



**Montréal  
Exchange**

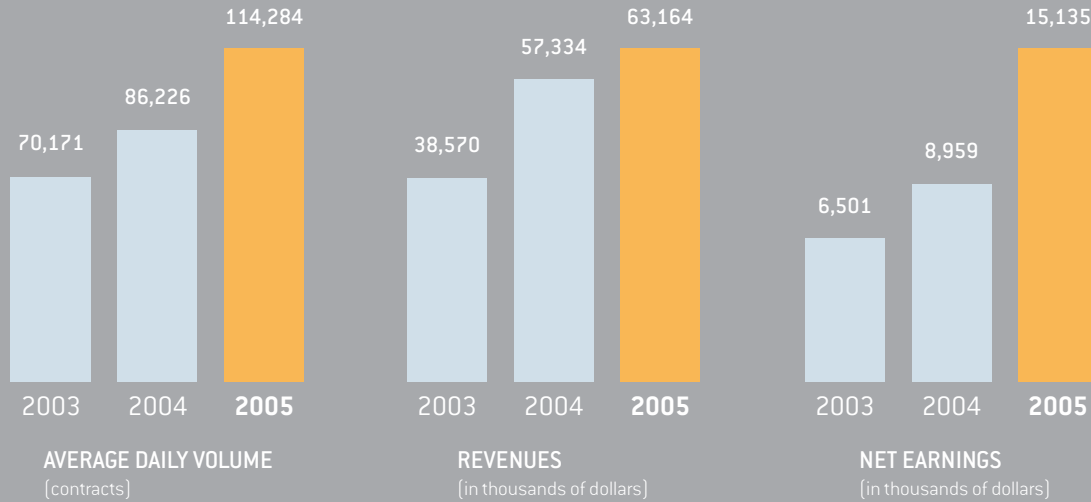
Annual Report

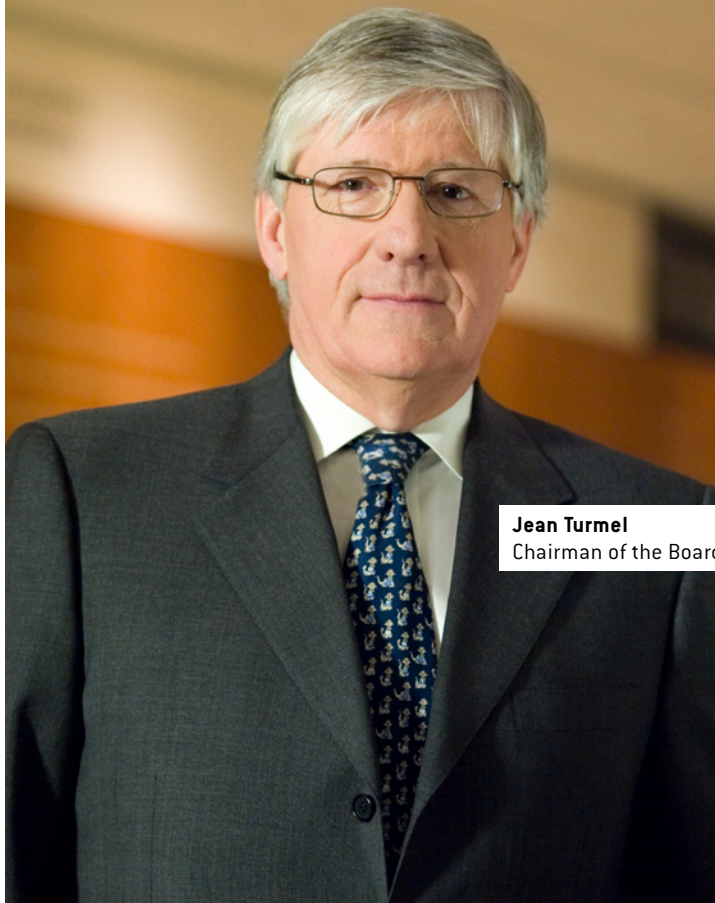
# 2005

## 2 / // highlights

	2005	2004	2003
<b>AVERAGE DAILY VOLUME</b> (contracts)	<b>114,284</b>	86,226	70,171
<b>OPERATIONAL RESULTS</b> (in thousands of dollars)			
Revenues	<b>\$ 63,164</b>	\$ 57,334	\$ 38,570
Operating earnings	<b>15,121</b>	14,347	5,420
Net earnings	<b>15,135</b>	8,959	6,501
Cash provided by operations	<b>25,139</b>	20,108	8,753
<b>PER SHARE</b> (in dollars)			
Basic earnings	<b>1.85</b>	1.11	0.81
Diluted earnings	<b>1.74</b>	1.07	0.80
<b>TOTAL ASSETS</b> (in thousands of dollars)	<b>119,032</b>	105,637	73,654
<b>FINANCIAL RATIOS</b> (in %)			
Return on shareholders' equity	<b>24.8%</b>	15.8%	13.6%
Operating earnings/revenues	<b>23.9</b>	25.0	14.1
Net earnings/revenues	<b>24.0</b>	15.6	16.8

*In this report, the terms Montréal Exchange, MX, Bourse de Montréal and the Bourse are used interchangeably. All these terms refer to the same Company.*





**Jean Turmel**  
Chairman of the Board

// chairman's message

**THE MONTRÉAL EXCHANGE  
OBSERVES THE SAME  
HIGH STANDARDS  
IN CORPORATE GOVERNANCE  
THAT IT DOES IN THE  
DERIVATIVES MARKETPLACE.**

*The MX team has forward momentum as it enters the next phase of change. The Exchange is positioned in the leaders' pack in terms of key performance measures: proven capacity to innovate, financial strength, growth potential and transparency.*

I am pleased to report that the Montréal Exchange registered strong growth for the fifth year running in 2005, strengthening its position as an innovative, agile and financially sound competitor in the global exchange industry.

