency with which fines may be levied and their amount may vary significantly from period to period. Regulatory fine revenues are used for regulatory purposes. They may also be used, subject to the approval of the Special Committee—Regulatory Division, for educational or charitable purposes. Regulatory fine revenues are excluded from the calculations that are made at each financial year-end to determine the amount of excess regulatory fees collected during the year that are to be refunded to approved participants, so that regulatory fine revenues are not, in event of a surplus, refunded to approved participants. Additional participant revenues consist principally of "access/connection" fees charged to approved participants.

In 2006, participant revenues accounted for 4% of our revenues. Approximately two-thirds of participant revenues are derived from the Regulatory Division.

OTHER

A significant portion of our other revenues is generated by our Training Service. The Training Service's mission is to inform, educate and provide specialized training to the general public and finance professionals on the use and value of derivatives in portfolio and risk management.

Other revenues accounted for 1% of our revenues in 2006.

Clearing House

In our Clearing House segment we provide, through CDCC, central counterparty clearing and settlement services to approved participants. CDCC reduces investor risk by guaranteeing contractual commitments between counterparties to transactions carried out on our markets.

We generate revenues in our Clearing House segment from transaction fees and certain participant revenues associated with the clearing and settlement of our products. Our clearing and settlement revenues are correlated to the trading volume of our products and therefore fluctuate based on the same factors that affect our trading volume. Although not significant in 2006, since October 2006, clearing and settlement revenues also fluctuate based on the volume of OTC transactions cleared by CDCC.

CDCC revenues accounted for 17% of our revenues in 2006. Included in CDCC's revenues are some revenues from participants, but this portion is not significant.

EXPENSES

The largest single component of our expenses is compensation and benefits, representing 44% of our expenses in 2006. Other significant expenses are incurred to support our electronic trading platform, including expenses such as licences and maintenance expenses, amortization and telecommunications expenses, as well as general and administrative expenses, which include, among others, expenses relating to professional services, business development and training of personnel.

While a majority of our expenses are fixed in nature, meaning that the overall expense structure is generally independent of trading volume, others are based in part on electronic trading platform maintenance and enhancements.

It should be noted that, prior to this stock exchange listing, we have not been a reporting issuer in Canada. Nevertheless, we have in recent years self-imposed stringent governance and disclosure requirements similar to those imposed on publicly traded companies, and the related costs are reflected in our current cost structure. However, as a reporting issuer, we are likely to incur additional compliance, legal, accounting and other expenses that we did not directly incur in the past, which may cause our costs in future periods to be higher than the historical costs associated with these areas reflected in our historical results and financial statements.

Results of Operations for the year ended December 31, 2006 compared to the year ended December 31, 2005

REVENUES

Total revenues of MX amounted to \$79.3 million in 2006 compared to \$63.2 million in 2005, an increase of \$16.1 million, or 25%. The following table provides a breakdown of our revenues in 2006 and 2005.

(\$ in thousands)	December 31, 2006		December 31, 2005		Change	
	\$	% of total	\$	% of total	\$	%
Revenues						
Transactions	36,422	46%	26,403	42%	10,019	38%
Clearing and option exercise	12,989	17%	9,609	15%	3,380	35%
Information systems services	15,275	19%	15,581	25%	(306)	(2)%
Market data	10,562	13%	8,095	13%	2,467	30%
Participants	3,261	4%	2,456	4%	805	33%
Other	751	1%	1,020	1%	(269)	(26)%
Total revenues	79,260	100%	63,164	100%	16,096	25%

Transactions

As in 2005, sustained efforts to develop the derivatives market in Canada and abroad resulted in an expanded distribution of direct connections to our electronic trading platform, and our introduction of new liquidity provider programs as well as worldwide trends favouring the use of derivative instruments resulted in increased volumes and revenues for MX in 2006.

Average daily volumes grew to 161,517 contracts in 2006, compared to 114,284 contracts in 2005, an increase of 47,233 contracts, or 41%, resulting in an increase in transaction revenues of \$11.3 million. However, growth in overall volumes also gave rise to additional volume rebates (liquidity provider programs) in 2006 compared to 2005, with these incremental rebates amounting to \$1.3 million, resulting in the net increase of \$10.0 million. Growth in average daily volume posted in 2006 exceeds the average of 25% realized in the last three years. This can be explained principally by the growth in trading of derivative instruments experienced worldwide.

Interest rate derivatives maintained the most robust growth, with a 53% rise in average daily volume. Index derivatives also showed strong growth, posting a 38% increase in average daily volume, while equity options posted a 22% increase in volume.

In 2006, our transactions revenues grew to \$36.4 million, compared to \$26.4 million in 2005, an increase of \$10.0 million or 38% for the reasons explained above. In 2006, average revenue per contract decreased slightly to \$0.90 per contract from \$0.92 per contract in 2005 due to a combination of additional volume rebates, pursuant to liquidity provider programs, and variations in product and client mix.

Clearing and Option Exercise

Clearing and option exercise revenues increased to \$13.0 million in 2006, compared to \$9.6 million in 2005, an increase of \$3.4 million or 35% due principally to the increased trading volumes on our markets.

Information Systems Service

Revenues from information systems services amounted to \$15.3 million in 2006, compared to \$15.6 million in 2005, a decrease of \$0.3 million, or 2%.

A decrease of \$0.9 million was related to a reduction of capital lease payments that were re-invoiced to BOX. This decrease was offset by approximately \$0.6 million in additional services revenues resulting from the renegotiation of the service agreement with BOX in October 2005.

Market Data

Market data revenues reached \$10.6 million in 2006, compared to \$8.1 million in 2005, an increase of \$2.5 million, or 30%. During the year, MX adjusted its pricing structure explaining a \$1.5 million increase in revenues. Increased data subscriptions, driven by increased participants and trading volume accounted for additional revenues of \$0.9 million.

As at December 31, 2006, our market data was displayed on over 26,300 screens, compared to approximately 23,200 at December 31, 2005, an increase of 13%.

Participants

Revenues from approved participants, generated primarily by the Regulatory Division, increased to \$3.3 million in 2006 compared to \$2.5 million in 2005, an increase of \$0.8 million, or 33%.

This increase was due primarily to additional net expenses amounting to \$0.7 million (principally compensation and benefits) incurred with respect to the operation of the Regulatory Division which was ultimately passed-on to approved participants.

At December 31, 2006, our number of approved participants stood at 91, of which 64 are platform-connected, compared to 85 approved participants at December 31, 2005, of which 57 were platform-connected.

Other participant revenues increased by \$0.1 million due to additional access fees, driven by the increased number of approved participants.

EXPENSES

Our total operating expenses amounted to \$51.6 million in 2006 compared to \$48.0 million in 2005, an overall increase of \$3.6 million, or 7%. The following table provides a breakdown of our expenses in 2006 and 2005.

(\$ in thousands)	December 31, 2006		December 31, 2005		Change	
	\$	% of total	\$	% of total	\$	%
Total revenues	79,260	100%	63,164	100%	16,096	25%
Expenses:						
Compensation and benefits	22,811	44%	19,891	41%	2,920	15%
Occupancy	2,667	5%	2,754	6%	(87)	(3)%
Computer licences and maintenance	6,184	12%	6,397	13%	(213)	(3)%
Amortization of capital assets and other assets	6,398	12%	7,586	16%	(1,188)	(16)%
General and administrative	8,995	18%	6,810	14%	2,185	32%
Telecommunications	2,536	5%	2,841	6%	(305)	(11)%
Public affairs	1,870	4%	1,408	3%	462	33%
Interest on obligations under capital leases and debts due within one year	154	–	356	1%	(202)	(57)%
Total Expenses	51,615	100%	48,043	100%	3,572	7%
Operating earnings	27,645		15,121		12,524	83%

Compensation and Benefits

Total compensation and benefits amounted to \$22.8 million in 2006, compared to \$19.9 million in 2005, an overall increase of \$2.9 million, or approximately 15%. This increase is explained mainly by increased personnel, principally in our MX-ITS business unit, increased merit-based bonuses as well as annual wage increases totalling \$4.9 million, offset by salaries capitalized in relation to technology developments which amounted to \$2.0 million.

Our total number of full-time equivalent employees at December 31, 2006 was 219, compared to 201 at December 31, 2005, an increase of approximately 9%.

Occupancy

Occupancy expenses remained relatively stable in 2006, decreasing by approximately 3% compared to 2005. The modest decrease in occupancy expense in 2006 is due mainly to a reduction of leased office space effective in 2005.

Computer Licences and Maintenance

Computer licences and maintenance expenses decreased to \$6.2 million in 2006 compared to \$6.4 million in 2005, a decrease of \$0.2 million, or 3%. This decrease is attributable mainly to a reduction of licences and maintenance expense subsequent to the sale of Clearco Inc. in December 2005.

Amortization of Capital Assets and Other Assets

Amortization of capital assets and other assets decreased to \$6.4 million in 2006 compared to \$7.6 million in 2005, a decrease of \$1.2 million, or 16%. This decrease is attributable mainly to reduced amortization related to assets under capital lease amounting to \$0.7 million and \$0.5 million related to certain leasehold improvements that were completely amortized in 2005.

General and Administrative

General and administrative expenses increased to \$9.0 million in 2006 compared to \$6.8 million in 2005, an increase of \$2.2 million, or approximately 32%.

This increase is attributable principally to a \$2.1 million charge to general and administrative expenses relating to legal settlements made with 31 of the 70 claimants and to a provision for the remaining claimants in litigation brought against us in connection with the closing of our physical trading floor in 2001.

Telecommunications

Telecommunication expenses decreased to \$2.5 million in 2006, compared to \$2.8 million in 2005, a decrease of \$0.3 million, or 11%. This decrease is attributable mainly to reduced fees subsequent to a renegotiation of our supplier agreements.

Public Affairs

Public affairs increased to \$1.9 million in 2006 compared to \$1.4 million in 2005, an increase of \$0.5 million, or 33%, due to increased media relations and more active marketing efforts.

Interest on Obligations under Capital Leases and Debts Due Within One Year

Interest on obligations under capital leases and debts due within one year decreased to \$0.2 million in 2006 compared to \$0.4 million in 2005, a decrease of \$0.2 million, or 57% due to loan repayments made during the year.

OPERATING EARNINGS

Operating earnings rose to \$27.6 million in 2006 compared to \$15.1 million in 2005, an increase of \$12.5 million, or 83%. Operating earnings represented 35% of our revenues in 2006 compared to 24% in 2005. Operating earnings for 2006 are net of \$2.1 million charged to our general and administrative expenses in connection with legal settlements and a provision in connection with the closing of our trading floor.

INVESTMENT INCOME

Investment income increased to \$2.6 million in 2006 compared to \$1.8 million in 2005, an increase of \$0.8 million, or 46%, as a result of increased cash, cash equivalents, and temporary investments and from increased clearing fund cash deposits held throughout the year.

OTHER ITEMS**Equity in Results of Companies Subject to Significant Influence Net of Loss Due to Realization of the Cumulative Translation Adjustment**

Equity in results of companies subject to significant influence represents our share of BOX's results. This investment is accounted for on an equity basis in accordance with Canadian GAAP, based on a 31.4% interest in BOX as at December 31, 2006 (31.4% in 2005). Equity in the results of BOX (before loss resulting from realization of the cumulative translation adjustment) amounted to \$1.7 million in 2006, compared to \$2.3 million in 2005, a decrease of \$0.6 million or approximately 25%. Despite an increase in BOX's operating income, the decrease in equity in results is due primarily to an accelerated amortization charge recorded by BOX on its previous exchange trading system, a consequence of migrating to our SOLA® platform.

