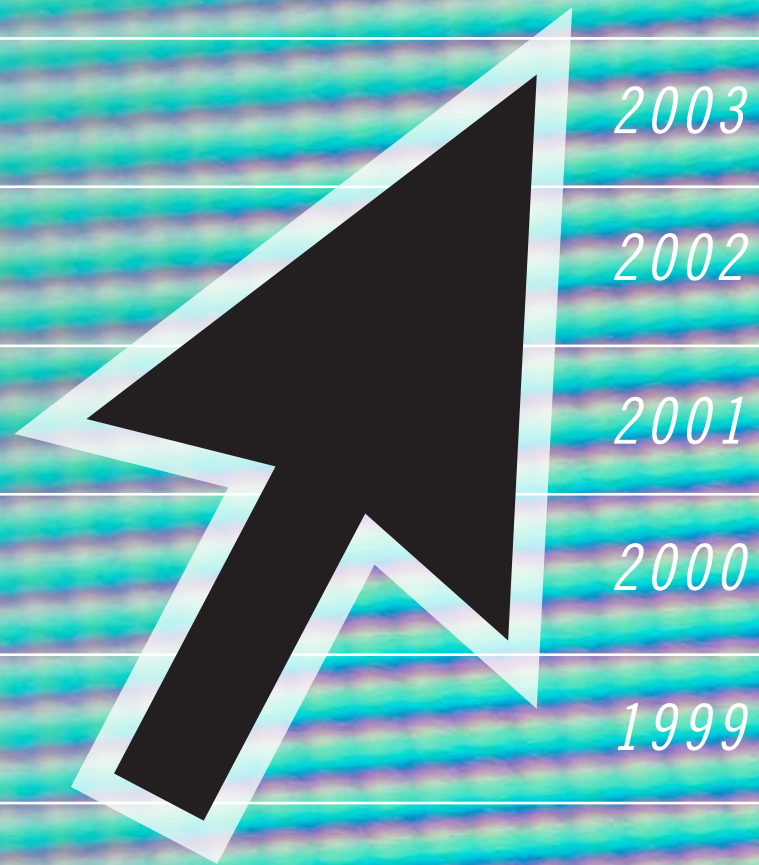


*MONTRÉAL EXCHANGE > ANNUAL REPORT 2004*



*YOUR PARTNER IN RISK MANAGEMENT*

## BUILDING A NEW EXCHANGE... 1999-2004

Our team has transformed the Montréal Exchange from a traditional securities exchange into a dynamic market for traded financial derivatives.

**The integration of Canadian financial derivatives trading in a single exchange improved market efficiency and boosted trading activity. It earned the Montréal Exchange a “new future”.**

### 2004

We launched a new US options exchange, as part of a partnership group, providing advanced trading technology and operations support. First in the world for a non-US institution.

### 2003

We exceeded performance targets in all key areas of the business, proving that our model was robust, profitable and delivering solid results. Landmark for the organization and shareholders.

### 2002

We extended direct electronic access to Montréal Exchange to investors in the US and UK. First direct entry into global derivatives markets.

### 2001

We completed our transformation into a 100% electronic exchange, replacing the specialist system with a competitive, open market model. First in North America.

### 2000

We restructured the Montréal Exchange from a mutual to private corporation and became sole owner of the Canadian Derivatives Clearing Corporation.

### 1999

We won approval of our proposal to reorganize the Canadian securities markets, making the Montréal Exchange Canada’s only financial derivatives exchange.

## LOOKING AHEAD... 2005 AND BEYOND

Our strategy is to leverage advanced trading technology and a tested market model to boost trading activity, reap economies of scale and achieve aggressive business targets. We are mobilizing the expertise of our derivatives professionals to diversify into new risk management markets.

**We are organized to capitalize on three core competencies: financial markets, clearing services and information technology solutions.**

With a solid platform for growth and diversification, the Montréal Exchange is focussing on its core competencies to increase the scope and scale of operations.

### FINANCIAL MARKETS

- This business unit connects market participants to the Exchange, builds business relationships with them and works with them to ensure that our offering of derivatives products meets investor needs. It also delivers market information services and manages the Derivatives Institute, the learning and training arm of the Montréal Exchange.
- The strategy is to meet aggressive growth targets by attracting new market participants from Canada and global financial centres, and building investor demand for financial derivatives.

### CLEARING SERVICES

- This business unit provides central counterparty clearing services to participants. It reduces investor risk by guaranteeing all the contractual commitments between parties to transactions executed on the Montréal Exchange.
- The strategy is to maintain a Standard & Poor's AA credit rating, support increased trading volumes and diversify into new markets for risk management services. Key priorities are to design multilateral clearing solutions that reduce over-the-counter operational risk related to the energy and financial services sectors.

### INFORMATION TECHNOLOGY SOLUTIONS

- This business unit has developed a robust, scalable and exportable trading technology platform. Its team has strong financial software expertise and a valuable pool of proprietary intellectual capital.
- The strategy is to expertly manage the advanced information systems that support trading and clearing activities of the Montréal Exchange as well as services provided to the Boston Options Exchange. It seeks diversification by offering specialized technology solutions and service agreements to other exchanges and financial institutions.

### CORPORATE SERVICES

- Success in the financial derivatives business rests on solid institutional infrastructure, composed of outstanding professionals, legal expertise and financial information systems.
- Our experts in research and development, human resources, law, finance, marketing and communications have the mission of supporting the entrepreneurial strategies of the operating business units.

### REGULATION

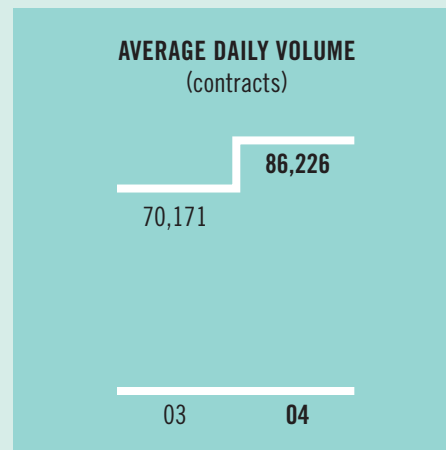
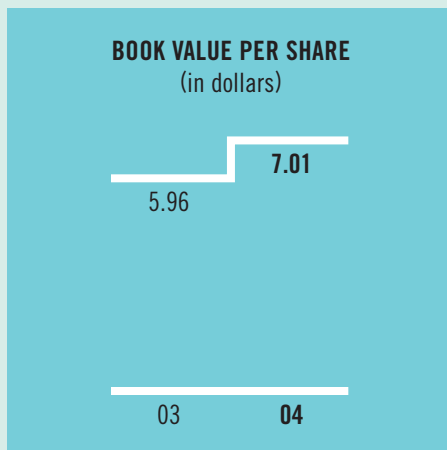
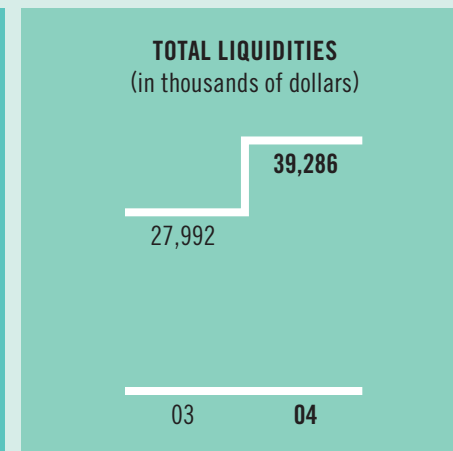
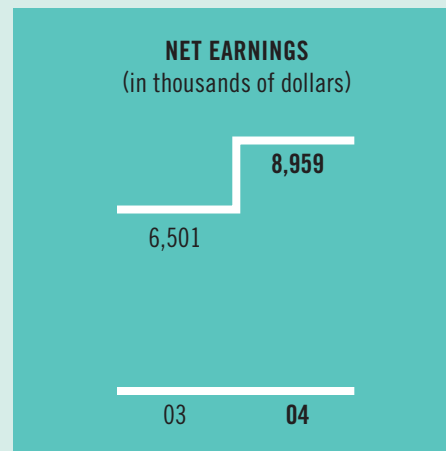
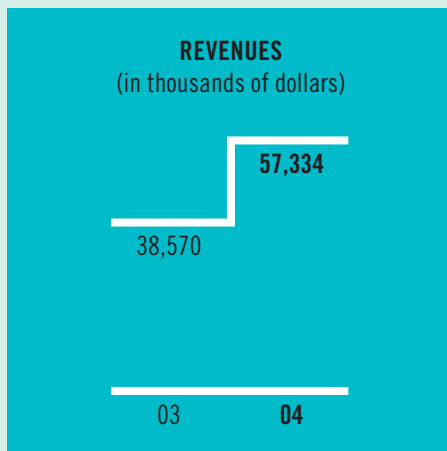
- The Montréal Exchange is a self-regulatory organization that has a major stake in maintaining the transparency, credibility and integrity of the exchange traded derivatives market in Canada.
- The Regulatory Division is managed and overseen at "arm's length" from the Montréal Exchange, and reports to the Special Committee. The aim is to ensure neutrality and impartiality when the Division applies the ground rules that govern relationships between the Exchange and its market participants.