The year 2005 was marked by continued growth in global derivatives markets and an acceleration of the transformation of the North American exchange industry. Major exchanges took steps to demutualize and become shareholder-owned companies. Large US exchanges also made progress converting to electronic trading systems. Plans were laid for mergers, acquisitions and joint ventures.

In the midst of this industry transformation, the Montréal Exchange has already staked out a solid position. By starting early—in 1999—the Exchange has completed the first phase of its transformation by demutualizing, adopting a fully electronic trading system, refining an “open” market model and, of course, specializing in a fast-growing segment: exchange traded financial derivatives.

Luc Bertrand and the MX team now have the advantage of forward momentum as they attack the next phase of change. The Montréal Exchange is positioned in the leaders' pack in terms of key performance measures: growth potential; proven capacity to innovate; financial strength; transparency and good governance.

First, consider growth potential. Derivatives exchanges are key institutions in a diversified global financial risk management industry. They deliver solid value to investors and traders every day. Longer term, they reduce the volatility of financial markets, attracting the support of major financial regulators. They also contribute to the financial innovation process—helping standardize contracts, transfer risk smoothly, provide accurate price data, reduce default risks and make trading systems open and fair for all investors. All these factors contribute to the growth potential of the Montréal Exchange.

Second, consider your Exchange's track record of innovation, reported in these pages. Its market model is stress tested, valued by large institutional investors and approved by major financial regulators. MX markets are supported by advanced trading technologies that have reliably and flexibly scaled up to handle rapidly increasing trading volumes.

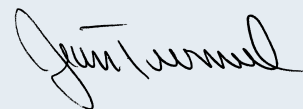
Third, as we cannot repeat too often, the MX clearing house—the Canadian Derivatives Clearing Corporation (CDCC)—continues to enjoy an AA investment rating from Standard & Poor's, and an impeccable reputation for its rigorous standards of risk management.

Finally, the Exchange observes the same high standards of integrity and transparency in corporate governance that it does in the

derivatives marketplace. In line with Canadian and international practice, it ensures that at least half of the directors are independent and that all board committees are chaired by independent directors.

Speaking from experience, I can also say that the directors bring a diverse body of **knowledge and experience to the table. They contribute** to the development of MX business strategy while also reviewing business objectives—and management performance against those objectives—from a critical external perspective.

In the first phase of its transformation, the Montréal Exchange has decisively laid foundations for sustainable growth and built a reputation as one of Canada's premier financial innovators. This dynamic institution has the proven ability to deliver value to investors and shareholders, while contributing to the development of global financial markets in 2006 and beyond.



*Jean Turmel*



**Luc Bertrand**  
President and  
Chief Executive Officer

// message from the president and CEO

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**IN 2005, MX REACHED  
NEW HEIGHTS  
IN TERMS OF TRADING  
VOLUMES, ENTREPRENEURIAL  
BUSINESS DEVELOPMENT  
AND FINANCIAL RESULTS.**

*MX strategy is to leverage core competencies in financial markets, clearing services and information technology solutions. Our business goals are to boost trading volumes, diversify into new risk management markets and remain at the forefront of technological developments.*

MX performance reflects both a growing **derivatives market** and a clearly focused **business strategy**. As Canada's financial derivatives exchange, **MX is bringing value** to Canadian capital markets as well as to global investors and traders.

The Montréal Exchange produced strong financial results in 2005, exceeding all key targets. This performance reinforced the consistent trend of improvement since we took the strategic decision to become Canada's financial derivatives exchange in 1999.

Revenues reached \$63M, driven by solid contributions from our operations in Financial Markets, Clearing and Information Technology Solutions. Net earnings increased by 69% to reach \$15M, or \$1.85 basic per share in 2005.<sup>[1]</sup>

Our performance reflects both a growing global derivatives market and a clearly focused business strategy. The market for exchange traded derivatives is one of the strongest segments of the broader financial risk management industry worldwide. As Canada's financial derivatives exchange, MX has positioned itself in this stream, bringing value to the Canadian capital markets as well as to global investors and traders.

Our business strategy combines management discipline with entrepreneurial energy and vision. In 2005, we launched a "next generation" financial trading platform, we put in place the necessary regulatory and operational infrastructures to offer clearing services to the over-the-counter (OTC) market and we took steps to create an innovative Canadian environmental market.

#### **Business Performance in 2005**

Trading volumes on the exchange set more records in 2005, with total trading activity up 33%. A compounded growth rate of more than 20% over the past five years reflects our strategy of aggressively building market liquidity, investor awareness and the global brand of MX with traders and financial institutions in Canada and abroad.