In 2006, equity in results of BOX were offset by a \$0.6 million loss resulting from the realization of the cumulative translation adjustment recorded subsequent to distributions from BOX.

Gain on Dilution

In 2005, a gain on dilution of \$1.0 million was also recorded with respect to our investment in BOX when two new investors purchased BOX units.

Loss and Termination Fees on Disposal of Investments in Company Subject to Significant Influence and in Joint Venture

On December 19, 2005, MX terminated its agreement with Oxen Inc. and Clearco Inc., selling its interest for one dollar. The disposal of this investment gave rise to a \$0.7 million loss, including termination costs of \$0.3 million.

INCOME TAXES

MX's income tax expense for 2006 was \$6.6 million compared to \$4.4 million in 2005, with this increase being attributable to the increase in net earnings. The effective tax rate for 2006 was 21%, compared to 22% for 2005. Despite an increase in statutory tax rates, our decrease in effective tax rate was due primarily to a variation in the valuation allowance. See also Notes 5, 16 and 18 to our audited consolidated financial statements.

NET EARNINGS

Net earnings for the fiscal year ended December 31, 2006 amounted to \$24.8 million compared to \$15.1 million in 2005, an increase of \$9.7 million or approximately 64%. Net earnings represented 31% of our revenues in 2006, compared to 24% in 2005.

Basic earnings per share for 2006 amounted to \$2.84 compared to \$1.85 in 2005. Diluted earnings per share for 2006 were \$2.72 compared to \$1.72 in 2005. These per share amounts do not reflect the effect of the three-for-one Stock Split that we will effect prior to our stock exchange listing, nor do they reflect the effect of our contemplated issuance of 1,030,350 common shares (3,091,050 common shares on a post-Stock Split basis) to NYMEX, an issuance that we currently intend to close on or about March 7, 2007. Giving effect to our Stock Split, basic earnings per share for 2006 would have been \$0.95 (\$0.62 in 2005) and diluted earnings per share for 2006 would have been \$0.91 (\$0.57 in 2005).

Segment Analysis

EXCHANGE

Revenues from the Exchange segment increased to \$66.0 million in 2006 compared to \$53.2 million in 2005, an increase of \$12.8 million, or 24% mainly due to the increased level of activity on our markets.

Investment income increased to \$1.5 million in 2006 compared to \$1.2 million, an increase of \$0.3 million or 25% as a result of increased cash, cash equivalents and temporary investments.

Equity in the results of BOX, before loss resulting from realization of the cumulative translation adjustment amounted to \$1.7 million in 2006, compared to \$2.3 million in 2005, a decrease of \$0.6 million or approximately 25%. Despite an increase in BOX's operating income, the decrease in equity in results is due primarily to an accelerated amortization recorded by BOX relating to its previous exchange trading system, a consequence of migrating to our SOLA® platform. In addition, in 2006, equity in results of BOX were offset by a \$0.6 million loss resulting from the realization of the cumulative translation adjustment recorded subsequent to distributions from BOX.

Net earnings amounted to \$17.0 million in 2006 compared to \$11.2 million in 2005, an increase of \$5.8 million, or approximately 52%, principally as a result of increased revenues, net of applicable income taxes. Net earnings represented 26% of our revenues in 2006, compared to 21% in 2005.

CLEARING HOUSE

Revenues from CDCC increased to \$13.2 million in 2006 compared to \$10.0 million in 2005, an increase of \$3.3 million, or 33%, mainly due to the increased level of activity on our markets. Net earnings stood at \$7.8 million in 2006 compared to \$4.0 million in 2005, an increase of \$3.8 million, or 97%, principally as result of increased revenues net of applicable income taxes. Net earnings represented 59% of our revenues in 2006, compared to 40% in 2005.

For a discussion of our most recent quarterly results, see "—Quarterly Financial Information" below.

Liquidity and Financial Resources

LIQUIDITY

Our operations are the major source of our liquidity. Our cash requirements primarily consist of operating expenses, capital expenditures for the development of technology solutions and technology enhancements as well as scheduled debt repayments.

As at December 31, 2006, we had total cash, cash equivalents and temporary investments of \$59.6 million, compared to \$57.0 million as at December 31, 2005. During 2006, we made dividend payments of \$23.2 million, including a special cash dividend of \$1.50 per common share outstanding (approximately \$13.9 million in the aggregate) that was declared in 2005. On November 30, 2006, we declared a special dividend of \$1.50 per common share (approximately \$13.9 million in the aggregate), which was paid on January 12, 2007 to the shareholders of record on January 5, 2007.

We believe that current cash balances and future funds generated through our operations will be sufficient to meet cash requirements currently and for the foreseeable future. If we were to experience a significant reduction in our cash flows from operations, we believe we currently have a variety of options for raising capital for short-term cash needs, including an unused revolving line of credit and extending our available credit facilities.

We have an operating line of credit of \$2.0 million, of which an amount of \$1.8 million has been drawn (by way of letter of credit) as a guarantee to the trustee under our employee future benefit plan in respect of our accrued future employee benefits. Borrowings under our operating line of credit bear interest at the banks' prime rate. The line of credit contains customary covenants requiring us to maintain certain financial ratios.

CDCC has also arranged a total of \$30.0 million in revolving standby credit facilities with a Canadian Schedule I bank to provide liquidity in the event of default by a clearing member. Borrowings under the facilities, which are required to be collateralized, bear interest based on the bank's prime rate plus 0.75%. These facilities have not been utilized since the date they were established.

We currently intend to finance the planned acquisition of an additional 13.3% ownership interest in BOX through a revolving line of credit in an amount of US\$34.0 million with a Canadian Schedule I Bank. The revolving line of credit will have a maturity date of 5 years following the close of the transaction. This line of credit will be available in Canadian funds by way of advances, bankers acceptances and letters of credit, and in US funds by way of advances, LIBOR loans and letters of credit. Interest rates and fees will range from banker's acceptance or LIBOR, as applicable, plus a margin of up to 0.7% based on certain financial ratios. The line of credit will contain certain covenants which will, among other things, require MX to maintain certain financial ratios and restrict our ability to incur additional indebtedness, except in specified instances. The line of credit will also allow for an upsized or additional revolving line of credit of up to US\$30.0 million, which may be financed through the same lender or an alternative lender (which is referred to as the accordion feature).

Under the terms of the Autorité des marchés financiers (AMF) decision recognizing MX as an exchange and SRO and pursuant to the Rules of MX regarding the Regulatory Division, no regulatory fees, fines or penalties collected by or on behalf of the Regulatory Division may be distributed to MX or any entity other than the Regulatory Division itself. As a result, the use of regulatory fees, fines and penalties collected by or on behalf of the Regulatory Division may be considered restricted, and MX could be required to report the related cash balances, if any, as restricted cash in future periods. At December 31, 2006, an amount of \$1.7 million is included in restricted cash (\$1.5 million in 2005).

MX's Recognition Order contains specified financial viability tests (financial ratios) with which we are required to comply. If we fail to comply with these ratios for a period of more than three months, we are required to notify the AMF staff of the reasons for the continued ratio deficiencies and the steps being taken to remedy the non-compliance. In these circumstances, MX will not, without the prior approval of the AMF, be permitted to pay dividends, bonuses to directors or officers, or make certain other payments or distributions until the deficiencies have been eliminated for at least six months, or a shorter period of time as agreed to by the AMF.

Cash Flows from Operating Activities

Cash flows from operating activities totalled \$29.6 million in 2006 compared to \$25.1 million in 2005, mainly due to increased cash from operating activities and the net change in non-cash operating assets and liabilities.

Cash Flows from Investing Activities

Cash flows from investing activities required funds of \$6.8 million in 2006 compared to \$12.8 million in 2005. The resulting cash outflows are due to the net purchase of \$3.6 million in investments, \$5.7 million invested in capital assets and other assets during 2006, primarily to further develop its SOLA[®] software, net of a \$2.5 million distribution from BOX.

Cash Flows from Financing Activities

Cash flows from financing activities required \$24.2 million in funds compared to \$2.0 million in 2005. The resulting cash outflows are due primarily to the payment of dividends totalling \$23.2 million in 2006. During 2006, capital lease repayments reached \$3.2 million and restricted cash required \$1.2 million in funds, while share issues generated \$3.3 million.

TOTAL ASSETS

Total assets excluding certain clearing assets increased to \$98.6 million as at December 31, 2006 compared to \$92.0 million as at December 31, 2005, an increase of \$6.6 million, or 7%. This increase is attributable mainly to an increase in cash, cash equivalents, temporary investments and accounts receivable.

Daily settlements due from clearing members consist of amounts due from and to clearing members as a result of marking open futures positions to market and settling option transactions each day that are required to be collected from or paid to clearing members prior to the commencement of the next trading day. The amounts are presented as an asset on the balance sheet and not offset against amounts due to other clearing members, which are presented as a liability.

Cash deposits of clearing members are held in the name of CDCC and are disclosed in our consolidated balance sheets under Clearing members' cash margin deposits and Clearing fund cash deposits. Government securities, letters of credit and other securities are deposited by the clearing members with approved depositories under irrevocable agreements. Clearing members may also deposit letters of credit and escrow receipts directly with CDCC.

Also, there are margin and clearing fund deposits held by custodians, of which CDCC is beneficiary, that are not included in our consolidated balance sheets.

Capital Stock

As at December 31, 2006, our capital stock consisted of 9,273,155 issued and outstanding common shares, all of which are voting and participating shares. Of this number, 85,391 were held in guarantee for loans under our previous share purchase plan, and 298,318 were held in guarantee for loans under our previous stock option plan. Prior to our stock exchange listing, we will effect a three-for-one Stock Split. In addition, we currently intend to issue 1,030,350 common shares (3,091,050 common shares on a post-Stock Split basis) to NYMEX in connection with the closing of the MX-NYMEX Venture transactions, currently expected to close on or about March 7, 2007. Accordingly, giving pro forma effect to our Stock Split and our contemplated issuance to NYMEX (and assuming no further issuances or repurchases of our shares), our issued and outstanding capital stock will, on the date of our stock exchange listing, consist of 30,910,515 common shares, all of which are voting and participating shares.

On November 30, 2006, the MX declared a dividend of \$1.50 per share. This dividend was paid on January 12, 2007.

We are currently considering various alternatives with respect to the use of proceeds of the NYMEX Investment. In addition to general corporate purposes, we may use these proceeds to fund the possible payment of a special dividend to existing shareholders prior to the closing of the NYMEX Investment, and to fund a normal course issuer bid.

Between January 1, 2006 and February 6, 2006, 792,000 of the 835,000 stock options granted were exercised at an average exercise price of \$5.08. MX has granted loans bearing interest at 5% on 595,000 shares. Dividends paid on these shares were applied against the loans. The loans were repaid in full prior to the date of this report.

See also notes 12 and 24 to our audited consolidated financial statements.