# HIGHLIGHTS

	2004	2003
<b>OPERATIONAL RESULTS</b> (in thousands of dollars)		
Revenues	\$ 57,334	\$ 38,570
Operational earnings	14,347	5,420
Net earnings	8,959	6,501
Cash provided by operations	20,108	8,753
<b>FINANCIAL STRUCTURE</b> (in thousands of dollars)		
Total assets	\$ 105,637	\$ 73,654
Total liquid assets	39,286	27,992
Shareholders' equity	56,763	47,841
<b>PER SHARE</b> (in dollars)		
Net earnings	\$ 1.11	\$ 0.81
Diluted net earnings	1.07	0.80
Book value	7.01	5.96
<b>FINANCIAL RATIOS</b> (in %)		
Operational earnings / Revenues <sup>(1)</sup>	25.00%	14.10%
Net earnings / revenues	15.63%	16.89%
Return on shareholders' equity	15.78%	13.59%

(1) Includes non-recurring revenue for 2004, as explained in this annual report.

## HIGHLIGHTS (continued)



## CHAIRMAN'S MESSAGE



Jean Turmel

This is my first report to shareholders of the Montréal Exchange, as Chairman of the Board, and it is a pleasure to report another year of rapid growth and improving profitability. The 2004 financial results confirm the success of a five-year strategy of transforming this institution into a specialized financial derivatives exchange competing proficiently in the global marketplace.

While I have not served on the board previously, I did play a role in the initial decision to transform the Montréal Exchange. In 1999, I chaired a task force created by the Québec Government to examine proposals for restructuring the mandates of what were then four Canadian securities exchanges. We approved a proposal from leaders of the Montréal Exchange for this institution to exit the traditional securities business and specialize in trading and clearing financial derivatives. After careful review, the task force accepted arguments that specialization would improve the efficiency of the Canadian capital markets and, at the same time, better ensure the long-term future of the Montréal Exchange.

While the specialization strategy was controversial at the time, the task force members believed that it was in line with powerful (even unstoppable) global financial trends. We also concluded that it would fill a critical gap in the market: the need of investors for a dedicated derivatives exchange in Canada and for a broader menu of exchange traded financial derivatives, backed by a central counterparty clearing house.

The Montréal Exchange's proposal was ambitious, to say the least. It placed the Exchange in an entirely new global competitive peer group. Instead of competing for trading business with other exchanges in Canada, the Montréal Exchange would be judged against major derivatives exchanges worldwide. In the last five years, Luc Bertrand and his team have moved decisively to compete in that new league. They rapidly demutualized the Exchange, introduced a new market model and adopted a fully automated trading system. In just a few years, the team has completed a technological and institutional transition in which many larger exchanges around the world are still engaged.

The financial performance described by Luc Bertrand in his Message to Shareholders, confirms that the Exchange management's assumptions in 1999 were correct – both about the growth potential of the global derivatives market and about the opportunity to meet pent-up market demand in Canada. Most importantly, the rapid growth of the Montréal Exchange has been built on a solid foundation, at a number of levels.

First, the Exchange's market model is proving to be efficient, simple and transparent both to investors and to the market participants that are electronically connected to our automated trading systems. The Exchange's relationships with market participants are based on confidence that the trading system will process orders quickly, at low cost and on a first-come-first-served basis. The old specialist system has been replaced with an open system that allows many market makers to compete for investors' trading business. Growth in trading volume thus reflects solid value delivered to investors.

Second, the Exchange's advanced trading technologies have proven to be reliable, robust and scalable – and thus able to handle the increased trading volumes directed to us by market participants and investors. Those technologies, as well as the open market model that they support, have passed the test of being approved by the US Securities and Exchange Commission for use by a new options exchange in the United States, the Boston Options Exchange (BOX).

Third, our clearing services meet the highest global standards and, as pointed out elsewhere in this Report, the Canadian Derivatives Clearing Corporation (CDCC) has a top investment rating. In simple terms, the expertise and track record of CDCC enables the Exchange to offer superior risk management solutions to investors.

## CHAIRMAN'S MESSAGE (continued)

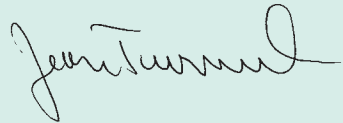
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Finally, the Board is working with senior management to ensure that the Exchange, while not publicly listed, meets international standards of good governance. Since our transformation from a mutual to a private business corporation in 2000, we have ensured that at least half of all directors are independent. All board committees are chaired by an independent director. From the beginning, the Exchange also ensured that the Regulatory Division is governed by a Special Committee composed of a majority of independent directors.

*The management proxy circular contains additional information on governance and the role of the Board of Directors and its committees.*

In January 2005, the Montréal Exchange transferred its former responsibilities as Self-Regulatory Organization (SRO) for the activities of securities dealers to the Investment Dealers Association (IDA). The Regulatory Division retains responsibility for the activities of market surveillance of the derivatives market and its participants. We would like to extend many thanks and best wishes to the former employees of the Exchange who are now working for the IDA.

Since my task force reported in 1999, the “new” Montréal Exchange has made its mark as a successful financial innovator in Canadian and international financial markets. It has built a solid platform for future growth. All members of the board look forward to working with management to ensure that the Exchange continues to maintain a high level of business integrity and to realize its rich potential. Personally, I remain confident in the long-term future of this institution and its ability to deliver solid value to shareholders.



Jean Turmel

# MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER



Luc Bertrand

The Montréal Exchange registered robust financial results in 2004. This confirmed a solid trend of progress in our business performance in the five years since we became Canada's financial derivatives exchange.

Our strong performance reflects sustained growth in the global derivatives market. It also reflects disciplined implementation of the business strategy that has transformed the Montréal Exchange, in just a few years, from a traditional exchange into one specialized in derivatives. By assuming this role clearly and decisively, we have generated visibility, credibility and rapid organic growth.

## **PERFORMANCE IN 2004**

In 2004, trading volume increased more than 23% to reach a total of 22 million contracts for the year. The volume growth showed that we have been meeting the needs of market participants – brokers, specialized traders, financial institutions and institutional investors that are electronically linked to the Exchange's advanced trading systems. It also indicates that we have assisted these institutions in meeting the risk management needs of the investors whom they serve.

Total revenues reached \$57 million in 2004. Excluding a one time \$5 million revenue related to a transaction with the TSX Group, total revenues from ongoing operations increased 36%.

The healthy growth in trading activity fuelled a 20% increase in transaction revenues to \$20 million. Revenues from information technology services rose fivefold to \$12 million, reflecting the Montréal Exchange's partnership with the Boston Options Exchange (BOX) for which we provide all technical operations and maintenance services. BOX was launched in February 2004 and generated revenue for the Montréal Exchange under a service contract agreement for most of the year.

In 2004, operating earnings reached \$14 million (including the non-recurrent revenue), compared to \$5 million in 2003, reflecting strong revenue growth combined with disciplined cost management. The same factors widened operating margins to 25% in 2004 from 14% in 2003. As overall activity has increased from year to year, we have benefited from the leverage and economies of scale flowing from earlier investments, particularly in advanced information technology.

The Montréal Exchange net earnings increased 38% to \$9 million in 2004. This translated into earnings per share of \$1.11 in 2004, compared to \$0.81 in 2003. It is interesting to note the improvement in profitability since 2002, the first year that the Exchange declared a profit (of \$61,000 or \$0.01 per share) since its transformation into a derivatives exchange.

*The Management Report on page 12 presents additional information on the financial position and operating results of the Montréal Exchange.*

As Chief Executive Officer, it is especially satisfying to report not only that revenues and earnings increased in 2004 but that their quality also improved according to two key measures. The first measure is geographic diversification of the revenue base. For the last two years, we have made a concerted effort to attract new market participants from foreign financial markets in the US and UK. At the end of 2004, 12 foreign participants were

# MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER (continued)

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connected to the Exchange's electronic trading platform, double the number in 2003; non-Canadian clients held more than 50% of the open interest of the Exchange's futures business in 2004. We are progressively growing and diversifying the sources of transaction revenues.

The second measure is the diversification of our lines of business. In 2004, Information Technology Solutions emerged as a major revenue earner mainly because of the BOX technology service contract. This was the product of two years of investment and is the first step in a long-term strategy.

## **BOX AND THE US MARKET**

The partnership with BOX positions the Montréal Exchange for future growth in the global marketplace for financial technology solutions. We are the first and only foreign exchange authorized by the US Securities and Exchange Commission (SEC) to manage the technical operations of a US exchange. This gives the Montréal Exchange added credibility and visibility in the marketplace.

BOX completed its first full year of operations on February 4, 2005 having demonstrated the competitive appeal of its market model and advanced trading technology. At the end of its first year, it processed an average daily volume of 250,000 contracts and a total of 26 million contracts for the year. Its product offering expanded quickly from 125 options classes when the exchange opened for trading to 347 options classes a year later. Its market share in these classes amounted to more than 5%, and in excess of 20% in certain classes.