Our most powerful liquidity magnet is the MX financial futures market, where we have created the conditions for growth with a successful globalization strategy, enabling market participants in London, New York, Chicago and most recently Paris to connect directly to our electronic trading system. In 2006, we are expanding the interest rate futures product line and recruiting more foreign market participants, who now account on average for more than half of MX futures trading.

We are moving to boost growth in the MX Canadian equity options market by encouraging increased use of derivatives, mainly by Canadian retail investors and brokers. The primary focus is on investor education, marketing programs and selective product innovation for the retail and small business market.

We have a position in the huge and growing US equity options market through our 31.4% partnership interest in the Boston

Options Exchange (BOX). Since beginning operations in February 2004, BOX grew quickly to achieve 7% market share for 2005 in the 500 option classes in which it trades.

We are the technology partner in BOX, responsible for the market operations and technological development of the exchange. Our Information Technology Solutions (ITS) Group manages the electronic trading systems that supported the ever increasing trading volumes on both BOX and MX, which in 2005 more than doubled compared with the previous year.

The technology team is expanding and has developed considerable intellectual capital, captured in the new MX trading system called SOLA, which was deployed seamlessly—on time, on budget—at MX in October 2005. The ITS group's main strategies are to continue supporting strong growth in the operations of BOX and MX, and to explore global markets for its expertise in developing the "next generation" of trading technology.

Our Clearing group, the Canadian Derivatives Clearing Corporation (CDCC), quietly distinguished itself in 2005 by acting as central counterparty standing behind the growing volume of trades, without an incident, and rigorously managing risk exposures. The key measure of success in clearing is "no news" and CDCC

## 9 / // message from the president and CEO

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continues to enjoy a top investment rating and strong reputation.

The Clearing team's strategy is to continue to support MX trading growth and offer private "clearing house" services to financial institutions trading derivatives in the OTC market.

### Sources of Growth

The rapid growth of MX as a specialized derivatives exchange is impressive and validates our business strategy. But there is more to the story than just growth. More important are the sources of growth, its sustainability and its profitability over time.

As we have said in the past, we entered the right market with the right strategy at the right time.

First, look at the market. The growing demand for exchange traded derivatives results from a variety of important technical factors: the volatility of global financial markets; the emergence of new trading strategies and players like hedge funds; the ever growing demand to insure large financial portfolios by hedging risk. Moreover, there is growing appetite for Canadian exchange traded derivatives as we build liquidity and visibility at the Montréal Exchange. Our growth is based not on a "single source" but on

the combination of all these deeper trends in the field of financial risk management.

Starting in the late 1990s, we positioned MX as an imaginative risk management entrepreneur. Rather than "running to catch up" with financial innovation, we have assumed aggressive "forward positions". We have then moved to strengthen those positions with the right technologies and the management discipline of hitting our business targets.

For example, we introduced our open market model and fully automated trading system quickly in 2000-2001, and then moved aggressively to open access to that system for foreign market participants in major financial capitals. We did it again by entering the US and the technology solutions market through the BOX partnership. Now, MX is making another entrepreneurial move by introducing the SOLA trading system, a technology we believe can take a leading position in the market.

We are also working with another respected US partner, the Chicago Climate Exchange (CCX), to explore the next frontier in risk management: the application of methods for trading and packaging financial risk to build the Montréal Climate Exchange. The goal is to offer innovative market-

based solutions to the global environmental challenge of climate change.

The combination of sustained derivatives market growth and our entrepreneurial strategy can be expected to continue producing sustained growth in volumes, revenues and profits.

The success of the Montréal Exchange hinges on the coordinated efforts of our executive team, employees, board members, market participants, regulators and shareholders. I would like to extend sincere thanks to all of you for your valued contributions.



*Luc Bertrand*



**Philippe Loumeau**  
Senior Executive Vice-President  
and Chief Operating Officer

## **28.7 MILLION FUTURES AND OPTIONS CONTRACTS WERE TRADED AND CLEARED ON THE MX ELECTRONIC TRADING PLATFORM**

*In 2006, MX Financial Markets is further building the “virtuous circle” of trading traffic and market liquidity. Clearing services is proposing new risk management solutions to the over-the-counter market. Information Technology Solutions is assuming leadership with a next-generation trading technology.*

Drivers of operational success in 2005 were:

**increased visibility** of MX as the

Canadian financial derivatives Exchange,

**growth in market liquidity** and the

number of **foreign market participants,**

rigorous risk management and clearing services,

and next generation **trading technology.**

## 12 / // review of operations

**Financial Markets** is headed by Glenn Goucher, Senior Vice-President. It connects market participants to the Exchange, builds business relationships and works to ensure that the MX offering meets investor needs.