Data on outstanding shares and options

	Pro forma as at the date hereof ⁽¹⁾	As at December 31, 2006 ⁽²⁾	As at December 31, 2005 ⁽²⁾
Shares issued and outstanding	30,910,515	9,273,155	8,481,155
Options outstanding	129,000	43,000	835,000

⁽¹⁾ Gives effect to our Stock Split and to our contemplated issuance of 1,030,350 common shares (3,091,050 common shares on a post-Stock Split basis) to NYMEX pursuant to the NYMEX Investment.

⁽²⁾ Does not give effect to our Stock Split or the contemplated NYMEX Investment.

Off-Balance Sheet Arrangements

We have obligations under our employee future benefit plan. As at December 31, 2006, our estimated obligations under this employee future benefit plan was approximately \$1.5 million, of which approximately \$0.7 million is recorded as a liability on our audited consolidated financial statements. In 2006, our net benefit plan expense amounted to \$0.4 million, which was included in compensation and benefits in our consolidated statement of earnings. For more information regarding our employee future benefit obligations, see note 21 to our audited consolidated financial statements.

We are also party to certain contractual obligations and commitments, including obligations under operating leases and purchase obligations, which we discuss below under "—Contractual Obligations and Commitments and Related Party Transactions."

Financial Instruments

Our financial instruments include cash and temporary investments, accounts receivable, certain other assets (employee loans), clearing members' cash deposits (assets and liabilities), clearing fund cash deposits (assets and liabilities), daily settlements due from/to clearing members, accounts payable and accruals, and short-term debt.

Cash and cash equivalents are carried at cost which approximate fair market value. Temporary investments are carried at the lower of cost or market. The carrying amount of accounts receivable, clearing members' cash deposits (assets and liabilities), clearing fund cash deposits (assets and liabilities), daily settlements due from/to clearing members, accounts payable and accruals and short-term debt approximates their fair value due to the near-term maturity of those instruments. The fair value of loans to employees is calculated based on the present value of future repayments.

Contractual Obligations and Commitments and Related Party Transactions

Our material obligations under firm contractual arrangements, including commitments for future payments under operating leases and the debt arrangements as of December 31, 2006, are described in notes 10, 11 and 14 to our audited consolidated financial statements, and are summarized as follows:

Contractual Obligations: (\$ in thousands)	Payments Due By Period				
	Total	1 year	2-3 years	4-5 years	More than 5 years
Operating leases	\$13,625	\$1,941	\$3,328	\$3,307	\$5,049
Purchase obligations	12,297	3,956	6,173	2,168	—
Financial debt	1,072	1,072	—	—	—
Interest payments ⁽¹⁾	26	26	—	—	—
Total contractual obligations	\$27,020	\$6,995	\$9,501	\$5,475	\$5,049

⁽¹⁾ Include interest and fees to be paid on financial debt.

We rent our premises and equipment under operating lease agreements expiring between 2007 and 2015 and we are committed under service and licence agreements through 2010.

In 2000, we entered into licence and maintenance agreements with AtosEuronext for the use of AtosEuronext's electronic trading software and pursuant to which AtosEuronext was obliged to provide services related to the operation and support of our trading platform. Licence and maintenance fees under these agreements are \$2.9 million in respect of 2007. Pursuant to our decision to internally develop SOLA®, our customized trading platform, we may consider terminating these licence and maintenance agreements prior to its expiry date should the implementation of the remaining outstanding SOLA® protocol at MX be completed by June 2007, as currently scheduled. Should we exercise this termination right, we will be subject to early termination penalties amounting to €0.9 million (\$1.4 million at December 31, 2006) in 2007.

Our financial debt consists of our obligations under capital leases and debts due within one year.

We have also entered into a commitment in respect of MCEX, pursuant to which we have agreed with CCX that MX will fund the first US\$3.0 million of MCEX's initial working capital requirements. This commitment is staggered in "tranches," of which the first is of US\$300,000, and we may terminate this commitment upon the exhaustion of each tranche, subject to certain conditions and subject to withdrawing from MCEX project with CCX.

In 2006, we were party to related party transactions with affiliated companies in the normal course of business. Beginning in 2004, we became an official supplier to BOX and, in this regard, we charge BOX for salaries, telecommunication services, computer equipment, and other services at rates set forth in our agreement with BOX. The amounts invoiced to BOX in 2006 amounted to \$15.3 million (compared to \$15.6 million in 2005). These transactions were undertaken in the normal course of business.

See also note 19 to our audited consolidated financial statements as at December 31, 2006.

Business Acquisitions and Strategic Investments

During 2006, MX made a commitment to acquire a further 13.3% ownership interest in BOX from the BSE for US\$34.2 million (\$39.8 million at December 31, 2006). Should this transaction be completed, our interest in BOX would rise from 31.4% to 44.7%. This acquisition is subject to the prior approval of the SEC as well as customary closing conditions. The formal filing of the regulatory approval application is currently expected to occur in the first half of 2007. There is no assurance that this acquisition will be approved by the SEC or that it will close.

Capital and Other Asset Expenditures

Capital expenditures incurred in 2006 and 2005 related primarily to the technology driving our electronic platform. Such expenditures were approximately \$4.7 million and \$3.5 million, in 2006 and 2005, respectively. The balance of capital spending related to leasehold improvements. For 2007 we expect our total annual capital expenditures to approximate \$7.0 million. Planned 2007 investments include product development and enhancements to the technology infrastructure. We currently expect that capital expenditures will be funded by cash flow from operations.

Shareholders' Equity

Shareholders' equity as at December 31, 2006 was \$65.7 million. The increase of \$4.7 million reflects net earnings generated during the year, less dividends of \$24.4 million recorded during the year.

Risks and Uncertainties

To varying degrees, we are exposed to concentration of credit risk and credit risk. We are also exposed to competition and to market risk and certain other risks that we describe below.

CONCENTRATION OF CREDIT RISK

For the year ended December 31, 2006, approximately 19% of our revenues were generated by BOX in information systems services (25% in 2005), and four approved participants, on behalf of numerous clients, generated, in the aggregate, 33% of our revenues (31% in 2005), for a combined total of 52% of our revenues in 2006 (56% in 2005). Each of these four approved participants individually generated more than 6% of our revenues in 2006. Although we seek to diversify our base of approved participants and continuously seek ways of encouraging activity by all of our approved participants, we may in the future continue to be dependent to a certain degree on BOX and these key approved participants.

CREDIT RISK AND CLEARING HOUSE RISK

We are exposed to the credit risk of our approved participants and customers. We review a customer's credit history before extending credit and we conduct regular reviews of our existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends and other information.

CDCC is also exposed to the risk of default of its clearing members. CDCC is the central counterparty and guarantor of all transactions carried out on MX's markets. It primarily supports the risk of one or more counterparties, meeting strict financial and regulatory criteria, defaulting on their obligations, in which case the obligations of that counterparty would become the responsibility of CDCC. This risk is greater if market conditions are unfavourable at the time of the default. CDCC is also exposed to risks arising from its operations, including regulatory and operational risks.

MARKET RISK

Market risk is the risk of declining trading and clearing volumes that might generate operational and financial losses. This risk flows from adverse changes in factors underlying the financial and stock markets, over which we have no control.

COMPETITION RISK

We are in direct competition with other derivatives exchanges as well as alternative trading systems. Increased competition could lead to reduced interest in our products and pressure on transaction prices, among other things. Furthermore, the 1999 Agreement with the TSX Group, including the non-competition covenants, expires in March 2009, and the TSX Group has expressed interest in entering the derivatives market.

RELIABILITY OF INFORMATION SYSTEMS

Being entirely automated, we are highly dependent on our information technology systems. However, we have implemented fully redundant parallel processing back-up systems and fail-safes to minimize the risk of system interruptions or outages that could affect our trading and clearing operations. BOX currently has a partial disaster recovery back-up system, and we currently expect to complete BOX's full redundancy and back-up systems in 2007.

REGULATORY

We are subject to numerous regulatory requirements governing our activities. We carry on these activities in accordance with the regulations of securities commissions in Canada, the U.S., France and the U.K., and, given our development plans, we could eventually be subject to the regulations of other jurisdictions. Regulatory trends are not always predictable. Unexpected and new regulatory requirements could impact our organization, market position and results.

Critical Accounting Estimates

LONG TERM INVESTMENTS

Long term investment consists of our 31.4% interest in BOX and is accounted for under the equity method.

If there is a loss in value of an investment that is other than a temporary decline, the investment would be written down to recognize the loss. The write-down would be included in the determination of net earnings. A significant or prolonged decline in the fair value of an investment below its carrying value is evidence of an other-than-temporary loss in value of an investment.

When an investment has been written down to recognize a loss, the new carrying value is deemed to be the new cost basis for subsequent accounting purposes and, accordingly, a subsequent increase in value would be recognized only when realized.

As at December 31, 2006, the fair value of BOX exceeded its carrying value, and therefore we concluded that no write-down was required in this respect.

TAX CREDITS ON DEVELOPMENT COSTS AND GOVERNMENT ASSISTANCE:

We incur development costs that are eligible for tax credits. The tax credits are recorded based on the estimated amounts to be recovered as determined by management. These amounts are subject to an audit by the tax authorities.

Government assistance and tax credits on development costs relating to operating expenses are charged to earnings when the related expenses are incurred. Government assistance and tax credits on development costs relating to capital expenditures are deducted from the related asset.

CAPITAL ASSETS, INTANGIBLES, GOODWILL AND OTHER ASSETS

Direct costs incurred for the development of software are recorded in capital assets under computer development, hardware and software. These costs include salary costs, hardware and subcontractors and are amortized over their useful lives, estimated at five years.

Capital assets and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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. 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. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

Intangible assets, which represent the development costs of on-line training courses, less government assistance received, are amortized over five years on a straight-line basis beginning on their launch date.

Deferred charges which represent the development costs of software are amortized over five years that is, the estimated economic life of the product. Deferred charges which represent licence and maintenance fees are amortized on a straight-line basis over periods of two to three years.

EMPLOYEE FUTURE BENEFITS

On January 1, 2004, we established a defined benefit registered pension plan for certain officers. The benefits are based on years of service and the participants' compensation. The cost of this program is being funded periodically.

We accrue our obligations under its pension plan as employees render the services necessary to earn the pension benefits. We have adopted the following policies:

- (i) The cost of the accrued benefit obligations for pensions earned by the employees is actuarially determined using the projected benefit method pro rated on services and management's best estimation of expected plan investment performance, salary escalation and retirement ages.
- (ii) For the purpose of calculating expected return on plan assets, these assets are valued at fair value.
- (iii) Past service costs of \$0.65 million from pension plan initiation are amortized on a straight-line basis over the average remaining service period of employees active at the initiation date, which is 12.4 years.
- (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 gains (losses) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees when applicable.

See also note 21 to our audited consolidated financial statements.

INCOME TAXES

We follow the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the accounting value of existing assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment or substantive enactment date. Future income tax assets are recognized and, if realization is not considered "more likely than not," a valuation allowance is provided.

Management is required to assess whether it is more likely than not that our future income tax assets will be realized prior to their expiration and, based on all the available evidence, determine if a valuation allowance is required on all or a portion of our future income tax assets. The factors used to assess the likelihood of the realization are our past experience of income and capital gains, forecast of net income before taxes, available tax planning strategies that could be implemented to realize the future income tax assets and the remaining expiration period of tax loss carry forwards. Although realization is not assured, management believes, based on all the available evidence, it is more likely than not that the remaining future income tax assets, net of the valuation allowance, will be realized prior to their expiration.