BOX is building a reputation among US market professionals for its transparent and open market model, which replaces the traditional floor specialist with competitive market makers on an electronic platform. The model's automated mini-auction "price improvement" is proving to be a credible and viable alternative to the controversial payment for order system espoused by the five other US exchanges. A growing number of market participants see measurable benefits. Moreover, the automated order processing system (managed by the Montréal Exchange) is viewed as more economically efficient than the traditional open outcry floor base exchange.

The Montréal Exchange is not only the technology partner of BOX but also its largest shareholder. This ownership holding enables us to participate directly in the world's most dynamic equity options market.

## **FIVE-YEAR TRACK RECORD: VALIDATION OF BUSINESS STRATEGY**

The Montréal Exchange's performance in 2004 is especially encouraging because it confirms a five-year trend of sustained growth in trading volumes, revenues and earnings since we became a specialized derivatives exchange in 1999. Consider this quick overview of our performance in the 2000–2004 period.

	2000	2004	%
Trading volume (contracts)	13 M	<b>22 M</b>	69%
Revenues	\$ 32 M	<b>\$ 57 M</b>	78%
Operating earnings	\$ (5) M	<b>\$ 14 M</b>	-
Shareholders' equity	\$ 45 M	<b>\$ 57 M</b>	27%

These results exceed initial targets established in our business plan. The track record makes it clear that the Exchange entered the right market, with the right business strategy, and the right market model, at the right time.

# MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER (continued)

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We have caught a wave of sustained growth in the global derivatives market. Market growth, in turn, has been driven by deep-rooted trends in financial management, not just financial market cycles. With increased pressure on financial institutions and large institutional investors to manage portfolio risk effectively, derivatives have been used more and more frequently. We believe they are poised to grow in importance.

In Canada, the integration of all financial derivatives trading in a single exchange has helped develop the market for exchange traded derivatives, improve market efficiency and attract increasing trading volumes.

Internationally, we use our advanced trading technology to tap into the main liquidity pools of the derivatives world: New York, Chicago and London. Direct access to our trading platform has become increasingly popular amongst US and UK brokers, who have become foreign approved participants of the Exchange.

## **VISION FOR THE FUTURE**

In the financial markets, there is little time for looking back on past achievements. The Exchange's track record in 2000–2004 is not just a past success story. It provides a solid platform for future growth and tightly managed diversification of the business.

In the 1990s, we were one of four traditional exchanges in Canada fighting a defensive battle to preserve a modest share of the national securities market. Today, we are a growing specialized exchange delivering an offensive battle in the global securities market. Our goal is to build the Exchange's – and Canada's – share in the fastest growing sectors of that market: derivatives, clearing and related services.

It is reasonable to expect continued growth in the global derivatives business in the next five years – and especially in the exchange-traded segment of that business. Canada has been very well served in over-the-counter (bilateral) derivatives by a strong, well capitalized banking system. However, the penetration of exchange traded derivatives in Canadian financial markets remains lower than in Europe and the US, leaving ample room for more growth.

We adapted our organizational structure in 2004 to facilitate a second long wave of growth. The Exchange is now focused on three core business units: Financial Markets, Clearing and Information Technology Solutions. Each of these units has ambitious growth and profitability targets.

Financial Markets is looking to engineer more strong growth in derivatives trading from both Canadian and foreign market participants – and ultimately from their institutional and retail clients. Teams of derivatives specialists will continue their marketing and awareness building campaigns with brokers and financial professionals. The unit continue to adjust the mix of products and services to meet the needs of investors through all phases of financial market cycles – thus broadening the appeal of exchange traded derivatives. The Derivatives Institute continues to offer education and learning programs, working with academic partners such as Université du Québec à Montréal. We believe investor education will, over time, boost the base level of demand for derivatives.

## MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER (continued)

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Clearing will support increased trading activity while also offering new risk-management and clearing services in high-potential sectors, such as energy, and financial services. In both sectors, the key strategy is to work with business partners who offer over-the-counter derivatives to clients in bilateral deals. Our aim is to offer multilateral clearing services to both financial and energy OTC derivatives. In this regard, we believe that energy derivatives is a high potential market and it is being developed by Clearco Inc., a joint venture resulting from a partnership arrangement concluded in 2004 between the Montréal Exchange and Oxen Inc.

In financial services, the Exchange's clearing unit will work with the bilateral derivatives experts in banks to reduce operational and credit risks through the increased use of central counterparty clearing solutions. Our entry position in this market is strengthened by the AA Standard & Poor's credit rating of the Canadian Derivatives Clearing Corporation (CDCC), which is wholly owned by the Exchange.

Information Technology Solutions will continue to provide best in class services to the Montréal Exchange, its Clearing Corporation (CDCC), and BOX and will seek out more business partnering opportunities, with BOX serving as a general model. The unit will also develop ways of earning revenue streams from its reserve of proprietary intellectual capital.

In closing, I would like to thank all members of the Board for their support to management in implementing a bold, aggressive business strategy. Our new Chairman, Jean Turmel, is one of the pioneers in the development of the Canadian derivatives market, both as a senior banker and a strong supporter of the Exchange's specialization strategy. I would also like to thank, and congratulate, all our employees for their dedication, skill and flexibility in transforming the Exchange into an entrepreneurial business enterprise. They are proving everyday that they compete with the best professionals in the world.



Luc Bertrand

## **PRELIMINARY COMMENTS**

This management report discusses the financial position and consolidated operating results of Bourse de Montréal Inc. (the “Bourse”) for the fiscal year ended December 31, 2004 compared with the same period in 2003. It should be read in conjunction with the audited consolidated financial statements and accompanying notes.

The purpose of this management report is to help readers understand the nature and significance of changes and trends, as well as the risks and uncertainties associated with the operation and financial position of the Bourse. Certain sections of this report contain forward-looking statements which, by their very nature, entail known and unknown risks and uncertainties that could cause the Bourse’s actual and future results to differ materially from those expressed in the forward-looking statements. The risk factors that may cause such differences include changes in financial markets, which affect our trading and clearing volumes, competition that may have an impact on transaction prices and on the market’s interest in our products, reliability of information systems and regulatory changes in Canada and abroad. It should be noted that this list of significant factors is not exhaustive.

The information contained in this management report takes into account all major events that occurred before March 8, 2005, date on which the Board of Directors approved the audited consolidated financial statements as well as the management report. Unless indicated otherwise, the financial information presented in this report, including the amounts appearing in the tables, is expressed in Canadian dollars and is prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). This report also contains certain performance measures that are not in accordance with GAAP. For example, the Bourse uses operational earnings (earnings before investment income, other items and income taxes), because this measure is used by management to assess the company’s operational and financial performance and is frequently used by members of the financial community to analyze and compare the performance of companies in the Bourse’s business sectors. However, this measure is not designed to replace other tools used to evaluate financial performance or cash flows as liquidity indicators. It should be noted that the definition of this measure adopted by the Bourse may be different from those of other companies.

# 2004 MANAGEMENT REPORT (continued)

## HIGHLIGHTS

### CONSOLIDATED ANNUAL INFORMATION CHOSEN

Year ended December 31 (in thousands of \$, except per share amounts)	2004	2003	2002
Revenues	\$ 57,334	\$ 38,570	\$ 32,551
Operational earnings	14,347	5,420	227
Net earnings	8,959	6,501	61
Basic earnings per share	1.11	0.81	0.01
Diluted earnings per share	1.07	0.80	0.01
Total assets	105,637	73,654	52,643
Cash provided by operations	20,108	8,753	4,886
Return on shareholders' equity	15.78%	13.59%	0.14%
Net earnings / Revenues	15.63%	16.86%	0.19%

The Bourse has posted a sustained rate of growth since its specialization as a derivatives exchange.

The results of the last three fiscal years are an eloquent reflection of its development as a fully automated derivatives exchange.

The improvements in its net earnings, cash flows and return on shareholders' equity clearly illustrate the progress achieved and the strength of its business model.

## OPERATING RESULTS

**REVENUES** Total revenues of the Bourse reached \$52.3 million (excluding other revenues of \$5 million from the TSX Group Inc. ("TSX") pertaining to the transaction with the Natural Gas Exchange ("NGX") concluded in the first quarter of 2004), compared with \$38.6 million in 2003, an increase of 36%. The sustained efforts to develop the derivatives market in Canada and abroad resulted in a 20% increase in **transaction revenues**, from \$16.4 million in 2003 to \$19.7 million in 2004. Average daily volumes grew by 23%, from 70,171 contracts in 2003 to 86,226 contracts in 2004. Equity options posted the most robust growth, with a 30% rise in average daily volumes. Interest rate derivatives were also on the rise, with a 20% increase in average daily volumes. Index derivatives also contributed to the Bourse's growth with a 12% increase in volumes. The heightened level of activity on the Bourse's markets also led to a \$1.1 million or 16% increase in **clearing and option exercise revenues** compared with 2003.

**Revenues from market participants** were down by \$1.4 million, from \$5.6 million in 2003 to \$4.2 million in 2004. At the beginning of 2004, the Bourse agreed to terminate the service bureau provided with respect to trading tools offered to approved participants. This revenue shortfall was offset by a decrease in expenses related to computer licenses and maintenance.