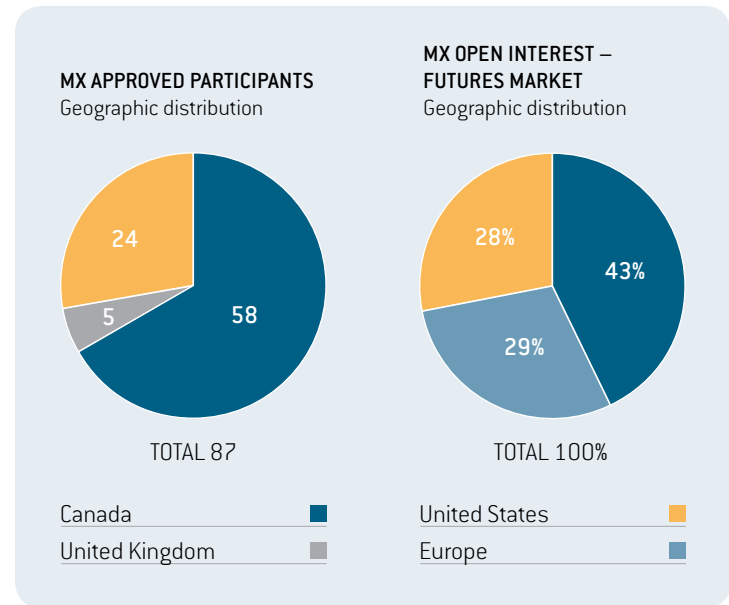
Financial Markets leads business development for the MX financial futures market and MX equity options market. It also delivers market information services and manages the training arm of MX.

The strategy of the group is to meet aggressive growth targets by attracting new market participants from Canada and global financial centres, and building investor demand for financial derivatives.

Market liquidity reached more records in 2005, with total trading volume up 33% to 28.7 million derivative contracts. Trading in financial futures increased by 41% to 18.2 million contracts for the year, with the growth driven by the increased appetite of traders and investors from a growing list of countries for exposure to derivatives based on senior Canadian debt securities and equity indices.

**MX HANDLES  
50 BILLION DOLLARS  
WORTH OF TRANSACTIONS  
EVERY DAY**

In 2005, 14 new foreign market participants connected to the MX. A total of 29 foreign approved participants in the financial capitals of London, New York and Chicago are now connected directly to our electronic trading system, operating on a virtual MX trading floor. Foreign approved participants, financial institutions and their clients accounted for more than 50% of the open interest on MX's futures market in 2005. In February 2006, MX received regulatory approval from France that now allows direct access for French participants to the MX platform.



Trading volume on the MX Canadian equity options market grew by 17% to reach a total of 10.5 million contracts in 2005, reflecting continuing interest in derivatives by Canadian retail investors and brokers.

Action was taken last year to create a new options market segment. MX launched options on the US dollar (USX), enabling retail and institutional investors, as well as companies, to hedge their currency exposures to fluctuations in Canadian/US dollar exchange rate. In addition, equity investors were granted the right to use put options in Canadian retirement (RSP) accounts, following government recognition of put options and cash-settled options as qualified investments in deferred income plans.

## MX MARKET DATA IS DELIVERED WORLDWIDE TO 24,000 TERMINALS

In 2006, Financial Markets is focusing on recruitment of more leading derivatives market participants in the United States and Europe, as well as expansion of the interest rate futures product line to cover more segments of the Canadian yield curve. The strategy also calls for further marketing and education efforts to encourage increased use of equity options by Canadian investors.

**Clearing services** is headed by Michel Favreau, Executive Vice-President and Chief Clearing Officer and based in the Canadian Derivatives Clearing Corporation (CDCC). It provides central counterparty clearing services to MX participants. CDCC reduces investor risk by guaranteeing all the contractual commitments between the parties to transactions executed on the Montréal Exchange.

## CDCC IS RATED “AA” BY STANDARD & POOR’S

The Clearing strategy is to maintain a Standard & Poor’s AA credit rating for CDCC, support increased trading volumes and diversify into new markets for risk management services.

Advanced electronic monitoring of MX counterparty risk is key to success in clearing. CDCC’s Capital Monitoring Program, which includes margining and stress test reporting systems, constantly evaluates the financial strength of its 31 members in relation to various criteria, including their risk exposures flowing from MX transactions and changing market conditions.

Our Clearing team has consistently met the highest performance test: standing behind rapid growth in trading activity and risk under management.

## TOTAL RISK UNDER MANAGEMENT AVERAGES 500 BILLION DOLLARS

The expertise of our Clearing team is rare and marketable. In 2005, they completed regulatory rule changes allowing CDCC to offer risk management services to partners in the OTC market for a variety of financial derivatives contracts.

The demand from banks is expected to be strong since clearing services can significantly reduce costly capital requirements coming on stream as part of the multi-year Basle II reforms of banking risk management. Advanced risk management methods translate into reduced operational and credit risks, and lower costs, for the counterparties in the OTC market.

**Information Technology Solutions** (ITS) is headed by Rosanna Teti, Senior Vice-President.

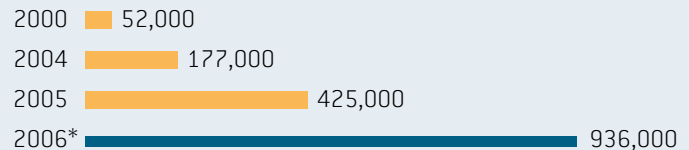
ITS operates MX as well as BOX markets, managing the advanced information systems that support trading, clearing and surveillance activities of both exchanges.