Contingent Liabilities

We are party to a number of legal proceedings in connection with the closing of our physical trading floor. As at December 31, 2006, there was a total of \$27.3 million in outstanding claims against us in respect of this matter, and which we intend to continue defending vigorously. In accordance with Canadian GAAP, amounts are accrued for the financial resolution of the claims if, in the opinion of management, it is both likely that the future event will confirm that a liability had been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. In some cases, however, it is either not possible to determine whether such a liability has been incurred or to reasonably estimate the amount of the loss until the case is closer to resolution, in which case no accrual can be made until that time. If the reasonable estimate of loss involves a range within which a particular amount appears to be a better estimate, that would be accrued. If no such better estimate within a range is indicated, the minimum amount in the range is required to be accrued.

We regularly assess the adequacy of our contingent liabilities accrual and make necessary adjustments to incorporate new information as it becomes available. While there exists an inherent difficulty in predicting the outcome of such matters, our management accounted for provisions, as and when appropriate, and believes that the outcome of these matters will not have a material adverse effect on our operating results or financial position.

Accounting Developments

CHANGES IN ACCOUNTING POLICIES

We monitor the application of new accounting policies, including proposed harmonization to international financial reporting requirements. No new accounting policies affecting us became effective in 2006.

In 2005, the CICA issued two new accounting standards affecting our financial statements: CICA Handbook Section 1530, Comprehensive Income (Section 1530), and CICA Handbook Section 3855, Financial Instruments—Recognition and Measurement (Section 3855). These new standards became effective for us on January 1, 2007 and accordingly will be reflected in our financial statements beginning in 2007.

COMPREHENSIVE INCOME

Section 1530 introduces comprehensive income which is comprised of net earnings and other comprehensive income and represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources. Other comprehensive income (OCI) includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, arising from self-sustaining foreign operations. Our consolidated financial statements will include a consolidated statement of comprehensive income while the cumulative amount, accumulated other comprehensive income (AOCI), will be presented as a new category of shareholders' equity in the consolidated balance sheets.

FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT

Section 3855 establishes standards for recognizing and measuring financial assets and financial liabilities. It requires that financial assets and financial liabilities including derivatives, be recognized on the balance sheet when we become a party to the contractual provisions of the financial instrument. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Financial assets and financial liabilities held-for-trading will be measured at fair value with gains and losses recognized in net earnings. Loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost using the effective interest method of amortization.

Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855. Instruments that are classified as held-for-trading by way of this "fair value option" must have reliable fair values.

Other significant accounting implications arising on adoption of Section 3855 include the initial recognition of certain financial guarantees at fair value on the balance sheet and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

We are currently determining the impact that these changes in accounting policies will have on our consolidated financial statements.

Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designated to ensure that information is accumulated and communicated to management, including our President and Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), to allow timely decisions regarding required disclosure.

As of December 31, 2006, an evaluation was carried out, under the supervision of and with the participation of management, including our CEO and our CFO, of the effectiveness of our disclosure controls and procedures as defined under AMF Regulation 52-109. Based on that evaluation, our CEO and our CFO concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2006.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. No changes were made in our internal control over financial reporting during the year ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Quarterly Financial Information (unaudited)

(\$ in thousands, except trading days, volume, margins and per share amounts)

	2006				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Trading days	64	63	62	62	251
Average daily volume (contracts)	148,691	173,735	158,750	165,110	161,517
Revenues	\$ 19,077	\$ 20,714	\$ 19,924	\$ 19,545	\$ 79,260
Operating earnings	5,449	7,355	7,275	7,566	27,645
% operating margin	28.6%	35.5%	36.5%	38.7%	34.9%
Net earnings	\$ 4,931	\$ 6,465	\$ 5,929	\$ 7,506	\$ 24,831
Basic earnings per share ⁽¹⁾	0.58	0.74	0.68	0.84	2.84
Diluted earnings per share ^{(1) (2)}	0.55	0.71	0.65	0.81	2.72
Cash flows from operating activities	(938)	9,877	11,395	9,229	29,563

Quarterly Financial Information (unaudited)

(\$ in thousands, except trading days, volume, margins and per share amounts)

	2005				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Trading days	62	64	63	61	250
Average daily volume (contracts)	103,342	107,265	125,747	120,548	114,284
Revenues	\$ 14,599	\$ 15,484	\$ 16,569	\$ 16,512	\$ 63,164
Operating earnings	3,141	3,925	4,735	3,320	15,121
% operating margin	21.5%	25.3%	28.6%	20.1%	23.9%
Net earnings	\$ 4,214	\$ 3,867	\$ 4,570	\$ 2,484	\$ 15,135
Basic earnings per share ⁽¹⁾	0.52	0.47	0.56	0.30	1.85
Diluted earnings per share ^{(1) (2)}	0.48	0.44	0.52	0.28	1.72
Cash flows from operating activities	2,628	7,296	7,798	7,417	25,139

⁽¹⁾ Does not give effect to the Stock Split that we will effect prior to our stock exchange listing or to our contemplated issuance of shares to NYMEX pursuant to the NYMEX Investment.

⁽²⁾ Diluted earnings per share reflects the dilutive effect of our outstanding stock options and shares held in guarantee by MX for loans under our previous stock option plan and our previous share purchase plan. See notes 8 and 12 to our audited consolidated financial statements.

Our revenues are driven primarily by transaction volume. Transaction volume is not subject to any specific seasonality effects, although it does fluctuate based on prevailing market conditions and volatility, and can be particularly responsive to Canadian and U.S. interest rate announcements as well as the announcement of other key economic indicators. Our cash flows from operating activities are generally lower during the first quarter of the year, principally due to cash outlays in respect of corporate tax payments and executive and employee bonus payments.

In the fourth quarter of 2006, our revenues reached \$19.5 million, up 18% versus the same period in 2005 and slightly down by 2% compared to the previous quarter. Despite an increase of average daily volume in the fourth quarter of 2006, the decrease in revenues is due mainly to a reduction of information service revenues, subsequent to a reduction of capital lease payments that are re-invoiced to BOX.

Operating earnings rose to \$7.6 million in the fourth quarter of 2006, compared to \$3.3 million for the fourth quarter of 2005. Operating earnings rose to \$7.6 million compared to \$7.3 million for the third quarter of 2006 principally as a result of a reduction in amortization expense related to assets under capital lease, offset by a provision for claim settlements. Net quarterly earnings reached \$7.5 million in the fourth quarter of 2006, compared to \$2.5 million for the fourth quarter of 2005, and \$5.9 million from the third quarter in 2006. The increase in the fourth quarter compared to the third quarter of 2006 is mainly due to a realization of the income tax valuation allowance.

Management's responsibility for financial statements

The accompanying consolidated financial statements of Bourse de Montréal Inc. and its subsidiary, the Canadian Derivatives Clearing Corporation (CDCC), and all the information in this Annual Report, are the responsibility of management and are approved by the Board of Directors of Bourse de Montréal Inc.

These financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles and include amounts that are based on best estimates and judgements. The financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

Management of the Company and of its subsidiary, in furtherance of the integrity and objectivity of data in the financial statements, have developed and maintain systems of internal accounting controls. Management believes that the systems of internal accounting controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of the financial statements and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements included in this Annual Report principally through its Audit Committee, consisting mainly of outside directors. The Audit Committee reviews the Company's annual consolidated financial statements and formulates the appropriate recommendations to the Board of Directors. The auditors appointed by the shareholders have full access to the Audit Committee, with and without management being present.

These financial statements have been examined by the auditors appointed by shareholders, KPMG LLP, chartered accountants, and their report is presented hereafter.

Luc Bertrand

Louise Laflamme




President and Chief Executive Officer

Executive Vice-President and
Chief Financial Officer

Montréal, Canada
February 14, 2007

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of the Bourse de Montréal Inc. (the "MX") as at December 31, 2006 and 2005, and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the MX'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. These 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 MX as at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/s/ KPMG LLP

Chartered Accountants

Montréal, Canada
January 24, 2007, except as to note 24,
which is as of February 14, 2007

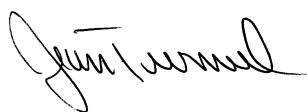
Consolidated Balance Sheets

December 31,
2006 and 2005
(In thousands of dollars)

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22,919	\$ 24,382
Temporary investments (note 3)	36,639	32,577
Restricted cash (notes 10 and 20)	2,700	1,541
Receivables (note 7)	7,889	6,272
Daily settlements due from clearing members	6,951	22,006
Clearing members' cash margin deposits (note 4)	2,312	1,041
Clearing fund cash deposits (note 4)	14,807	4,005
Prepaid expenses	1,690	1,525
	<hr/>	<hr/>
	95,907	93,349
Long-term investments (note 5)	9,302	9,798
Capital assets (note 6)	12,319	14,208
Future income taxes (note 16)	2,523	705
Other assets (note 7)	2,643	972
	<hr/>	<hr/>
	\$ 122,694	\$ 119,032
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accruals	\$ 13,057	\$ 9,887
Dividends payable	13,910	12,721
Daily settlements due to clearing members	6,951	22,006
Clearing members' cash margin deposits (note 4)	2,312	1,041
Clearing fund cash deposits (note 4)	14,807	4,005
Income taxes payable	3,343	3,484
Debts due within one year (note 10)	992	-
Current portion of obligations under capital leases (notes 10 and 11)	80	3,239
	<hr/>	<hr/>
	55,452	56,383
Obligations under capital leases (notes 10 and 11)	-	1,022
Future income taxes (note 16)	812	245
Accrued employee benefits liability (note 21)	713	410
Shareholders' equity:		
Capital stock (note 12)	49,258	45,405
Contributed surplus (note 12)	434	825
Retained earnings	16,991	16,532
Cumulative translation adjustment (note 13)	(966)	(1,790)
	<hr/>	<hr/>
	65,717	60,972
Commitments (note 14)		
Contingencies (note 15)		
Subsequent events (note 24)		
	<hr/>	<hr/>
	\$ 122,694	\$ 119,032

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

FINANCIAL STATEMENTS

Consolidated Statement of Earnings

Years ended
December 31,
2006 and 2005

*(In thousands of dollars,
except per share amounts
and the number of shares)*

	2006	2005
Revenues:		
Transactions	\$ 36,422	\$ 26,403
Clearing and option exercise	12,989	9,609
Information systems services (note 19)	15,275	15,581
Market data	10,562	8,095
Participants	3,261	2,456
Other	751	1,020
	<u>79,260</u>	<u>63,164</u>
Expenses:		
Compensation and benefits	22,811	19,891
Occupancy	2,667	2,754
Computer licences and maintenance	6,184	6,397
Amortization of capital assets and other assets	6,398	7,586
General and administrative	8,995	6,810
Telecommunications	2,536	2,841
Public affairs	1,870	1,408
Interest on obligations under capital leases and debts due within one year (notes 10 and 11)	154	356
	<u>51,615</u>	<u>48,043</u>
Earnings before investment income, other items and income taxes	27,645	15,121
Investment income	2,613	1,785
Equity in results of companies subject to significant influence, net of loss of \$551 (nil in 2005) due to realization of cumulative translation adjustment (note 5)	1,151	2,278
Gain on dilution (note 5)	–	1,042
Loss and termination fees on disposal of investments in company subject to significant influence and in joint venture (notes 2 and 5)	–	(699)
Earnings before income taxes	<u>31,409</u>	<u>19,527</u>
Income taxes (note 16):		
Current	7,829	4,353
Future	(1,251)	39
	<u>6,578</u>	<u>4,392</u>
Net earnings	<u>\$ 24,831</u>	<u>\$ 15,135</u>
Basic earnings per share (note 8)	\$ 2.84	\$ 1.85
Diluted earnings per share (note 8)	\$ 2.72	\$ 1.72
Weighted average number of shares outstanding–basic (note 8)	8,742,762	8,197,051
Weighted average number of shares outstanding–diluted (note 8)	9,145,375	8,783,312