**Revenues from information systems services** rose by \$9.7 million, from \$2.4 million in 2003 to \$12.1 million in 2004, driven by the start-up of the Boston Options Exchange ("BOX") in February 2004. The Bourse is the principal shareholder of BOX, with a 31.7% interest, and is responsible for the technical operations and maintenance of the electronic trading platform used by BOX.

**Market data revenues** reached \$7.8 million in 2004, an increase of 14%, due primarily to the larger number of subscribers who opted for higher-level service and the addition of new market data vendors.

As indicated above, at the outset of 2004, \$5 million in financial compensation were received from the TSX for the acquisition of NGX, an energy exchange in Alberta. This non-recurrent revenue is presented under “Other Revenues”.

**EXPENSES** Total expenses amounted to \$43.0 million versus \$33.1 million for the comparable period in 2003, an overall increase of 30%. Most of this increase could be ascribed to expenses related to information systems services provided to BOX, notably as regards salaries, computer licenses and maintenance, telecommunications and depreciation of equipment.

**OPERATING EARNINGS (before investment income, other items and income taxes)** Operating earnings rose to \$14.3 million compared with \$5.4 million in 2003, including non-recurrent revenue of \$5 million received from TSX. Excluding this non-recurrent revenue, operating earnings stood at \$9.3 million, up 72% compared with 2003. Operating earnings represented 18% of total revenues (excluding non-recurrent revenue of \$5 million) compared with 14% in 2003.

**OTHER ITEMS** **Investment income** remained stable at \$1.1 million compared with 2003. The Bourse’s investment in BOX – included on an equity basis in accordance with Canadian generally accepted accounting principles – produced \$2.7 million equity in net losses compared with \$2.2 million in 2003. The **income tax** expense for 2004 was \$3.8 million compared with an income tax recovery of \$0.5 million in 2003 attributable to the reduction of a significant portion of the valuation allowance for future income tax assets of the Bourse and its subsidiary the Canadian Derivatives Clearing Corporation (“CDCC”) in 2003.

**NET EARNINGS** Net earnings for the fiscal year ended December 31, 2004 stood at \$9.0 million (including \$3.8 million net of income taxes attributable to non-recurrent revenues), compared with \$6.5 million in 2003. Net earnings represented 16% of total revenues compared with 17% in 2003, including the reversal of the valuation allowance for future income tax assets mentioned above.

Basic earnings per share for 2004 stood at \$1.11 compared with \$0.81 million the previous year. Diluted earnings per share for 2004 were \$1.07 versus \$0.80 in 2003.

### LIQUIDITY AND FINANCIAL RESOURCES

The Bourse’s financial position was further solidified during the 2004 fiscal year. **Total liquidities** grew from \$28.0 million at the end of 2003 to \$39.3 million in 2004, an increase of \$11.3 million. **Cash flows from operating activities** for 2004 were \$20.1 million compared with \$8.8 million for 2003. Investment activities used \$10.6 million in liquid assets, compared with \$5.8 million the previous year. In 2004, the Bourse pursued its investments in an effort to maintain its technological lead and sustain its growth. It also made strategic investments in other companies, as described hereinafter.

## INVESTMENTS

The Bourse made a \$3.3 million investment in the capital of BOX on May 13, 2004. This additional investment allowed BOX to continue its development and remain the principal shareholder of BOX, with a 31.7% interest. In January 2005, two new BOX shareholders, including a major American brokerage firm, have injected US\$2.6 million – based on a global valuation of US\$125 million – to acquire shares in BOX. The Bourse's stake in BOX now stands at 30.7% compared to 31.7%.

The Bourse, through its wholly-owned subsidiary, CDCC, concluded an agreement on July 7, 2004 with Alberta Watt Exchange (Watt-Ex), an energy exchange in Alberta wholly owned by Oxen Inc. (“Oxen”), for the joint development of clearing services for electricity forward contracts, thereby expanding its activities by clearing transactions in the energy sector. CDCC has invested \$0.3 million in the joint venture Clearco Inc. and holds 50% of its capital stock. The Bourse, through its subsidiary CDCC, brings its recognized expertise in the clearing of derivatives products to the energy sector, as well as the credibility stemming from its Standard & Poor's AA credit rating. The Bourse has also acquired 8% of the capital stock of Oxen for \$0.4 million.

## CONTRACTUAL OBLIGATIONS

The Bourse's contractual obligations are described in notes 10 and 13 of the consolidated financial statements as at December 31, 2004.

## STRATEGY AND OUTLOOK

To achieve its objectives, the Bourse has established a strategy built around the following elements:

1. Increase daily transaction volumes by adding new market participants, expanding its access network, offering a range of products that remain adapted to client needs, and extending trading hours. Our development efforts are designed to promote greater use of derivatives products in order to reach the current average level of use in the G7 countries.
2. Expand the range of clearing services that will be offered to a larger clientele, including the energy and over-the-counter markets.
3. Maintain the AA credit rating from Standard & Poor's, which reflects the quality of its clearing house's risk management policies.
4. Diversify revenue sources to minimize the adverse effects of national and global events that are likely to affect the Bourse's market.
5. Maintain the Bourse's technological lead with respect to electronic trading systems and market model.
6. Manage costs to increase profitability and shareholder value.

## PERFORMANCE INDICATORS

Our key performance indicators are as follows:

- Average daily volume;
- Net earnings per share;
- Reliability of information systems.
- Operating earnings;
- Cash flows from operating activities;

## ABILITY TO DELIVER EXPECTED RESULTS

To achieve our objectives, we rely on the following assets:

1. A seasoned, competent, motivated and responsible management team.
2. In-depth knowledge of the market – especially our field of expertise, i.e. derivatives products; knowledge that extends to all operations related with managing an exchange.
3. One of the few clearing houses with a AA rating from Standard & Poor's.
4. One of the most technologically advanced electronic trading platforms in the world; a very high level of system availability and reliability, along with a system backup centre to ensure continued operations in the event of an emergency.
5. Rigorous, dynamic management and on the lookout for growth opportunities.

## RISKS AND UNCERTAINTIES

**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.

**RISK DUE TO COMPETITION** The Bourse is in direct competition with other derivatives exchanges as well as alternative trading systems. This competition could intensify in the future due to the arrival of major European players on the North-American market. Tighter competition could lead to, among other things, reduced interest in our products, and pressure on transaction prices.

**RISK RELATED TO RELIABILITY OF INFORMATION SYSTEMS** Being entirely automated, the Bourse is very dependent on its information systems. However, it has employed every means to minimize the risk of system interruptions or outages that could affect its trading and clearing operations. The Bourse has a system backup centre to allow it to maintain its operations uninterrupted in the event of an emergency.

**REGULATORY RISK** It is understood that the Bourse complies with the various regulatory requirements governing its activities. It carries on these activities in accordance with the regulations of securities regulatory authorities in Canada, the U.S. and the U.K., and given its development plans, it could potentially be subject to the regulations of other countries. Regulatory trends are not always predictable. Unexpected and new regulatory requirements could impact the Bourse's organization, its market position and its results.

## 2004 MANAGEMENT REPORT (continued)

### INFORMATION ON THE BOURSE'S CAPITAL STOCK

As at December 31, 2004, the capital stock of the Bourse consisted of 8,285,100 common voting and participating shares. Of this number, 185,409 shares held by employees under the share purchase plan are not paid, since they are subject to interest-free loans.

As at December 31, 2004, under the executive stock options plan, 838,000 options were awarded, including 75,000 in 2004. For more information, see note 11 of the consolidated financial statements as at December 31, 2004.

### CHANGE IN ACCOUNTING POLICIES OVER THE PAST TWO YEARS

No changes have been made in accounting policies over the past two years, other than the application of new standards, as explained in the Notes to consolidated financial statements.

### QUARTERLY INFORMATION

#### MAIN QUARTERLY FINANCIAL DATA (unaudited)

Year ended December 31, 2004

(in thousands of \$,  
except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	\$ 12,282	\$ 12,828	\$ 13,160	\$ 14,064	\$ 52,334
Non-recurring revenue	5,000	-	-	-	5,000
Operational earnings	7,495	2,089	2,188	2,575	14,347
% operational margin	61.0%	16.3%	16.6%	18.3%	25.0%
Net earnings	4,946	613	1,252	2,148	8,959
Basic earnings per share	0.62	0.08	0.16	0.26	1.11
Diluted earnings per share	0.60	0.07	0.15	0.26	1.07
Cash provided by operations	6,043	4,916	5,689	3,460	20,108

Year ended December 31, 2003

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	\$ 9,243	\$ 9,707	\$ 9,586	\$ 10,034	\$ 38,570
Operational earnings	1,514	1,529	1,357	1,020	5,420
% operational margin	16.4%	15.8%	14.2%	10.2%	14.1%
Net earnings	1,042	1,187	1,544	2,728	6,501
Basic earnings per share	0.13	0.15	0.19	0.33	0.81
Diluted earnings per share	0.13	0.15	0.19	0.33	0.80
Cash provided by operations	107	3,989	2,637	2,020	8,753

### QUARTERLY RESULTS

The Bourse is on a strong uptrend as shown by its quarterly results. **Revenues** grew by a composite annual average of 27% between the first quarter of 2003 and the fourth quarter of 2004. The non-recurring revenue of \$5 million related to the acquisition of NGX by the TSX led to a sharp increase in revenues in the first quarter of 2004, followed by a return to more stable revenues thereafter.