The unit's strategy is to expertly manage those operations and technology services while developing robust, scalable and exportable trading technology platforms. The ITS team has rare financial software expertise and a valuable pool of proprietary intellectual capital.

The ITS group has smoothly supported the massive trading volume increases since the MX transformed itself into a fully electronic exchange in 2000–2001 and since MX took responsibility for the technical operations of BOX in February 2004.

### GROWTH OF TRADING ACTIVITY ON MX AND BOX PLATFORMS

AVERAGE DAILY VOLUME (contracts)



\*Peak daily volume on January 20, 2006

The logo for SOLA, featuring the letters 's', 'o', 'l', and 'a' in a bold, lowercase, sans-serif font. The letters are black and are positioned above a thin, horizontal, lime-green brushstroke that tapers at both ends.

The ITS unit's contribution to revenues increased 28% in 2005 reaching \$15.6 million, accounting for 25% of total MX revenues for the year.

A major strategic milestone was passed in October 2005, when the ITS team completed the first phase of implementation of a proprietary “next generation” trading system called SOLA™. After intensive testing and prototyping, the system was seamlessly deployed to support MX trading operations.

SOLA was entirely developed by the Information Technology Solutions team of about 100 engineers, technicians and IT specialists. This expert group already represents about 50% of MX employees, reflecting the core role of advanced electronic trading software in the development of financial exchanges worldwide. The ITS team is gradually winning recognition in a global peer group of trading system experts.

SOLA features and benefits include “extreme” performance capabilities, notably in the key areas of response time, reliability, scalability, flexibility and ease of use. The team is working on Phase 2 for SOLA, which entails the deployment in June 2006 of the new routing engine and a stream of further improvements.



**Louise Laflamme**  
Executive Vice-President  
and Chief Financial Officer

**OUR 206 EMPLOYEES  
ARE KEY TO THE SUCCESS OF  
MX. THEY HELPED ACHIEVED A  
RECORD YEAR.**

*The MX team has in-depth knowledge of the financial markets and all operations related to managing a derivatives exchange. Rigorous, dynamic management methods enable us to deliver the expected results while remaining on the lookout for growth opportunities.*

The MX has posted **sustained growth** since it became a specialized derivatives exchange.

**Improvements** in net earnings, cash provided by operations and return on shareholders' equity clearly illustrate the **progress achieved** and the **strength** of the MX business model.

## 2005 MANAGEMENT REPORT

### 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, 2005 compared to the same period in 2004. 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, regulatory changes in Canada and abroad, and risks associated with clearing activities. 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 13, 2006, date on which the Board of Directors approved the audited consolidated financial statements as well as the management report. Unless otherwise indicated, the financial information presented in this report, including the amounts appearing in the tables, is expressed in Canadian dollars and prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). This report also contains certain performance measures that are not in accordance with GAAP. For example, the Bourse uses operating 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.

This management report includes the following sections:

- » Mission, Main Activities, Strategy and Outlook
- » Ability to Deliver Expected Results
- » Performance Indicators
- » Highlights
- » Operating Results
- » Liquidity and Financial Resources
- » Quarterly Information
- » Main Assumptions
- » Risks and Uncertainties

## 2005 MANAGEMENT REPORT (CONTINUED)

### MISSION, MAIN ACTIVITIES, STRATEGY AND OUTLOOK

#### **Mission**

The mission of the Bourse is to operate and develop high-quality market and clearing services for its Canadian and international clients. The Bourse accomplishes its mission by remaining at the forefront of worldwide developments in risk management, market technology, market models and regulation, as well as outsourcing services. To fulfill its mission, the Bourse relies on teams that continually strive to improve their skills and client service practices.

#### **Main Activities**

##### Derivatives Exchange

The Bourse acts as a Canadian derivatives exchange, offering a full range of equity, index and interest rate derivatives. The Bourse connects participants to its market, builds business relationships with them and works with them to ensure that our offering of derivatives meets investor needs. It also delivers market information services and manages a Training Service, the learning and training arm of the Bourse.

The Bourse has also developed a robust, scalable, reliable and exportable trading technology platform, thus eliminating its reliance on external vendors. The availability rate of the SAM platform was 99.7% in 2005 (99.6% in 2004). Its team has strong financial software expertise and a valuable pool of proprietary intellectual capital.

##### 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 Bourse.

##### Regulation

The Bourse 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 Bourse, and reports to the Regulatory Special Committee. The aim is to ensure neutrality and impartiality when the Division applies the ground rules that govern relationships between the Bourse and its market participants.

## 2005 MANAGEMENT REPORT (CONTINUED)

### Strategy and Outlook

To achieve its objectives, the Bourse has built a strategy 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 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 Through the Canadian Derivatives Clearing Corporation (“CDCC”), 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 by developing its own trading, clearing and market surveillance platforms.
- 6 Manage costs to increase profitability and shareholder value.

### ABILITY TO DELIVER EXPECTED RESULTS

To achieve its objectives, the Bourse relies 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. derivative products; knowledge that extends to all operations related to managing an exchange.
- 3 One of the few clearinghouses with an AA rating from Standard & Poor’s.
- 4 A state-of-the-art electronic trading platform; 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 on the lookout for growth opportunities.