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

Years ended
December 31,
2006 and 2005

(In thousands of dollars)

	2006	2005
Retained earnings, beginning of year	\$ 16,532	\$ 14,118
Net earnings	24,831	15,135
Dividends	(24,372)	(12,721)
Retained earnings, end of year	<u>\$ 16,991</u>	<u>\$ 16,532</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended
December 31,
2006 and 2005
(In thousands of dollars)

	2006	2005
Cash flows from (used in) operating activities:		
Net earnings	\$ 24,831	\$ 15,135
Adjustments for:		
Amortization of capital assets and other assets	6,398	7,586
Equity in results of companies subject to significant influence	(1,151)	(2,278)
Loss on disposal of investment in a joint venture	–	21
Loss on disposal of investment in a company subject to significant influence	–	378
Gain on dilution	–	(1,042)
Amortization of premium on investments	16	27
Interest income on discount investments	(453)	(633)
Future income taxes	(1,251)	39
Cost of stock option plan	152	234
Net change in non-cash operating assets and liabilities (note 17)	1,021	5,672
	<u>29,563</u>	<u>25,139</u>
Cash flows from (used in) investing activities (note 17):		
Purchase of capital assets	(4,633)	(3,848)
Increase of other assets	(2,337)	(46)
Sale of capital assets (note 10)	1,319	–
Purchase of investments	(257,437)	(277,318)
Sale of investments	253,812	269,456
Disposal of investment in a joint venture	–	(21)
Purchase of long-term investments	–	(1,012)
Distributions from a company subject to significant influence	2,471	–
	<u>(6,805)</u>	<u>(12,789)</u>
Cash flows from (used in) financing activities (note 17):		
Restricted cash	(1,159)	(402)
Decrease in obligations under capital leases and debts (notes 10 and 11)	(3,189)	(3,490)
Share issuance (note 12)	3,310	1,886
Dividends	(23,183)	–
	<u>(24,221)</u>	<u>(2,006)</u>
Net (decrease) increase in cash and cash equivalents	(1,463)	10,344
Cash and cash equivalents, beginning of year	24,382	14,038
Cash and cash equivalents, end of year	22,919	24,382
Temporary investments, end of year	36,639	32,577
Cash and cash equivalents and temporary investments, end of year	<u>\$ 59,558</u>	<u>\$ 56,959</u>
Cash and cash equivalents are comprised of:		
Cash	\$ 2,792	\$ 3,427
Bankers' acceptances	20,127	12,284
Treasury bills	–	8,671
	<u>\$ 22,919</u>	<u>\$ 24,382</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended
December 31,
2006 and 2005
*(In thousands of dollars,
except per share amounts
and the number of shares)*

The Bourse de Montréal Inc. (the "MX") was incorporated on September 29, 2000, following the demutualization of the Montréal Exchange, under Part 1A of the Québec Companies Act. Its principal business activity is to provide a marketplace for the buying and selling of derivative products. The MX is responsible for market and approved participant regulation. In accordance with the Regulations of the Autorité des marchés financiers (the "AMF"), the MX must meet specified financial ratios and other conditions to continue as a self-regulatory organization. Its subsidiary, the Canadian Derivatives Clearing Corporation (the "CDCC"), is the issuer, clearing house and guarantor for options and futures contracts traded at the MX and certain over-the-counter products.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized below:

(a) Consolidation and long-term investments

The consolidated financial statements include the accounts of the Bourse de Montréal Inc. and those of its wholly-owned subsidiary, the CDCC, and until December 19, 2005 (note 2) those of Clearco Inc. ("Clearco"), a joint venture. The MX uses the proportionate consolidation method to account for its 50% ownership interest in the assets, liabilities, revenues, expenses and cash flows of the joint venture. Since August 14, 2006, the financial statements also include a participation of 51% in the Montréal Climate Exchange Inc. ("MCeX") which was created in partnership with the Chicago Climate Exchange Inc. (CCX).

Long-term investments consist of the MX's 31.4% interest in the units of the Boston Options Exchange LLC ("BOX") in the U.S., and until December 19, 2005 (note 5), the MX's 8% interest in the capital stock of Oxen Inc. ("Oxen"), both investments being in companies subject to significant influence. These investments are accounted for under the equity method, according to which the initial cost of the investment is adjusted to include the MX's proportionate share of post-acquisition net earnings or losses, less dividends and distributions.

Investments are written down when there is clear evidence that another than temporary decline in value has occurred.

(b) Cash and cash equivalents

Cash and cash equivalents consist of liquid investments having an original maturity of three months or less and are carried at cost, which approximates their fair value.

(c) Temporary investments

Temporary investments consist of fixed income securities and are carried at the lower of cost and fair value.

(d) Daily settlements due from and to clearing members of the CDCC

The amounts due from and to clearing members as a result of marking open futures positions to market and settling option transactions each day are required to be collected from or paid to clearing members prior to the commencement of trading the next day. The amounts due from clearing members are presented as an asset in the balance sheet and are not offset against amounts due to other clearing members, which are presented as a liability.

As at December 31, 2006, the largest amount due from a clearing member was \$3,044 (\$13,397 in 2005) and the largest amount due to a clearing member was \$2,139 (\$7,062 in 2005).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(e) Capital assets**

Capital assets are carried at historical cost. Amortization expense is provided over the following periods on a straight-line basis:

Asset	Period
Computer development, hardware and software	3 to 5 years
Furniture, fixtures and equipment	5 years

Leasehold improvements are amortized over periods not exceeding the term of the leases.

Direct costs incurred for the development of software are recorded in capital assets under computer development, hardware and software. These costs include salary costs, hardware and subcontractors and are amortized over their useful lives estimated at five years.

(f) Other assets

The development costs of on-line training courses, less government assistance received, are amortized over five years on a straight-line basis beginning on their launch date.

Deferred charges, which represent the development cost of software, are amortized over five years, that is the economic life of the product.

Deferred charges, which represent licence and maintenance fees, are amortized on a straight-line basis over 2 to 3 years.

Fees for the acquisition of an additional interest in BOX will be applied to acquisition costs when the transaction is completed, or they will be expensed if the transaction is not realized.

(g) Capital assets, goodwill and other intangibles

Capital assets and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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. 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. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

(h) Stock-based compensation and other stock-based payments**DEFERRED SHARE UNIT PLAN:**

The MX accounts for its deferred share unit plan as a charge to earnings and a liability is recorded as share units are granted, at the fair value at the time of grant, based on the fair value method, as described in note 12. Changes in the fair value of the underlying shares, between the grant date and the valuation date, result in a change in the liability. This plan, implemented for certain members of the Board of Directors and for various committees of the MX, was abolished in January 2005 (note 12).

Notes to Consolidated Financial Statements (continued)

Years ended
December 31,
2006 and 2005
*(In thousands of dollars,
except per share amounts
and the number of shares)*

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(h) Stock-based compensation and other stock-based payments (continued)**

STOCK OPTION PLAN AND SHARE PURCHASE PLAN:

The MX accounts for its stock option plan using the fair value based method, under which the compensation cost attributable to awards to employees is measured at the fair value at the grant date and recognized over the vesting period.

(i) Revenue recognition

Transaction revenue is recognized on the transaction date of the related transaction.

Clearing revenue is recognized on the settlement date of the related transaction.

Revenue from arrangements under time and materials are recognized as the services are provided at the contractual stated price.

Revenue from hosting arrangement under fixed-fee arrangement is recognized on a straight-line basis over the term of the arrangement, regardless of the amounts billed.

Revenue from licence fees and maintenance services for licences is recognized on a straight-line basis over the term of the contract.

Market data revenue is recognized based on usage as reported by customers and vendors.

Market regulation fees are registered and recognized in the month in which the services are provided.

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

(j) Tax credits on development costs and government assistance

The MX incurs development costs that are eligible for tax credits. The tax credits are recorded based on the estimated amounts to be recovered. The amounts claimed are subject to an audit by the tax authorities.

Government assistance and tax credits on development costs relating to operating expenses are charged to earnings when the related expenses are incurred. Government assistance and tax credits on development costs relating to capital expenditures are deducted from the related asset.

(k) Foreign currency translation

Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the time of the transaction. Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rate, whereas non-monetary items are translated at the exchange rate prevailing at the time of the transaction. Gains or losses are recognized in earnings.

The MX holds an investment in a company subject to significant influence located in the United States which is considered to be a self-sustaining foreign establishment. Accordingly, this investment is translated into Canadian dollars at the rate of exchange in effect at the balance sheet date, and the resulting unrealized exchange gain or loss is included in the Cumulative translation adjustment in shareholders' equity.

Notes to Consolidated Financial Statements (continued)

Years ended
December 31,
2006 and 2005

*(In thousands of dollars,
except per share amounts
and the number of shares)*

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(l) Employee future benefits**

On January 1, 2004, the MX established a defined benefit registered pension plan for certain officers. The benefits are based on years of service and the participants' compensation. The cost of this program is being funded periodically.

The MX accrues its obligations under its pension plan as employees render the services necessary to earn the pension benefits. The MX has adopted the following policies:

- (i) The cost of the accrued benefit obligations for pensions earned by the employees is actuarially determined using the projected benefit method pro rated on services and management's best estimation of expected plan investment performance, salary escalation and retirement ages.
- (ii) For the purpose of calculating expected return on plan assets, these assets are valued at fair value.
- (iii) Past service costs of \$650 from pension plan initiation are amortized on a straight-line basis over the average remaining service period of employees active at the initiation date, which is 12.4 years.
- (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 gains (losses) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees when applicable.

(m) Income taxes

The MX follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the accounting value of existing assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment or substantive enactment date. Future income tax assets are recognized and, if realization is not considered "more likely than not", a valuation allowance is provided.

(n) Measurement uncertainty

The preparation of financial statements in conformity with Canadian 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 revenues and expenses during the reporting period.

Significant areas requiring the use of management estimates relate to the provision for doubtful accounts receivable tax credits, the useful life of assets for amortization purposes and evaluation of their net recoverable amount and the evaluation of the investment in a company subject to significant influence, as well as the determination of the valuation allowance related to future income tax assets. Actual results could differ from those estimates.

2. INTEREST IN A JOINT VENTURE

In July 2004, the CDCC concluded an agreement with Oxen to develop clearing services for electricity forward contracts for its subsidiary Clearco of which CDCC also acquired 50% of the capital stock for an amount of \$300.