**Operational margins** reached 16.4% in the first quarter of 2003, with an average of 14.1% for the 2003 fiscal year, compared to an average of 18.0% in 2004 (excluding non-recurrent revenue of \$5 million), thanks to increased revenues and cost control. However, net earnings between the first quarter of 2003 and the fourth quarter of 2004 were significantly affected by the size of the equity in the net losses of BOX which was in development mode until February 2004, and then subsequently in start-up mode, periods when costs were very high.

### FOURTH QUARTER RESULTS

The Bourse continued its growth in the fourth quarter of 2004. **Total revenues** reached \$14.1 million, up 40% compared with the same period in 2003, and up 7% versus the previous quarter. **Operating earnings** stood at \$2.6 million, generating an operating margin of 18.3%, significantly higher than the 10.2% recorded for the fourth quarter of 2003, and the 16.6% recorded for the third quarter of 2004. During the fourth quarter of 2004, the **equity in the net losses of BOX** amounted to \$0.046 million compared with greater losses in previous quarters. **Net earnings** for the quarter reached \$2.1 million, an increase of \$0.9 million compared with the previous quarter, and of \$1.1 million excluding the gain on dilution of \$1.6 million recorded in the fourth quarter of 2003.

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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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.

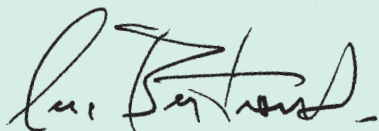
These financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles and include amounts that are based on best estimates and judgements. The financial information used elsewhere in the Annual Report is consistent with that in the financial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



President and Chief Executive Officer

Louise Laflamme



Executive Vice-President and  
Chief Financial Officer

Montréal, Canada

March 8, 2005

# AUDITORS' REPORT TO THE SHAREHOLDERS

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We have audited the consolidated balance sheet of Bourse de Montréal Inc. (the "Company") as at December 31, 2004 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 Company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a horizontal line that is slightly longer than the signature itself.

Chartered Accountants

Montréal, Canada

January 28, 2005

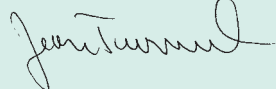
# CONSOLIDATED BALANCE SHEET

December 31, 2004,  
with comparative figures for December 31, 2003  
(In thousands of dollars)

	2004	2003
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,177	\$ 7,716
Temporary investments (note 3)	24,109	20,276
Receivables	8,607	6,932
Daily settlements due from clearing members	23,663	6,770
Clearing members' cash margin deposits (note 4)	5,370	509
Clearing fund cash deposits (note 4)	544	4,241
Prepaid expenses	1,980	1,483
	<u>79,450</u>	<u>47,927</u>
Long-term investments (note 5)	6,169	5,770
Capital assets (note 6)	17,792	15,428
Future income taxes (note 15)	1,061	3,366
Goodwill and other intangible assets (note 7)	1,165	1,163
	<u>\$ 105,637</u>	<u>\$ 73,654</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued charges	\$ 10,195	\$ 8,685
Daily settlements due to clearing members	23,663	6,770
Clearing members' cash margin deposits (note 4)	5,370	509
Clearing fund cash deposits (note 4)	544	4,241
Income taxes payable	789	-
Current portion of obligations under capital leases (note 10)	3,490	1,892
	<u>44,051</u>	<u>22,097</u>
Obligations under capital leases (note 10)	4,261	3,716
Future income taxes (note 15)	562	-
Shareholders' equity:		
Capital stock (note 11)	43,389	43,072
Contributed surplus (note 11)	721	476
Retained earnings	14,118	5,159
Cumulative translation adjustment (note 12)	(1,465)	(866)
	<u>56,763</u>	<u>47,841</u>
Commitments (note 13)		
Contingencies (note 14)		
	<u>\$ 105,637</u>	<u>\$ 73,654</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board,



Director



Director

# CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 2004,  
with comparative figures for 2003  
(In thousands of dollars, except per share amounts)

	2004	2003
<b>Revenues:</b>		
Transactions	\$ 19,740	\$ 16,461
Participants	4,180	5,644
Clearing and option exercise	7,877	6,769
Information systems services (note 18)	12,160	2,441
Market data	7,787	6,846
Other (note 23)	5,590	409
	<b>57,334</b>	<b>38,570</b>
<b>Expenses:</b>		
Salaries and benefits	19,004	16,455
Premises	2,520	2,548
Computer licenses and maintenance	5,582	5,036
Amortization of capital assets and intangible assets	5,284	3,199
General and administrative	6,570	3,497
Telecommunications	2,368	958
Public affairs	1,300	1,206
Interest on obligations under capital leases	359	251
	<b>42,987</b>	<b>33,150</b>
Earnings before investment income, other items and income taxes	14,347	5,420
Investment income	1,059	1,131
Equity in net losses of company subject to significant influence (note 5)	(2,684)	(2,214)
Gain on dilution (note 5)	-	1,643
Earnings before income taxes	12,722	5,980
<b>Income taxes (note 15):</b>		
Current	896	45
Future	2,867	(566)
	<b>3,763</b>	<b>(521)</b>
Net earnings	\$ 8,959	\$ 6,501
Basic earnings per share (note 8)	\$ 1.11	\$ 0.81
Diluted earnings per share (note 8)	\$ 1.07	\$ 0.80
Weighted average number of shares outstanding – basic (note 8)	8,061,251	7,992,988
Weighted average number of shares outstanding – diluted (note 8)	8,351,453	8,089,715

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, 2004,  
with comparative figures for 2003  
(In thousands of dollars)

	2004	2003
Retained earnings (deficit), beginning of year	\$ 5,159	\$ (1,342)
Net earnings	<b>8,959</b>	6,501
Retained earnings, end of year	<b>\$ 14,118</b>	\$ 5,159

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2004,  
with comparative figures for 2003  
(In thousands of dollars)

	2004	2003
Cash flows from operating activities:		
Net earnings	\$ 8,959	\$ 6,501
Adjustments for:		
Amortization of capital assets and intangible assets	5,284	3,199
Equity in net losses of company subject to significant influence	2,684	2,214
Gain on dilution	-	(1,643)
Amortization of premium on investments	117	41
Interest income on discount investments	5	(633)
Future income taxes	2,867	(566)
Cost of stock option plan	245	106
Cost of deferred share unit plan	810	311
Interest capitalized on capital leases	-	161
Net change in non-cash operating assets and liabilities (note 16)	(863)	(938)
	<b>20,108</b>	8,753
Cash flows from investing activities (note 16):		
Purchase of capital assets	(2,715)	(3,703)
Purchase of intangible assets	(249)	(341)
Purchase of investments	(183,424)	(132,037)
Sale of investments	179,469	134,143
Purchase of long-term investments	(3,682)	(3,897)
	<b>(10,601)</b>	(5,835)
Cash flows from financing activities (note 16):		
Decrease in obligations under capital leases (note 10)	(2,363)	(345)
Share issuance under stock purchase plan (note 11)	317	244
	<b>(2,046)</b>	(101)
Net increase in cash and cash equivalents	7,461	2,817
Cash and cash equivalents, beginning of year	7,716	4,899
Cash and cash equivalents, end of year	<b>\$ 15,177</b>	<b>\$ 7,716</b>
Cash and cash equivalents are comprised of:		
Cash	\$ 2,073	\$ 1,557
Bankers' acceptances	9,168	6,159
Treasury bill	3,936	-
	<b>\$ 15,177</b>	<b>\$ 7,716</b>

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

Bourse de Montréal Inc. (the “Company”) was incorporated on September 29, 2000, following the demutualization of the Montréal Exchange, under Part 1A of the Quebec Companies Act. Its principal business activity is to provide a marketplace for the buying and selling of derivatives products. The Company also has a division called the Derivatives Institute, whose mission is to educate, inform and train individual investors and finance professionals with respect to the use of derivatives products. Another of the Company’s divisions is responsible for market and approved participant regulation. Under the Regulations of the Autorité des marchés financiers (the “AMF”), the Company must, among other things, meet certain financial ratios to continue as a self-regulatory organization. Its subsidiary, the Canadian Derivatives Clearing Corporation (the “CDCC”), is the issuer, clearinghouse and guarantor for options and futures contracts traded at the Company.

## 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 Bourse de Montréal Inc. and those of its wholly-owned subsidiary, the CDCC, and of Clearco Inc. (“Clearco”), a joint venture. The Company 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.

Long-term investments consist of the Company’s 31.7% interest in the capital stock of the Boston Options Exchange LLC (“BOX”), and in the Company’s 8% interest in the capital stock of Oxen Inc. (“Oxen”), investments 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 Company’s proportionate share of post-acquisition earnings or losses, reduced by dividends.

### 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 settlement 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, 2004, the largest amount due from a clearing member was \$10,978 (\$3,828 in 2003) and the largest amount due to a clearing member was \$7,961 (\$2,301 in 2003).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued):

### e) Capital assets:

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

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

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

### f) Goodwill and other intangible assets:

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 5 years on a straight-line basis beginning on their launch date.