## 2005 MANAGEMENT REPORT (CONTINUED)

### PERFORMANCE INDICATORS

Our key performance indicators are as follows:

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

### HIGHLIGHTS

#### Consolidated Annual Information Chosen

Year ended December 31 (in thousands of \$, except per share amounts)	2005	2004	2003
Revenues	<b>\$63,164</b>	\$57,334	\$38,570
Operating earnings	<b>15,121</b>	14,347	5,420
Net earnings	<b>15,135</b>	8,959	6,501
Basic earnings per share	<b>1.85</b>	1.11	0.81
Diluted earnings per share	<b>1.74</b>	1.07	0.80
Dividend declared per share	<b>1.50</b>	–	–
Total assets	<b>119,032</b>	105,637	73,654
Cash provided by operations	<b>25,139</b>	20,108	8,753
Return on shareholders' equity	<b>24.8%</b>	15.8%	13.6%
Operating earnings/revenues	<b>23.9%</b>	25.0%	14.1%
Net earnings/revenues	<b>24.0%</b>	15.6%	16.8%

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 provided by operations and return on shareholders' equity clearly illustrate the progress achieved and the strength of its business model.

## 2005 MANAGEMENT REPORT (CONTINUED)

### OPERATING RESULTS

#### Revenues

Total revenues of the Bourse reached \$63.2 million compared to \$52.3 million in 2004 (excluding non-recurring revenue 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), an increase of 21%. Sustained efforts to develop the derivatives market in Canada and abroad resulted in a 34% increase in transaction revenues, from \$19.7 million in 2004 to \$26.4 million in 2005. Average daily volumes grew by 33%, from 86,226 contracts in 2004 to 114,284 contracts in 2005. Interest rate derivatives posted the most robust growth, with a 47% rise in average daily volumes. Index derivatives were also on the rise, with an 18% increase in average daily volumes. Equity options also contributed to the Bourse's growth with a 17% increase in volumes. The heightened level of activity on the Bourse's markets also led to a \$1.8 million or 23% increase in clearing and option exercise revenues compared to 2004.

Revenues from market participants, generated by the Regulatory Division, were down by \$1.7 million, from \$4.2 million in 2004 to \$2.5 million in 2005 reflecting the fact that Quebec securities dealers, who were under the Bourse's responsibility until December 2004, are now governed by the Investment Dealers Association of Canada ("IDA").

Revenues from information systems services rose by \$3.5 million, from \$12.1 million in 2004 to \$15.6 million in 2005. The Bourse is the principal shareholder of the Boston Options Exchange LLC ("BOX"), with a 31.4% interest, and is responsible for the technical operations and maintenance of the electronic trading platform used by BOX.

Market data revenues reached \$8.1 million in 2005, an increase of 4%.

As mentioned above, in early 2004, financial compensation of \$5 million was received from the TSX for the acquisition of the Alberta-based NGX energy exchange. This non-recurring revenue is presented under "Other Revenues."

On November 22, 2005, the Bourse had a record trading day, with the overall exchange volume reaching 319,987 contracts. This volume also included a record level of 163,714 Ten-Year Government of Canada Bond ("CGB") futures contracts.

#### Expenses

Total expenses amounted to \$48 million versus \$43 million for the comparable period in 2004, an overall increase of 12%. Most of this increase can be ascribed to expenses related to information system services provided to BOX, notably with regard to salaries, computer licences and maintenance, telecommunications and depreciation of equipment. In 2005, accelerated depreciation of \$0.9 million was also recorded on trading platform assets that were replaced with more efficient and flexible software developed internally.

#### Operating Earnings (Before Investment Income, Other Items and Income Taxes)

Operating earnings rose to \$15.1 million compared to \$14.3 million in 2004, including non-recurring revenue of \$5 million received from TSX. Excluding this non-recurring revenue, operating earnings are up 62% compared to 2004. Operating earnings represented 24% of total revenues compared to 18% in 2004 (excluding non-recurring revenue of \$5 million).

## 2005 MANAGEMENT REPORT (CONTINUED)

### Other Items

Investment income increased by \$0.7 million from 2004, reaching some \$1.8 million.

The Bourse's investment in BOX – included on an equity basis in accordance with Canadian generally accepted accounting principles – produced \$2.3 million equity in the results, compared to a loss of \$2.7 million in 2004, as a result of the increase in market shares. A gain on dilution was recorded in January 2005 when two new shareholders injected funds in exchange for shares. Following this transaction, the Bourse's interest fell from 31.7% to 30.7%, which generated a gain on dilution of \$1.0 million.

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

The income tax expense for 2005 was \$4.4 million compared to \$3.8 million in 2004 attributable to the increase in net earnings.

### Net Earnings

Net earnings for the fiscal year ended December 31, 2005 stood at \$15.1 million compared to \$9.0 million in 2004. Net earnings represented 24% of total revenues compared to 16% in 2004.

Basic earnings per share for 2005 stood at \$1.85 compared to \$1.11 the previous year. Diluted earnings per share for 2005 were \$1.74 versus \$1.07 in 2004.

## LIQUIDITY AND FINANCIAL RESOURCES

### Financial Position

During 2005, the Bourse's total liquidities grew from \$39.3 million at the end of 2004 to \$58.5 million at the end of 2005, an increase of \$19.2 million. A special dividend of \$1.50 a share was declared on December 1, 2005 and will be paid on February 7, 2006 to the registered shareholders of record on February 6, 2006.