The financial statements include the MX's proportionate share of the revenues, expenses and cash flows of the joint venture as follows for the year ended December 31, 2005:

Revenues	\$12
Net loss	(213)
Cash used in operations	(146)

In December 2005, CDCC disposed of its investment in Clearco for a consideration of one dollar. This transaction generated a loss on disposal of investment of \$21.

Notes to Consolidated Financial Statements (continued)

Years ended
December 31,
2006 and 2005
*(In thousands of dollars,
except per share amounts
and the number of shares)*

3. TEMPORARY INVESTMENTS

	2006			2005		
	Effective interest rates as at December 31, 2006	Cost	Fair value	Effective interest rates as at December 31, 2005	Cost	Fair value
Federal bonds:						
Maturing in less than one year	4.45%	\$ 5,633	\$ 5,646	2.85%	\$ 7,004	\$ 7,031
Maturing between 1 year and less than 3 years	–	–	–	3.51%	203	205
Maturing between 3 years and less than 10 years	4.32%	11,139	11,129	3.97%	5,105	5,096
Maturing in 10 years and more	3.91%	306	308	–	–	–
Provincial bonds:						
Maturing in less than one year	4.35%	1,011	1,013	3.16%	2,719	2,724
Maturing between 1 year and less than 3 years	3.88%	431	442	2.66%	402	407
Maturing between 3 years and less than 10 years	4.30%	1,572	1,630	4.14%	5,292	5,346
Maturing in 10 years and more	5.10%	7,878	8,551	4.82%	8,795	9,421
Corporate bonds:						
Maturing in less than one year	3.19%	390	390	–	–	–
Maturing between 1 year and less than 3 years	4.24%	1,892	1,894	3.19%	406	402
Maturing between 3 years and less than 10 years	4.50%	5,917	5,932	4.80%	281	286
Maturing in 10 years and more	5.53%	470	505	5.66%	2,370	2,541
		\$36,639	\$37,440		\$32,577	\$33,459

The fair value of the bonds is calculated based on market value.

4. CLEARING FUND AND MEMBERS' MARGIN DEPOSITS

Cash deposits of clearing members are held in the name of the CDCC and are disclosed in the balance sheets under Clearing members' cash margin deposits and Clearing fund cash deposits. Government securities, letters of credit and other securities are deposited by the clearing members with approved depositories under irrevocable agreements. Clearing members may also deposit letters of credit and escrow receipts directly with the CDCC.

Clearing fund and margin deposits held by custodians, and of which the CDCC is beneficiary, that are not included in the balance sheets as at December 31, are as follows:

	2006	2005
Margin deposits:		
Government securities, at face value	\$ 1,794,482	\$ 1,718,376
Letters of credit, at face value	186,392	39,595
Equity securities (to cover short positions), at market value ⁽¹⁾	1,275,804	397,075
	\$ 3,256,678	\$ 2,155,046
Clearing fund deposits:		
Government securities, at face value	\$ 338,623	\$ 227,149

⁽¹⁾ The market value is determined using the quotes on the market exchange on the last day of the year.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005
(In thousands of dollars, except per share amounts and the number of shares)

5. LONG-TERM INVESTMENTS**(a) BOX**

The MX has an investment in BOX, an electronic exchange for the trading of American equity options.

In January 2005, two new partners of BOX paid US\$3,348 (C\$4,130) in exchange for additional units. Following these transactions, the MX's interest in BOX was reduced from 31.7% to 30.7% which generated a dilution gain of \$1,042, net of a realized portion of the cumulative translation adjustment of \$46.

In June 2005, the MX acquired 0.7% of the units of BOX for a cash consideration of US\$810 (C\$1,012), increasing its interest in BOX to 31.4%. The excess cost of the units of BOX over the net book value of the net assets on the date of acquisition, which amounted to \$838, was recognized as goodwill and is not being amortized.

During 2006, the MX made a commitment to acquire an additional interest in BOX (note 14 (b)).

(b) Oxen

In December 2005, the MX ended the agreement entered into in July 2004 with Oxen. The MX sold back its 8% share in Oxen for one dollar. The disposal of this investment generated a loss of \$678, including a termination fee of \$300.

	2006	2005
31.4% interest in BOX	\$ 11,685	\$ 11,685
Goodwill	838	838
Share in accumulated losses	(2,469)	(3,620)
Distributions	(2,471)	-
Gain on dilution	2,685	2,685
Cumulative translation adjustment	(966)	(1,790)
Investment in BOX (31.4%)	9,302	9,798
Investment in Oxen (8% of capital stock)	-	400
Share in accumulated losses	-	(22)
Loss on disposal of investment in Oxen	-	(378)
Investment in Oxen (8% of capital stock)	-	-
Long-term investments	\$ 9,302	\$ 9,798

The MX's interest in the net book value of BOX amounts to \$7,038 as at December 31, 2006 (\$7,545 as at December 31, 2005).

BOX is a LLC, therefore, the income taxes of BOX are payable by the owners according to their units in BOX. The MX has future income tax assets in BOX that can be used against future earnings generated by BOX. These assets amount to \$532, and represent losses carried forward and timing differences (note 16).

Notes to Consolidated Financial Statements (continued)

Years ended
December 31,
2006 and 2005
*(In thousands of dollars,
except per share amounts
and the number of shares)*

Notes to
Consolidated
Financial
Statements
(continued)

Years ended
December 31,
2006 and 2005
(In thousands of dollars,
except per share amounts
and the number of shares)

6. CAPITAL ASSETS

	2006		
	Cost	Accumulated amortization	Net book value
Computer development, hardware and software	\$15,510	\$6,901	\$8,609
Computer hardware and software under capital leases	2,245	2,165	80
Leasehold improvements	13,588	10,241	3,347
Furniture, fixtures and equipment	833	550	283
	\$32,176	\$19,857	\$12,319

In 2006, the amortization expense on capital assets represents \$6,044 (\$7,347 in 2005), including \$2,564 (\$3,254 in 2005) on hardware and software under capital leases.

	2005		
	Cost	Accumulated amortization	Net book value
Computer development, hardware and software	\$13,027	\$6,171	\$6,856
Computer hardware and software under capital leases	10,299	6,337	3,962
Leasehold improvements	13,021	9,814	3,207
Furniture, fixtures and equipment	652	469	183
	\$36,999	\$22,791	\$14,208

In September 2005, the MX identified assets related to its trading platform to be replaced by an internally developed software offering better performance. Even if these assets were still usable, these assets had capacity limits and the MX was dependent on a third party for its trading platform until the replacements of these assets which occurred in 2005 and 2006. A review of the estimated amortization period and a test for recoverability of these assets were made. The review resulted in an additional charge to amortization of \$935 (\$912 in 2005).

As at December 31, 2006, \$2,292 of capital assets under development was recorded for which amortization has not yet been recognized (\$268 in 2005).

7. OTHER ASSETS

	2006		
	Cost	Accumulated amortization	Net book value
Goodwill ⁽¹⁾	\$ 308	\$ –	\$ 308
Deferred charges	1,669	73	1,596
On-line training programs	1,311	973	338
Loans to employees ⁽²⁾	401	–	401
			\$ 2,643
	2005		
	Cost	Accumulated amortization	Net book value
Goodwill	\$ 308	\$ –	\$ 308
On-line training programs	1,465	801	664
			\$ 972

The amortization expense of on-line training programs was \$281 in 2006 (\$239 in 2005) and the amortization on deferred charges was \$73 in 2006 (nil in 2005).

⁽¹⁾ The goodwill was generated following the complete acquisition of CDCC in 2000.

⁽²⁾ Loans to employees as at December 31, 2006 amounted to \$713 (nil in 2005). The current portion of these loans amounts to \$312 (nil in 2005) and is presented in receivables. The fair value of loans to employees approximates its accounting value as at December 31, 2006 (nil in 2005) and is determined using the present value of the future repayments. The terms of the loans are the same as the share purchase plan loans presented in note 12 (b).

8. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net earnings by the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated based on the weighted average number of shares outstanding adjusted to reflect the potentially dilutive effect of stock options and shares held in guarantee.

The following table presents the basic and diluted earnings per share calculation:

	2006	2005
Net earnings	\$ 24,831	\$ 15,135
Weighted average number of shares outstanding—basic	8,742,762	8,197,051
Dilutive effect of stock options and shares held in guarantee	402,613	586,261
Weighted average number of shares outstanding—diluted	9,145,375	8,783,312
Basic earnings per share	\$ 2.84	\$ 1.85
Diluted earnings per share	\$ 2.72	\$ 1.72

9. OPERATING LINE OF CREDIT

The MX has an operating line of credit of \$2,000 which could be renegotiated if needed. From this authorized credit, an amount of \$1,782 has been given as a guarantee to the trustee of the employee future benefit plan (see note 21). When used, this line of credit bears interest at the banks' prime rate and is renewable annually (see note 23 for other authorized credit).

10. DEBTS DUE WITHIN ONE YEAR

In October 2006, the MX disposed of equipment under capital leases for an amount equal to its net book value of \$1,319, including \$869 invoiced to BOX, to cover the resulting loss incurred from this transaction, under the existing agreement with BOX (note 19). These amounts were collected as at December 31, 2006. The MX has entered into a new agreement with the lessor in order to exclude the equipment sold as per the initial leases, thereby transforming part of the obligations under the capital lease arrangement into short-term debts for an amount of \$992. Under the new agreement, cash of \$972 has been transferred to a trust account as a security for the lessor.

The short-term debts are payable monthly, in amounts of \$6 to \$53, bear interest at rates varying between 5.2% to 6.5% and mature between May and November 2007. The interest expense for 2006 amounts to \$17 (nil in 2005).

11. OBLIGATIONS UNDER CAPITAL LEASES

The MX has the following obligations under capital leases for computer hardware and software:

	2006	2005
Years ending December 31:		
2006	\$ —	\$ 3,393
2007	82	1,048
Minimum payments due under capital leases	82	4,441
Less amount representing interest (rates varying between 5.2% and 6.5%)	2	180
Present value of minimum payments due under capital leases	80	4,261
Current portion of obligations under capital leases	80	3,239
	\$ —	\$ 1,022

The obligations under capital leases are re-invoiced at cost as part of the services provided to BOX. In the event that BOX defaults, the MX has obtained guarantees from certain BOX partners under which the MX would be able to recover a maximum of 50% of the aforementioned obligations.

The interest expense for 2006 amounts to \$137 (\$356 in 2005).

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12. CAPITAL STOCK

	2006	2005
Authorized:		
An unlimited number of shares, without par value:		
Common, voting and participating		
Preferred, non-voting, dividend to be determined upon issuance		
Total issued, including in guarantee:		
9,273,155 common shares (8,481,155 in 2005)	\$ 51,589	\$ 47,019
Held in guarantee for loans under share purchase plan:		
85,391 common shares (187,647 in 2005)	(800)	(1,614)
Held in guarantee for loans under stock option plan		
298,318 common shares (nil in 2005)	(1,531)	-
Issued and paid:		
8,889,446 common shares (8,293,508 in 2005)	\$ 49,258	\$ 45,405

No person or combination of persons is permitted to beneficially own or exercise control or direction over more than 10% of any class or series of voting shares of the MX.

On November 30, 2006, the MX declared a dividend of \$1.50 per share. This dividend is payable on January 12, 2007 to the registered shareholders of record on January 5, 2007.