### g) Stock-based compensation and other stock-based payments:

Deferred share unit plan:

The Company implemented a deferred share unit plan for certain members of the Board of Directors and for various committees of the Company, for which an expense is included in the statement of earnings and a liability recorded as share units are granted, at the fair value at the time of their grant, based on the fair value method which is described in note 11. Changes in the fair value of the underlying shares, between the date they are granted and the valuation date, result in a change in the valuation of the liability.

Stock option plan and stock purchase plan:

The Company has implemented a stock option plan and a stock purchase plan, as described in note 11. The Company 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 of the grant date and recognized over the vesting period.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued):

### h) 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.

Real time 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.

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

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.

### i) Government assistance:

Government assistance relating to operating expenses is charged to earnings when the related expenses are incurred. Government assistance relating to capital expenditures is deducted from the related asset.

### j) 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 Company holds an investment in a company subject to significant influence established in the United States and considered to be a self-sustaining foreign establishment. Accordingly, this investment is translated into Canadian dollars at rates of exchange in effect at the balance sheet date, and the resulting unrealized exchange gains or losses are deferred and included in the Cumulative translation adjustment in shareholders' equity.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued):

### k) Employee future benefits:

On January 1, 2004, the Company 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 Company accrues its obligations under its pension plan as employees render the services necessary to earn the pension benefits. The Company 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 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.

### l) Income taxes:

The Company 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 income 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued):

### m) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant areas requiring the use of management estimates relate to accounts receivable, the useful life of assets for amortization purposes and evaluation of their net recoverable amount and the evaluation of the investment in companies 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:

On July 7, 2004, the CDCC concluded an agreement with Oxen to develop clearing services of 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 Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of the joint venture as follows:

Current assets	\$	280
Current liabilities		46
Revenues		19
Net loss		(66)
Cash used in operations		(141)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 3. TEMPORARY INVESTMENTS:

	2004			2003		
	Effective interest rates as at December 31, 2004	Cost	Fair value	Effective interest rates as at December 31, 2003	Cost	Fair value
Federal bonds:						
Maturing in less than one year	2.24%	\$ 2,593	\$ 2,618	2.81%	\$ 5,784	\$ 5,787
Maturing between 1 year and less than 3 years	2.88%	7,449	7,461	3.36%	1,940	1,947
Maturing between 3 years and less than 10 years	-	-	-	4.49%	1,197	1,210
Maturing in 10 years and more	4.85%	55	57	5.14%	43	43
Provincial bonds:						
Maturing in less than one year	2.75%	2,055	2,059	-	-	-
Maturing between 1 year and less than 3 years	3.18%	2,516	2,568	3.33%	3,208	3,208
Maturing between 3 years and less than 10 years	3.79%	1,514	1,578	4.49%	1,456	1,444
Maturing in 10 years and more	5.48%	5,190	5,453	4.04%	3,684	3,712
Corporate bonds:						
Maturing between 1 year and less than 3 years	3.42%	494	497	-	-	-
Maturing between 3 years and less than 10 years	4.40%	779	789	4.89%	697	694
Maturing in 10 years and more	6.25%	1,464	1,540	5.98%	2,267	2,301
		\$ 24,109	\$ 24,620		\$ 20,276	\$ 20,346

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 sheet 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 4. CLEARING FUND AND MEMBERS' MARGIN DEPOSITS (continued):

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

	2004	2003
Margin deposits:		
Government securities, at face value	\$ 1,377,021	\$ 925,529
Letters of credit, at face value	307,465	292,200
Equity securities (to cover short positions), at market value	125,121	224,770
	\$ 1,809,607	\$ 1,442,499
Clearing fund deposits:		
Government securities, at face value	\$ 174,434	\$ 131,766

## 5. LONG-TERM INVESTMENTS:

In 2002, the Company, the Boston Stock Exchange and a group of five global securities dealers announced the creation of BOX to establish an electronic exchange for the trading of United States' equity options.

In August 2003, a shareholder injected US\$5,000 as consideration for additional shares of BOX. Following this transaction, the Company's interest was reduced from 35% to 31.7%, resulting in a gain on dilution of \$1,643, net of a realized portion of the cumulative translation adjustment of \$34.

In May and July 2004, the Company and three other shareholders injected US\$7,500 as consideration for additional shares of BOX. These transactions did not result in dilution of the Company's stake.

On July 7, 2004, the Company acquired 8% of the capital stock of Oxen, which wholly owns the Alberta Watt Exchange, an Alberta exchange of energy products, and 50% of Clearco, a joint venture.

	2004	2003
31.7% interest in capital stock of BOX	\$ 11,511	\$ 8,229
Equity in accumulated losses	(5,920)	(3,236)
Gain on dilution	1,643	1,643
Cumulative translation adjustment	(1,465)	(866)
Investment in BOX (31.7% of capital stock)	5,769	5,770
Investment in Oxen (8% of capital stock)	400	-
Long-term investment	\$ 6,169	\$ 5,770

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 6. CAPITAL ASSETS:

	2004		
	Cost	Accumulated amortization	Net book value
Computer development, hardware and software	\$ 11,575	\$ 5,112	\$ 6,463
Computer hardware and software under capital leases	10,299	3,083	7,216
Leasehold improvements	13,090	9,172	3,918
Furniture, fixtures and equipment	578	383	195
	<u>\$ 35,542</u>	<u>\$ 17,750</u>	<u>\$ 17,792</u>

	2003		
	Cost	Accumulated amortization	Net book value
Computer development, hardware and software	\$ 18,051	\$ 12,408	\$ 5,643
Computer hardware and software under capital leases	5,792	822	4,970
Leasehold improvements	21,023	16,422	4,601
Furniture, fixtures and equipment	2,002	1,788	214
	<u>\$ 46,868</u>	<u>\$ 31,440</u>	<u>\$ 15,428</u>

The Company reviewed the amortization period of its hardware and software used under its agreement with BOX, reducing this period from 5 to 3 years, in order to coincide with the duration of the commitments resulting from the agreement. This 2004 revision brought a supplementary amortization expense of \$434 and revenues from its information systems services of the same amount.

During 2004, fully-amortized capital assets having a cost of \$18,727 were written off.

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS:

	2004		
	Cost	Accumulated amortization	Net book value
On-line training programs	\$ 1,419	\$ 562	\$ 857
Goodwill	308	-	308
			<u>\$ 1,165</u>

	2003		
	Cost	Accumulated amortization	Net book value
On-line training programs	\$ 1,170	\$ 315	\$ 855
Goodwill	308	-	308
			<u>\$ 1,163</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 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.

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

	2004	2003
Net earnings	\$ 8,959	\$ 6,501
Weighted average number of shares outstanding – basic	8,061,251	7,992,988
Dilutive effect of stock options	290,202	96,727
Weighted average number of shares outstanding – diluted	8,351,453	8,089,715
Basic earnings per share	\$ 1.11	\$ 0.81
Diluted earnings per share	\$ 1.07	\$ 0.80

## 9. OPERATING LINES OF CREDIT:

The Company has operating lines of credit of \$3,000. When used, these lines of credit bear interest at the banks' prime rate and are renewable annually (see note 22 for other authorized credit).

## 10. OBLIGATIONS UNDER CAPITAL LEASES:

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

Years ending December 31:		
2005		\$ 3,846
2006		3,393
2007		1,048
Minimum payments due under capital leases		8,287
Less amount representing interest (rates varying between 5.2% and 6.5% )		536
Present value of minimum payments due under capital leases		7,751
Current portion of obligations under capital leases		3,490
		\$ 4,261

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 11. CAPITAL STOCK:

	2004	2003
Authorized:		
An unlimited number of shares, without face value:		
Common, voting and participating		
Preferred, non-voting, dividend to be determined upon issuance		
Total Issued, including in guarantee:		
8,285,100 common shares	\$44,196	\$44,196
Held in guarantee for loans under share purchase plan:		
185,409 common shares (262,488 in 2003)	(807)	(1,124)
Issued:		
8,099,691 common shares (8,022,612 in 2003)	\$43,389	\$43,072

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

### (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 Company'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 Company'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.

Under no circumstances shall the term of an option exceed ten years from the date of its grant.

With the exception of the 75,000 options granted in January 2004, the Plan has two components: performance options and options vested over time. Thus, 50% of the stock options will be vested after three years provided the required performance criteria as determined by the Board at the time of the grant are met and 50% of the stock options will be vested over a three-year period and may be exercised in whole or in part at any time, as follows: 33.3% as of the first anniversary, 66.7% as of the second anniversary, and the whole as of the third anniversary of the grant. The 75,000 options granted in 2004 will be vested based on performance criteria and over a three-year period.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 11. CAPITAL STOCK (continued):

### a) Stock option plan (continued):

	Number of options	Weighted average exercise price
Options outstanding as at January 1, 2003	772,000	\$ 5.00
Granted during 2003	-	-
Cancelled during 2003	-	-
Options outstanding as at January 1, 2004	772,000	5.00
Granted during 2004	75,000	6.00
Cancelled during 2004	9,000	5.15
Options outstanding as at December 31, 2004	838,000	\$ 5.09

The following table summarizes information about outstanding and exercisable options at December 31, 2004:

	Outstanding options				Exercisable options	
	Exercise price	Number of options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of options	Weighted average exercise price
\$ 4.96	616,000	\$ 4.96	6	616,000	\$ 4.96	
5.15	147,000	5.15	8	51,000	5.15	
6.00	75,000	6.00	9	25,000	6.00	
	838,000	\$ 5.09		692,000	\$ 5.01	

The fair value of the 75,000 stock options granted in 2004 (nil in 2003) was \$2.86 per stock option, and was determined using the Black-Scholes options pricing model, assuming a fair value of the Company's shares of \$6.50, a risk-free rate of 5%, a dividend yield of 0%, expected volatility of 1% and an expected life for the options of 10 years. One third of these stock options were vested in 2004, the remaining stock options will be vested on January 1, 2005 and 2006.