#### Cash Flows from Operating Activities

Cash flows from operating activities stood at \$25.1 million in 2005 versus \$20.1 million in 2004, mainly due to operation earnings during the year.

#### Cash Flows from Investing Activities

Cash flows from investing activities required funds of \$12.8 million compared to \$10.6 million in 2004. In 2005, the Bourse acquired 0.7% of the capital stock of BOX for an amount of \$1.0 million, based on an overall valuation of \$125 million, which increased its interest to 31.4%. The Bourse also invested close to \$7.9 million in 2005 in active fixed income portfolio management. Capital expenditures of approximately \$3.8 million, mainly technology investments, were also made in 2005.

#### Cash Flows from Financing Activities

Disbursements related to financing activities stood at \$1.6 million in 2005 compared with \$2.0 million in 2004. During 2005, capital lease repayments reached \$3.5 million, while share issues generated \$1.9 million.

## 2005 MANAGEMENT REPORT (CONTINUED)

### Capital Stock

As at December 31, 2005, the Bourse's capital stock consisted of 8,481,155 common voting and participating shares. Of this number, 187,647 shares held by employees under the share purchase plan are unpaid, being subject to interest-free loans.

In 2005, the Bourse terminated the deferred share unit plan for company Directors, giving rise to a disbursement of \$1.9 million for the 139,488 deferred share units at a unit price of \$13.74.

Furthermore, on June 3, 2005, the Autorité des marchés financiers ("AMF") approved a private placement for the Bourse's 14 Directors, allowing them to subscribe up to 10,000 shares each, at a price of \$13.74, based on the fair value of the shares established using the discounted cash flow method. At the end of the subscription period, 84,000 shares were issued and paid in full on June 8, 2005, for a total amount of \$1.2 million.

In addition, a fifth subscription period for the employee share purchase plan was held from May 6 to June 6, 2005, allowing all employees to purchase up to 200,000 shares. At the end of this period, 112,055 shares were issued at a price of \$13.74, based on the fair value of the shares established using the discounted cash flow method. Employees were granted interest-free loans payable through payroll deductions over one to three years. This transaction was authorized by the AMF on April 18, 2005.

Lastly, as at December 31, 2005, under the Bourse's management stock options plan, 835,000 options were awarded, 810,000 of which were exercisable. For more information, see note 11 to the consolidated financial statements as at December 31, 2005.

### Off-Balance Sheet Agreements

The Bourse has no off-balance sheet arrangements likely to have an immediate or future impact on its operating results or financial position (see note 13 to the consolidated financial statements as at December 31, 2005).

### Financial Instruments

The Bourse's financial instruments include cash and short-term investments, accounts receivable, accounts payable, short-term debt and long-term debt (see note 21 to the consolidated financial statements as at December 31, 2005).

### Contractual Obligations and Related Party Transactions

The Bourse's contractual obligations are described in notes 10 and 13 to the consolidated financial statements as at December 31, 2005.

The Bourse carried out related party transactions with affiliated companies in the normal course of its business. Details are found in note 18 to the consolidated financial statements as at December 31, 2005.

## 2005 MANAGEMENT REPORT (CONTINUED)

### QUARTERLY INFORMATION

#### Main Quarterly Financial Data (unaudited)

Year ended December 31, 2005 (in thousands of \$, except per share amounts and volume)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Average daily volume (contracts)	103,342	107,265	125,747	120,548	114,284
Revenues	\$14,599	\$15,484	\$16,569	\$16,512	\$63,164
Non-recurring revenue	–	–	–	–	–
Operating earnings	3,142	3,925	4,735	3,319	15,121
% operating margin	21.5%	25.3%	28.6%	20.1%	23.9%
Net earnings	4,214	3,867	4,570	2,484	15,135
Basic earnings per share	0.52	0.47	0.56	0.30	1.85
Diluted earnings per share	0.49	0.45	0.53	0.27	1.74
Cash provided by operations	2,628	7,296	7,797	7,418	25,139

Year ended December 31, 2004 (in thousands of \$, except per share amounts and volume)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Average daily volume (contracts)	89,632	84,721	77,654	92,638	86,226
Revenues	\$12,282	\$12,828	\$13,160	\$14,064	\$52,334
Non-recurring revenue	5,000	–	–	–	5,000
Operating earnings	7,495	2,089	2,188	2,575	14,347
% operating margin <sup>(1)</sup>	20.3%	16.3%	16.6%	18.3%	17.9%
Net earnings	4,946	613	1,252	2,148	8,959
Basic earnings per share	0.62	0.08	0.16	0.25	1.11
Diluted earnings per share	0.60	0.07	0.15	0.25	1.07
Cash provided by operations	6,043	4,916	5,689	3,460	20,108

<sup>(1)</sup> The operating margin percentage excludes the impact of non-recurring revenue.

## 2005 MANAGEMENT REPORT (CONTINUED)

### Quarterly Results

The Bourse is on a strong uptrend as shown by its quarterly results. Revenues grew by a compound annual average of 18% between the first quarter of 2004 and the fourth quarter of 2005. The non-recurring revenue of \$5 million related to the acquisition of NGX by TSX led to a sharp increase in revenues in the first quarter of 2004, followed by a return to more stable revenues.