(a) Stock option plan

On October 30, 2000, the Board of Directors (the "Board") approved the creation of a stock option plan (the "Plan") available to the MX's management. The term of each option and the number of underlying shares will be determined by the Board. Some 847,000 common shares are likely to be purchased under options granted pursuant to the stock option plan. The maximum number of common shares that can be granted to a single person is limited to 5% of the MX's issued and outstanding common shares. The exercise price of each option represents the amount as determined by the Board without being lower than the fair market value of the shares on the date of the grant. However, when the shares will be listed on a recognized stock exchange, the exercise price will correspond to the weighted average price of the shares for the five days preceding the date of grant of the options.

The term of an option shall not exceed ten years from the date of its grant.

During 2006, 792,000 of the 835,000 stock options granted were exercised at an average exercise price of \$5.08. The MX has granted loans bearing interest at 5% on 595,000 shares for an amount of \$3,042. Any dividend payable on these shares is applied against the loans. The loans which represent \$1,531 as at December 31, 2006, are to be totally reimbursed by February 8, 2007. No options were exercised in 2005.

	Number of options	Weighted average exercise price
Options outstanding as at January 1, 2005	838,000	\$5.09
Cancelled during 2005	(3,000)	5.09
Options outstanding as at January 1, 2006	835,000	5.09
Exercised during 2006	(792,000)	5.08
Options outstanding as at December 31, 2006	43,000	\$5.15

The following table summarizes information about outstanding and exercisable options at December 31, 2006:

Exercise price	Outstanding options			Exercisable options	
	Number of options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of options	Weighted average exercise price
\$5.15	43,000	\$5.15	6	43,000	\$5.15

No options were granted in 2006 and 2005.

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12. CAPITAL STOCK (CONTINUED)

(a) Stock option plan (continued)

The total cost of stock options granted is established according to the fair value method at the grant date. The compensation cost related to these options is recognized over a three-year period, being the period over which the options vest, from the grant date. During the year, the MX recorded a compensation cost of \$76 (\$178 in 2005) and credited contributed surplus for an equivalent amount.

An amount of \$467, related to the reimbursement of the loans granted under the stock option plan, has been transferred from contributed surplus to capital stock (nil in 2005).

(b) Share purchase plan

An employee share purchase plan was implemented in March 2001 for a maximum of 400,000 shares, which was reached in 2003 when the MX issued 141,436 shares at \$4.50 per share, for an amount totalling \$637. On April 18, 2005, the AMF approved a new subscription period for the employees under the employee share purchase plan from May 6 to June 6, 2005 for a maximum subscription of 200,000 shares. At the end of the subscription period, 112,055 shares were issued at a price of \$13.74 per share for a total of \$1,539 based on the fair value of the shares. The fair value was established using the discounted cash flow method.

Interest-free loans were granted to employees to buy these shares and the loans are payable through equal payroll deductions over periods varying from 1 to 5 years (maximum of 3 years for loans of the last subscription) from the date of acquisition. The unpaid balance of the loans at December 31, 2006 is \$800 (\$1,614 in 2005). The total loan payment is secured by a first hypothec with delivery in favour of the MX on all shares acquired by way of loan. These loans are recorded as a reduction of capital stock. The shares purchased by means of share purchase loans are considered, in substance, as stock options, exercised during the term of the share purchase loan. Loans granted for the purchase of these shares are repayable in all circumstances regardless of the variation in share value.

In 2005, the average fair value of the share acquisition rights (accounted for as an option for accounting purposes) has been established at \$0.79, based on the Black-Scholes option pricing model, using the following hypothesis: a fair value of the MX's shares of \$13.74, a risk-free rate of 4%, a dividend yield of 0%, expected volatility of 1% and an expected life for the options of a maximum of 3 years, based on the term of the loan.

During the year, the MX recorded a compensation cost of \$76 (\$56 in 2005) and credited contributed surplus for an equivalent amount.

An amount of \$76 related to the reimbursement of the loans granted under the share purchase plan has been transferred from contributed surplus to capital stock (\$130 in 2005).

(c) Private placement for the Directors

On June 3, 2005, the AMF approved a private placement for the Directors acting at that date, allowing them to subscribe up to a maximum of 10,000 shares each, at a unit price of \$13.74 based on the fair value of the shares. The fair value was established using the discounted cash flow method. At the end of the subscription period, 84,000 shares were issued and fully paid on June 8, 2005 for a total consideration of \$1,154.

(d) Deferred share unit plan

The Directors' deferred share unit plan was abolished in January 2005. The unit value of these deferred share units was established at \$13.74 each based on the fair value of the shares determined using the discounted cash flow method.

During 2005, after the exercise of 139,488 deferred share units, the MX recorded a charge of \$470, and included in accounts payable and accruals is the unpaid balance of \$146 (10,626 units) as at December 31, 2005 (nil in 2006).

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13. CUMULATIVE TRANSLATION ADJUSTMENT

	2006	2005
Beginning balance	\$ (1,790)	\$ (1,465)
Impact of changes in currency rates on net investment in self-sustaining foreign operation	273	(371)
Impact resulting from transaction reducing the interest in company subject to significant influence (note 5)	–	46
Impact resulting from distributions from company subject to significant influence	551	–
Ending balance	\$ (966)	\$ (1,790)

14. COMMITMENTS

(a) The MX rents its premises and certain equipment under operating lease agreements expiring between 2007 and 2015, and is committed under service and licence agreements until 2010.

As at December 31, 2006, total minimum lease payments and minimum payments required for each of the following years under these commitments were as follows:

	Occupancy and equipment leases	Licence and maintenance agreements	Total
2007	\$1,941	\$3,956	\$5,897
2008	1,645	3,232	4,877
2009	1,683	2,941	4,624
2010	1,687	2,168	3,855
2011	1,620	–	1,620
2012 and after	5,049	–	5,049
Total minimum payments required	\$13,625	\$12,297	\$25,922

Lease expense amounts to \$1,944 (\$2,041 in 2005).

One of the agreements included in the commitments may be terminated from September 2007 subject to a penalty of 900 Euros (\$1,385).

(b) During 2006, the MX made a commitment to acquire a further 13.3% ownership interest in BOX from an existing unitholder for US\$34,175 (C\$39,828 as at December 31, 2006). This acquisition is subject to the prior approval of the U.S. Securities and Exchange Commission (SEC) as well as customary closing conditions. The formal filing of the regulatory approval application is currently expected to occur in the first half of 2007. There is no assurance that this acquisition will be approved by the SEC or that it will close. Should this transaction be completed, our interest in BOX would rise from 31.4% to 44.7%. The MX intends to finance this acquisition by debts (note 5).

(c) The MX has also entered into a commitment in respect of MCEX, pursuant to which it has agreed with the Chicago Climate Exchange Inc. ("CCX"), that the MX will fund the first US\$3,000 of MCEX's initial working capital requirements. This commitment is staggered in tranches, of which the first is of US\$300, and the MX may terminate this commitment upon the exhaustion of each tranche, subject to certain conditions and subject to withdrawing from the MCEX project with CCX.

15. CONTINGENCIES

The MX is a party to legal actions for damages in connection with the closing of the trading floor. During 2006, an amount of \$12,824 of the legal actions taken against the Company was settled for \$1,252 and \$119 in fees. As at December 31, 2006, there was a total of \$27,269 remaining in unsettled legal actions against which the Company intends to defend itself vigorously. Even though the outcome of these legal actions as at December 31, 2006 cannot be determined with certainty, management of the MX has recorded a provision and believes that their outcome will not have a material adverse impact on the MX's operating results or financial position.

16. INCOME TAXES

The provision for income taxes differs from the amount determined by applying the combined federal-provincial tax rate to earnings before income taxes, as set out by laws.

The reasons and tax consequences of this difference are as follows:

	2006	2005
Earnings before income taxes	\$ 31,409	\$ 19,527
Tax rate as set out by laws	32.02%	31.10%
Income taxes computed	10,057	6,073
Recognized tax benefit resulting from losses and other timing differences of BOX	(1,021)	(893)
Other change in valuation allowance	(968)	(68)
Impact of tax rate differential for BOX	140	204
Adjustment to future tax assets and liabilities for enacted changes in tax rates	(183)	–
Gain on dilution and realization of cumulative translation adjustment	177	(324)
Provincial tax holiday	(1,953)	(905)
Impact of subsidiary and joint venture tax rate differential	165	198
Effect of permanent differences	286	114
Other	(122)	(7)
Income taxes	\$ 6,578	\$ 4,392

Future income taxes:

The tax consequences arising from timing differences resulting in portions of income tax assets and liabilities are as follows:

	2006	2005
Future income tax assets:		
Capital assets	\$98	\$123
Goodwill	1,023	1,082
Regulatory Division reserve fund	534	375
Employee future benefits plan	220	100
Investment in BOX	618	523
Operating losses and timing differences of BOX (note 5)	532	1,020
Capital losses	166	83
Other	116	107
Future income tax assets	3,307	3,413
Valuation allowance	(784)	(2,708)
Future income tax assets, net	\$2,523	\$705
Future income tax liabilities:		
Capital assets	\$(786)	\$(184)
Capital leases	(26)	(61)
Future income tax liabilities	\$(812)	\$(245)

As at December 31, 2006, the MX had for income tax purposes losses carried forward of \$1,224 that it can use to reduce its future taxable income related to its share in equity in BOX, maturing in 2024, as well as capital losses carried forward of \$627 it can use to reduce future capital gains, for an unlimited period.

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17. SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash operating assets and liabilities:

	2006	2005
Interest paid	\$ 157	\$ 356
Income taxes paid	7,568	1,505
Receivables	\$ (1,305)	\$ 2,335
Daily settlements due from clearing members	15,055	1,657
Clearing members' cash margin deposits	(1,271)	4,329
Clearing fund cash deposits	(10,802)	(3,461)
Prepaid expenses	(165)	455
Accounts payable and accruals	2,329	187
Income tax expenses	(141)	2,695
Accrued employees benefits liability	303	–
Daily settlements due to clearing members	(15,055)	(1,657)
Clearing members' cash margin deposits	1,271	(4,329)
Clearing fund cash deposits	10,802	3,461
	\$ 1,021	\$ 5,672
Non-cash transactions related to:		
Investing activities:		
Purchase of capital assets financed through accounts payable	\$ 1,292	\$ 451
Financing activities:		
Loans granted for share purchases	3,042	1,460
Transfer from contributed surplus to capital stock related to the reimbursement of loans on shares financed under the share purchase plan	76	130
Transfer from contributed surplus to capital stock related to the reimbursement of loans on shares financed under the stock option plan	467	–
Dividends payable	13,910	12,721

18. TAX CREDITS ON DEVELOPMENT COSTS AND GOVERNMENT ASSISTANCE

In 2006, the MX recorded tax credits for an amount of \$548 related to development costs. The costs were incurred to improve the technologies used for the trading platform. In 2005, the amount of tax credit recorded was \$263.

On March 31, 2001, the ministère des Finances du Québec (the "Ministère") agreed to grant a government assistance program to the MX, totalling \$3,500, for the Training Service in order to reimburse a maximum of 50% of business development expenses and/or a maximum of 50% of operating expenses incurred before March 31, 2004.

The above-mentioned government assistance was granted provided that the MX carried out all or substantially all its operations on the territory of the City of Montréal, up to December 31, 2005.