The 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 Company recorded a compensation cost of \$171 (\$106 in 2003).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 11. CAPITAL STOCK (continued):

### 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 Company issued 141,436 shares at \$4.50 per share, for an amount totalling \$637. Interest-free loans were granted to employees to buy these shares and the loans are payable through equal payroll deductions over a period varying from 1 to 5 years from the date of acquisition. The total loan payment is secured by a first hypothec with delivery in favour of the Company on all shares acquired by way of loan. In 2003, the Company determined that these loans were to be presented as a reduction of capital stock rather than as assets. Furthermore, following the implementation of EIC 132, the Company considered the shares purchased by means of share purchase loans to be, in substance, stock options, exercised during the term of the share purchase loan.

In 2003, the fair value of an option granted was established at \$1.47, based on the Black-Scholes option pricing model, using the following hypothesis: a fair value of the Company's shares of \$6.50, a risk-free rate of 5%, a dividend yield of 0%, expected volatility of 1% and an expected life for the options of a maximum of 5 years, based on the term of the loan.

The compensation cost associated to these stock options is recognized over the term of each loan, not to exceed 5 years. During the year, the Company recorded a compensation cost of \$74 (nil in 2003).

### c) Deferred share unit plan:

	Number
Deferred share units outstanding as at January 1, 2003	58,833
Granted during 2003	39,159
Deferred share units outstanding as at January 1, 2004	97,992
Granted during 2004	41,496
Deferred share units outstanding as at December 31, 2004	139,488

The recorded value per deferred share unit is \$10.37 (\$6.50 in 2003) as at December 31, 2004. During the year, the Company recorded an administrative charge of \$810 (\$311 in 2003).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 12. CUMULATIVE TRANSLATION ADJUSTMENT:

	2004	2003
Beginning balance	\$ (866)	\$ -
Impact of changes in currency rates on net investment in self-sustaining foreign operation	(599)	(900)
Impact resulting from transaction reducing the interest in company subject to significant influence (note 5)	-	34
Ending balance	\$ (1,465)	\$ (866)

## 13. COMMITMENTS:

The Company rents its premises and equipment under operating lease agreements expiring between 2005 and 2015, and is committed under service and license agreements until 2005.

As at December 31, 2004, total minimum lease payments and minimum payments required for each of the following years under these commitments were as follows:

	Premises and equipment leases	License and maintenance agreements	Total
2005	\$ 2,955	\$ 1,796	\$ 4,751
2006	1,867	-	1,867
2007	1,873	-	1,873
2008	1,534	-	1,534
2009	1,575	-	1,575
2010 and after	7,894	-	7,894
Total minimum payments required	\$ 17,698	\$ 1,796	\$ 19,494

## 14. CONTINGENCIES:

The Company is a party to legal actions for damages amounting to \$40,495 in connection with the closing of the trading floor. The Company intends to defend itself vigorously, since management is of the opinion that these legal actions are unfounded. The outcome of these actions cannot be determined at this time and, consequently, no provision was recorded as at December 31, 2004. Any liability, if any, resulting from these legal actions, would be recorded in the year during which the damages would be known.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 15. INCOME TAXES:

### a) 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:

	<b>2004</b>	2003
Earnings before income taxes	\$ 12,722	\$ 5,980
Tax rate as set out by laws	<b>31.1%</b>	33.1%
Income taxes computed	<b>3,957</b>	1,979
Change in valuation allowance	<b>(116)</b>	(1,936)
Adjustment to future tax assets and liabilities for enacted changes in tax rates	<b>(8)</b>	(313)
Impact of difference between future and current tax rates	-	(161)
Equity in net losses of company subject to significant influence	<b>833</b>	732
Gain on dilution	-	(543)
Provincial tax holiday	<b>(914)</b>	(402)
Impact of subsidiary and joint venture tax rate differential	<b>112</b>	47
Effect of permanent differences	<b>37</b>	31
Tax on large corporations	<b>115</b>	45
Other	<b>(253)</b>	-
Income taxes	<b>\$ 3,763</b>	\$ (521)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 15. INCOME TAXES (continued):

### (b) Future income tax:

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

	2004	2003
Future income tax assets:		
Capital assets	\$ 131	\$ 2,457
Goodwill	1,169	1,285
Deferred share unit plan	352	155
Regulatory division reserve fund	277	-
Investment tax credit	-	262
Operating losses available for carry forward (expiring in 2009)	54	317
Capital leases	130	155
Other	117	20
Future income tax assets	<u>2,230</u>	<u>4,651</u>
Valuation allowance	<u>(1,169)</u>	<u>(1,285)</u>
Future income tax assets, net	<u>\$ 1,061</u>	<u>\$ 3,366</u>
Future income tax liabilities:		
Capital assets	\$ (562)	\$ -
Future income tax liabilities	<u>\$ (562)</u>	<u>\$ -</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 16. SUPPLEMENTAL CASH FLOW INFORMATION:

	2004	2003
<b>a) Interest paid</b>	<b>\$ 359</b>	<b>\$ 252</b>
Income taxes paid	87	58
<b>b) Net change in non-cash operating assets and liabilities:</b>		
Receivables	\$ (1,675)	\$ (1,400)
Daily settlements due from clearing members	(16,893)	(4,825)
Clearing members' cash margin deposits	(4,861)	(180)
Clearing fund cash deposits	3,697	(3,959)
Prepaid expenses	(497)	186
Accounts payable and accrued charges	520	276
Income tax expenses	789	-
Daily settlements due to clearing members	16,893	4,825
Clearing members' cash margin deposits	4,861	180
Clearing fund cash deposits	(3,697)	3,959
	<b>\$ (863)</b>	<b>\$ (938)</b>
<b>c) Non-cash transactions related to:</b>		
Investing activities:		
Purchase of capital assets financed through accounts payable	\$ 536	\$ 356
Purchase of capital assets financed through capital leases	4,506	5,792
Financing activities:		
Loans granted for share purchases	-	637

## 17. GOVERNMENT ASSISTANCE:

On March 31, 2001, the Ministère des Finances du Québec (the "Ministère") agreed to grant a government assistance program to the Company, totalling \$3,500, for the Derivatives Institute in order to pay up to 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 is granted provided that the Company carries out all or substantially all its operations on the territory of the City of Montréal, at least up to December 31, 2005. If the Company does not meet these conditions, the Ministère could apply various measures, including the suspension or cancellation of the agreement or the repayment of the amounts received by the Company.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 17. GOVERNMENT ASSISTANCE (continued):

The Company did not receive any amounts during the year (\$1,000 in 2003) under this program, which ended in 2004. In 2003, a balance of \$92 was deferred in the balance sheet. In 2004, this balance was allocated as follows: an amount of \$86 (\$785 in 2003) was recognized in earnings, and \$6 (\$341 in 2003) as a reduction of fixed assets. No amount was recognized in receivables on the balance sheet as a reimbursement for these tax measures. The following table summarizes the classification and the amount of government assistance appearing in the statement of earnings:

	2004	2003
Salaries and benefits	\$ 47	\$ 344
Premises and computer licenses and maintenance	13	124
General and administrative	26	317
	<u>\$ 86</u>	<u>\$ 785</u>

In addition, on April 9, 2001, the Ministère announced the application of tax measures to support the financial sector in the province of Quebec, including, among others, securities exchanges such as the Company. 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 Company for the period from October 1, 2000 to December 31, 2010. Furthermore, on June 12, 2003, the Ministère reduced these exemptions by 25%. These exemptions, except for income tax, total approximately \$624 in 2004 (\$666 in 2003). No amounts have been included in receivables on the balance sheet as reimbursement under these tax measures (nil in 2003).

## 18. RELATED PARTY TRANSACTIONS:

In 2001, the Company signed an agreement under which, for a fee, it would provide BOX with the technology and related services required for its electronic trading system. During 2004, the Company acted as intermediary in the provision of the necessary products and services, totalling \$1,701 (\$11,042 in 2003), in order to establish the technical structure at BOX. These charges were presented as a reduction of salaries and benefits, computer licenses and maintenance, and general and administrative expenses.

Furthermore, beginning in 2004, the Company became an official supplier to BOX and charged at the exchange amount, being the amount established and agreed to by BOX, salaries, telecommunication services, computer equipment, and other services for a total amount of \$12,160. These transactions were undertaken in the normal course of business.

Refer to note 10 for additional related party transactions.

As at December 31, 2004, the receivables from BOX are \$1,683 (\$2,450 in 2003).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 19. SEGMENTED INFORMATION:

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

Exchange (Bourse):

This sector acts as the exclusive derivatives exchange in Canada, providing a complete range of equity, index and interest rate derivatives.

Clearinghouse (CDCC):

This sector acts as a clearinghouse and guarantor of equity, index and interest rate derivatives.

			2004
	Bourse	CDCC	Consolidated
Revenues from exchange and clearing	\$ 37,091	\$ 8,083	\$ 45,174
Revenues from information systems services	12,160	-	12,160
Investment income	760	299	1,059
Amortization of capital assets and intangible assets	4,911	373	5,284
Equity in net losses of company subject to significant influence (notes 5 and 18)	(2,684)	-	(2,684)
Net earnings	6,385	2,574	8,959
Purchase of capital assets and intangible assets	7,615	158	7,773
Assets	62,371	43,266	105,637

			2003
	Bourse	CDCC	Consolidated
Revenues from exchange and clearing	\$ 29,083	\$ 7,046	\$ 36,129
Revenues from information systems services	2,441	-	2,441
Investment income	891	240	1,131
Amortization of capital assets and intangible assets	2,802	397	3,199
Equity in net losses of company subject to significant influence (notes 5 and 18)	(2,214)	-	(2,214)
Net earnings	4,036	2,465	6,501
Purchase of capital assets and intangible assets	9,658	45	9,703
Assets	52,132	21,522	73,654

Regulatory Division:

Pursuant to a decision rendered by the AMF on November 24, 2000, the Company created a separate regulatory division, responsible for approved participant and market regulation and operating on a cost recovery basis. For the year ended December 31, 2004, the division billed fees of \$3,402 (\$3,082 in 2003) and incurred operating expenses of the same amount.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 20. EMPLOYEE FUTURE BENEFITS:

Information relating to the Company's employee future benefits plan is as follows:

	2004
Accrued benefit obligation:	
Balance at beginning of year	\$ 650
Current service cost	150
Interest cost	47
Balance at end of year	\$ 847
Plan assets:	
Fair value at beginning of year	\$ -
Annual return on plan assets	2
Employer contributions	50
Fair value at end of year	\$ 52
Accrued benefit liability:	
Funded status – plan deficit	\$ 795
Unamortized past service costs	(598)
Balance at end of year	\$ 197

The liability is included in accounts payable and accrued charges in the consolidated balance sheet. The contribution of \$50 from the employer was invested in a diversified fund.

The Company has provided a letter of guarantee in the amount of \$871 to the benefit of the trustee of the pension plan, using a part of the operating line of credit already in place with its bank.

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

	2004	
	Expense	Obligation
Discount rate	6.5%	6.5%
Expected long-term rate of return on plan assets	6.5%	6.5%
Rate of compensation increase	3.5%	3.5%

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 by January 1, 2007 at the latest. The measurement date for the plan assets and the accrued benefit obligation is January 1.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 20. EMPLOYEE FUTURE BENEFITS (continued):

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

	2004
Current service cost	\$ 150
Interest cost	47
Expected return on plan assets	(2)
Amortization of past service costs	52
Net benefit plan expense	\$ 247

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

## 21. FINANCIAL INSTRUMENTS:

### a) Credit risk:

The Company does not have a significant exposure to any individual customer. The Company 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 market value of cash equivalents and fixed income securities to vary either upward or downward.

### c) Fair value of financial instruments:

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 and accounts payable approximates their fair value due to the near-term maturity of those instruments.

### d) Concentration of credit risk:

Approximately 48% of the Company's revenues for the year ended December 31, 2004 were generated by BOX and four approved participants on behalf of numerous clients (56% in 2003).

## 22. RISK MANAGEMENT:

In its role of clearinghouse, 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 its obligations under open futures and options contracts, margin deposits would be available to apply against costs incurred by the CDCC in liquidating the positions.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2004

(In thousands of dollars, except per share amounts)

## 22. RISK MANAGEMENT (continued):

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 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.

## 23. OTHER REVENUES:

The Company has received a financial compensation of \$5,000 from the TSX Group Inc. to allow the latter to acquire the NGX Energy Exchange in Alberta, taking into consideration the Canadian Exchanges Specialization Agreement signed on March 15, 1999.

## 24. SUBSEQUENT EVENTS:

In January 2005, two BOX shareholders injected US\$2,600 in consideration for additional shares. Following these transactions, the Company's interest was reduced from 31.7% to 30.7%, resulting in a gain on dilution of \$1,042, net of a realized portion of the cumulative translation adjustment of \$46.

During 2004, the Company filed an application, which was accepted by the AMF, to be allowed to perform its regulatory functions exclusively in the area of derivatives. The Company has also requested to no longer carry on member regulation functions regarding securities dealers, in order to bring all these dealers and their representatives and officers under the jurisdiction of one self-regulatory organization: the Investment Dealers Association of Canada (IDA). As a result of this change, which took place on January 1, 2005, 21 people presently working in the Regulatory Division of the Company were transferred to the IDA.

## 25. COMPARATIVE FIGURES:

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

**BOARD OF DIRECTORS—MONTRÉAL EXCHANGE**

[AS OF DECEMBER 31, 2004]

**Luc Bertrand**

President and Chief Executive Officer  
Montréal Exchange Inc.  
Director since 1992

**Gretta Chambers**

Governor Emeritus of McGill University  
and Journalist  
Director since 1996

**Denyse Chicoyne**

Corporate Director  
Director since 2004

**Stephen J. Elgee**

Managing Director, Equity Derivatives  
BMO Nesbitt Burns Inc.  
Director since 2001

**Wayne Finch**

Chairman and Chief Investment  
Officer  
Quadravest Capital Management  
Director since 2001

**James T. Kiernan**

President and Chief Executive Officer  
Cornerstone Capital Partners L.P.  
Director since 1994

**Thomas S. Monahan**

Managing Director  
CIBC World Markets Inc.  
Director since 1998

**William W. Moriarty**

Managing Director, Head of the Global  
Equity Division  
RBC Dominion Securities Inc.  
Director since 2000

**Jacques O. Nadeau**

Vice-Chairman of the Board  
Desjardins Securities Inc.  
Director since 1997

**Carmand Normand**

**—Vice-Chairman of the Board**  
Chairman of the Board, Chief  
Executive and Investment Officer  
Addenda Capital Inc.  
Director since 1996

**Jean Turmel<sup>(1)</sup>**

**—Chairman of the Board**  
President, Financial Markets,  
Treasury and Investment Bank  
National Bank of Canada  
Director since 2004

**Louis Vachon<sup>(2)</sup>**

Senior Vice-President, Treasury and  
Financial Markets  
National Bank of Canada  
Director since 2000

**Laurent Verreault**

President and Chief Executive Officer  
Groupe Laperrière & Verreault inc.  
Director since 1999

**Brian E. Walsh**

Managing Partner, QVan Capital LLC  
Director since 2004

(1) As of January 1, 2005, Mr. Jean Turmel  
will hold the position of President,  
Perseus Capital inc.

(2) As of January 1, 2005, Mr. Louis Vachon will  
hold the positions of Chairman of the Board  
of National Bank Financial Group and  
Chairman of the Board of Natcan Investment  
Management Inc.

**BOARD OF DIRECTORS—CDCC\***

[AS OF DECEMBER 31, 2004]

**Thomas S. Monahan**

Managing Director  
CIBC World Markets Inc.

**Luc Bertrand**

President and Chief Executive Officer  
Montréal Exchange Inc.

**Michel Favreau**

Senior Vice-President and  
Chief Clearing Officer  
Montréal Exchange Inc.

**Marie-Claude Beaulieu**

Full Professor  
Département de finance et assurance  
Faculté des sciences de  
l'administration  
Université Laval

**Peter Copestake**

Senior Vice-President and Treasurer  
Manulife Financial

**Claude Turcot**

Vice-President, Quantitative  
Management and Director  
Standard Life Investments Inc.

**SPECIAL COMMITTEE—REGULATORY DIVISION**

**Gaston Ostiguy**

President of the Committee,  
Chief Financial Officer,  
Everest Securities Inc.

**Pierre-Paul Côté**

Full Professor,  
Faculty of Law,  
University of Montréal

**Nabil Antaki**

Full Professor,  
Faculty of Law,  
Laval University

**Viateur Gagnon**

**Jean-Pierre Gallardo**

President,  
Chief Executive Officer and Director,  
Fimat Canada Inc.

**Giovanni Giarrusso**

President, Giarrusso Conseil Inc.

**Pierre Lizé**

Consultant—Securities

\* Canadian Derivatives Clearing Corporation (CDCC)

**MANAGEMENT**

[AS OF MARCH 14, 2005]

**Luc Bertrand\***

President and Chief Executive Officer

**Léon Bitton**

Vice-President, Research and  
Development

**Richard Bourbonnière**

Vice-President, Market Operations

**Jean-Marc Chapotard**

Director, Systems Operations and  
Technological Architecture

**Michel Favreau\***

Executive Vice-President and Chief  
Clearing Officer

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