In addition, on April 9, 2001, the Ministère announced the application of tax measures to support the financial sector in the province of Québec, including securities exchanges such as the MX. These measures provide income tax exemption, capital tax exemption, and an exemption from employer contributions to the Health Services Fund relating to the eligible activities carried out by the MX for the period from October 1, 2000 to December 31, 2010. On June 12, 2003, these exemptions were reduced by 25%. These exemptions, other than the income tax exemption, total approximately \$890 in 2006 (\$828 in 2005).

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19. RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed elsewhere in the financial statements, MX entered into the following transactions with related parties.

In 2001, the MX signed an agreement with BOX to provide for a fee the technology and related services required for its electronic trading system.

Beginning in February 2004, the MX became an official supplier to BOX and charges at the exchange amount, being the amount established and agreed to by BOX, salaries, telecommunication services, computer equipment, and other services. The amounts invoiced in 2006 were \$15,275 (\$15,581 in 2005). These transactions were undertaken in the normal course of business. An amount of \$20 receivable from BOX is included in receivables as at December 31, 2006 (\$854 in 2005).

In 2005, the MX had operations in the normal course of business with its joint venture, Clearco, for an amount of \$433.

20. SEGMENTED INFORMATION

The MX operates in two industry segments. The commercial activities of these segments are undertaken in Canada and are defined as follows:

EXCHANGE

This segment acts as the only standardized financial derivatives exchange in Canada, providing a complete range of equity, index and interest rate derivatives.

CLEARING HOUSE (CDCC)

This segment acts as clearing house and guarantor for derivative instruments traded at the MX and certain other derivative instruments from the over-the-counter market (OTC).

These segments are managed and evaluated separately based on revenues and net earnings.

	2006		
	Exchange	Clearing-house	Consolidated
Revenues from exchange and clearing	\$ 50,737	\$ 13,248	\$ 63,985
Revenues from information systems services (note 19)	15,275	–	15,275
Investment income	1,541	1,072	2,613
Amortization of capital assets and other assets	6,307	91	6,398
Equity in results of company subject to significant influence (note 5)	1,151	–	1,151
Net earnings	17,006	7,825	24,831
Purchase of capital assets and other assets	6,212	280	6,492
Assets	80,574	42,120	122,694
	2005		
	Exchange	Clearing-house	Consolidated
Revenues from exchange and clearing	\$ 37,587	\$ 9,996	\$ 47,583
Revenues from information systems services (note 19)	15,581	–	15,581
Investment income	1,229	556	1,785
Amortization of capital assets and other assets	7,339	247	7,586
Equity in results of companies subject to significant influence (note 5)	2,257	21	2,278
Net earnings	11,168	3,967	15,135
Purchase of capital assets and other assets	3,631	178	3,809
Assets	74,310	44,722	119,032

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20. SEGMENTED INFORMATION (CONTINUED)

REGULATORY DIVISION

Pursuant to a decision rendered by the AMF on November 24, 2000, the MX created a separate regulatory division, responsible for approved participants and market regulation and operating on a cost recovery basis. Since January 1, 2005, with the concurrence of the AMF, the Regulatory Division regulates exclusively the derivative area. At that date, the Regulatory Division transferred its functions and delegated authority on securities dealers to the Investment Dealers Association of Canada (IDA) in order to bring all dealers, and their representatives and officers under the jurisdiction of one self-regulatory organization in Québec. For the year ended December 31, 2006, the Regulatory Division generated gross revenues of \$3,220 (\$2,462 in 2005) and incurred direct expenses of \$1,361 (\$885 in 2005) and indirect expenses of \$876 (\$657 in 2005). The surplus of the Regulatory Division at December 31, 2006 totals \$1,728 (\$1,541 in 2005) and is presented in accounts payable and accruals, and an equivalent amount is included in restricted cash. Of this amount, \$828 will be reimbursed to approved participants at the beginning of 2007.

21. EMPLOYEE FUTURE BENEFITS

Information relating to the MX's employee future benefit plan is as follows:

	2006	2005
Accrued benefit obligation:		
Balance at beginning of year	\$ 1,385	\$ 847
Current service cost	225	159
Interest cost	75	60
Actuarial loss	15	319
Balance at end of year	\$ 1,700	\$ 1,385
Plan assets:		
Fair value at beginning of year	\$ 119	\$ 52
Annual return on plan assets	7	5
Employer contributions	58	54
Actuarial gain	14	8
Fair value at end of year	\$ 198	\$ 119
Accrued benefit liability:		
Funded status—plan deficit	\$ 1,502	\$ 1,266
Unamortized past service costs	(493)	(545)
Actuarial loss unamortized	(296)	(311)
Balance at end of year	\$ 713	\$ 410

The contributions from the employer of \$58 in 2006 and \$54 in 2005 were invested in a diversified fund.

The MX has provided a letter of guarantee in the amount of \$1,782 to the benefit of the trustee of the employee future benefit plan, using a part of the operating line of credit already in place with its bank (note 9).

The significant actuarial assumptions used to determine the MX's accrued benefit obligation and benefit plan expense are as follows (weighted average assumptions as of January 1):

	2006	2005
	Expense and obligation	Expense and obligation
Discount rate	5.0%	5.0%
Expected long-term rate of return on plan assets	7.0%	5.0%
Rate of compensation increase	3.0%	3.0%

The actuarial valuation for funding purposes of the pension plan is as of January 1, 2004. The next actuarial valuation for funding purposes must be performed as at January 1, 2007 at the latest. The measurement date for the plan assets and the accrued benefit obligation is January 1.

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21. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The MX's net benefit plan expense is as follows:

	2006	2005
Current service cost	\$ 225	\$ 159
Interest cost	75	60
Expected return on plan assets	(7)	(5)
Amortization of past service costs	52	52
Amortization of actual loss	16	–
Net benefit plan expense	<u>\$ 361</u>	<u>\$ 266</u>

The net benefit plan expense is included in compensation and benefits in the consolidated statement of earnings.

22. FINANCIAL INSTRUMENTS**(a) Credit risk**

The MX reviews a customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends and other information.

(b) Interest rate risk

Any fluctuation in market interest rates will cause the return on cash and cash equivalents and temporary investments and the fair value of temporary investments to vary either upward or downward.

(c) Fair value of financial instruments

The carrying amount of receivables, clearing members' cash deposits (assets and liabilities), clearing fund cash deposits (assets and liabilities), daily settlements due from/to clearing members, accounts payable and accruals and loans to employees included in other assets approximates their fair value due to the near-term maturity of those instruments.

(d) Concentration of credit risk

Approximately 19% of the MX's revenues for the year ended December 31, 2006 were generated by BOX in information systems services (25% in 2005), while four approved participants on behalf of numerous clients, representing more than 6% of MX's revenues individually, generated 33% of MX's revenues in 2006 (31% in 2005), for a combined total of 52% in 2006 (56% in 2005).

23. RISK MANAGEMENT

In its role of clearing house, the CDCC assumes the obligations that arise from a defaulting member's derivative positions. The CDCC employs various techniques to minimize its exposure in the event of such a default. The principal technique is the collection of risk-based margin deposits in the form of cash, letters of credit, equities and liquid government securities (note 4). Should a clearing member fail to meet a daily margin call or otherwise not honour his obligations under open futures and options contracts, margin deposits would be available to apply against costs incurred by the CDCC in liquidating the positions.

The CDCC's margining system is complemented by a stress test reporting system, which is part of its Capital Monitoring Program. This process, introduced in 2000, evaluates the financial strength of the members to meet margin requirements that may result from a sudden adverse change in the market. Members' portfolios are subject to these stress tests and those members that fail to meet the criteria established by the CDCC are required to deposit a stress margin.

The CDCC also maintains a clearing fund through deposits of cash and securities from clearing members (note 4). This fund is available in the event that the cost of liquidating a defaulting member's positions exceeds the margin deposits collected from that member. The aggregate level of clearing funds required to be deposited by each clearing member is 12% of the largest aggregate daily margin requirement of that clearing member over the preceding calendar month.

If, on a member default, further funding is necessary to complete the liquidation, the CDCC has the right to require members to contribute an additional amount equal to their previous contribution to the clearing fund.

The CDCC has arranged a total of \$30,000 in revolving standby credit facilities with a Canadian Schedule I bank to provide liquidity in the event of default by a clearing member. Borrowings under the facilities, which are required to be collateralized, bear interest based on the bank's prime rate plus 0.75%. These facilities have not been utilized since the date they were established.

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24. SUBSEQUENT EVENTS

(a) Strategic investment:

On February 14, 2007, the MX and the Nymex Holdings Inc. ("NYMEX") entered into an agreement whereby NYMEX would purchase 1,030,350 (pre stock split) common shares issued from the MX's treasury for \$88 per common share, totalling net proceeds of approximately \$89,200 (net of transaction fees).

MX is currently considering various alternatives with respect to the use of proceeds of the NYMEX Investment. In addition to general corporate purposes, MX may use these proceeds to fund the possible payment of a special dividend to existing shareholders, and to fund all or part of a normal course issuer bid.

As part of this agreement, MX and NYMEX have agreed to create a business venture for the trading and clearing of different energy products in the Canadian market. The MX would hold a 51% interest in partnership with NYMEX.

MX and NYMEX currently intend to enter into definitive agreements on or about March 7, 2007. The closing of this strategic investment is subject to a number of conditions, including finalization of due diligence and the execution of definitive documentation approved by the respective boards of directors of MX and NYMEX.

(b) New stock based compensation plans:

On February 13, 2007, the MX's Board of Directors agreed to terminate the existing stock options plan and the share purchase plan, but to maintain the 43,000 options (pre stock split) or 129,000 options (post stock split) still outstanding and exercisable.

At the same time, the MX's Board of Directors approved the creation of a new employee share purchase plan and a stock option plan. Both plans will be implemented on the listing date of the MX.

(I) EMPLOYEE SHARE PURCHASE PLAN:

- As per the terms of the plan, the eligible employees may contribute up to 10% of their annual base salary. The MX will contribute an amount equal to 50% of the eligible employee's contribution, up to a maximum of \$2.5 per calendar year.
- The plan will not have a dilutive effect since the purchase of shares will be made on the open market by the plan administrator.

(II) STOCK OPTION PLAN:

The plan, of a total duration of 10 years, foresees a total reserve of 1,800,000 common shares after giving effect to the stock split. The plan, entirely based on performance criteria, is available for officers and key employees of the MX and its wholly-owned subsidiary, CDCC. The Board of Directors has full latitude on all aspects of the plan.

(c) New stock based compensation plans

On February 13, 2007, the MX's Board of Directors approved a stock split of the MX's shares on a three-for-one basis effective immediately prior to the pending stock exchange listing of its shares. The following table shows the impact of the stock split on the earnings per share.

	2006	2005
Net earnings	\$ 24,831	\$ 15,135
Weighted average number of shares outstanding—basic	26,228,286	24,591,153
Dilutive effect of stock options and shares held in guarantee	1,207,839	1,758,783
Weighted average number of shares outstanding—diluted	27,436,125	26,349,936
Basic earnings per share	\$ 0.95	\$ 0.62
Diluted earnings per share	\$ 0.91	\$ 0.57

25. COMPARATIVE FIGURES

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

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Ce rapport annuel est également disponible en français.

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