Increased revenues and cost control improved the operating margin, from an average of 18% for fiscal 2004 (excluding the effect of non-recurring revenue of \$5 million on operating earnings) to an average of 24% in 2005. The increase in net earnings between the first quarter of 2004 and the fourth quarter of 2005 was significantly affected by changes in the equity in the results of companies under significant influence, mainly BOX, explaining a \$5 million increase, as well as a gain on dilution of \$1 million posted in the first quarter of 2005.

### Fourth Quarter Results

In the fourth quarter of 2005, the company's total revenues reached \$16.5, up 17% versus the same period in 2004 and stable compared to the previous quarter. Operating earnings rose to \$3.3 million despite an additional depreciation expense of \$0.9 million compared to \$2.6 million for the fourth quarter of 2004 and \$4.7 million for the third quarter of 2005. Net quarterly earnings reached \$2.5 million compared to \$2.1 million for the fourth quarter of 2004, down \$2.1 million from the previous quarter. The decrease is mainly due to the additional depreciation mentioned above, and a loss and termination expense of \$0.7 million (before income taxes) on the disposal of investments in a company subject to significant influence and joint venture.

### MAIN ASSUMPTIONS

#### Main Accounting Estimates

##### Capital Assets and Other Intangibles

Capital assets and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Bourse recorded an additional depreciation expense of \$0.9 million in 2005 subsequent to a change in accounting estimate of the depreciation period on trading platform assets that were replaced by a more efficient software developed internally.

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

## 2005 MANAGEMENT REPORT (CONTINUED)

### Goodwill

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. The Bourse concluded that it was not necessary to record an impairment loss in this respect.

### Employee Future Benefits

The Bourse's obligations and expenses for the defined benefit pension plan for senior management are determined using actuarial valuations and are subject to significant weighted average assumptions, such as the expected long-term rate of return on plan assets and rate of compensation increase, as determined by management. Although management considers that these assumptions are reasonable, any difference in the actual results or change in the assumptions could affect the obligations and expenses recorded by the Bourse. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods, if the difference exceeds a specific threshold, and will therefore affect the obligations and expenses of future periods. See note 20 to the audited consolidated financial statements as at December 31, 2005 for more information.

### Income Taxes

The Bourse uses assumptions to estimate income tax expense and future income tax assets and liabilities. This process involves estimating the actual amount of income taxes payable and assessing carry-forwards of tax losses and temporary differences between the carrying amount of the assets and liabilities and their tax basis. Future income tax assets and liabilities presented in the consolidated balance sheet are calculated based on the tax rates that should be enacted in future periods. Previously recorded future income tax assets and liabilities must be adjusted if the date of the future event is changed based on current information. The Bourse periodically assesses future income tax assets to determine the likelihood of recovery. Based on the information at hand, the Bourse considers that it is more likely than not that all future income tax assets will be realized before expiry.

## 2005 MANAGEMENT REPORT (CONTINUED)

### Change in Accounting Policies

The Bourse regularly monitors the application of new accounting policies and no new accounting policies were adopted in 2005.

### Internal Controls

In 2005, the Bourse began documenting and assessing the design of disclosure controls and procedures in business processes generating financial information. As at December 31, 2005, the documenting was completed. In 2006, the test phase will begin with a view to complying, as of 2007, with the new regulatory requirements proposed in Instrument 52-109 on Reporting on Internal Control over Financial Reporting, even if the Bourse is not subject to these requirements.

## RISKS AND UNCERTAINTIES

### Risk Management Guidelines

The Bourse's risk management guidelines are premised on the following elements:

- » Sound governance structure
- » Competent and responsible staff
- » Segregation of incompatible functions
- » Proper oversight of each of the Bourse's major functions
- » Business continuity planning process to ensure continued operations in the event of an emergency

### Market

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

### Competition

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 reduced interest in our products and pressure on transaction prices, among other things. Furthermore, the agreement signed with TSX to restructure the fields of specialization of Canadian exchanges will expire in 2009.

### 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 its operations to continue uninterrupted in the event of an emergency.

## 2005 MANAGEMENT REPORT (CONTINUED)

### **Regulatory**

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 commissions 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, market position and results.

### **Clearing activities**

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

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

Luc Bertrand



President and Chief Executive Officer

Louise Laflamme



Executive Vice-President and  
Chief Financial Officer

Montréal, Canada

February 3, 2006

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Bourse de Montréal Inc. (the "Company") as at December 31, 2005 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, 2005 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, serving as a separator or underline.

Chartered Accountants

Montréal, Canada

February 3, 2006

## CONSOLIDATED BALANCE SHEET

December 31, 2005,  
with comparative figures for 2004  
(In thousands of dollars)

	2005	2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	<b>\$ 25,923</b>	\$ 15,177
Temporary investments (note 3)	<b>32,577</b>	24,109
Receivables	<b>6,272</b>	8,607
Daily settlements due from clearing members	<b>22,006</b>	23,663
Clearing members' cash margin deposits (note 4)	<b>1,041</b>	5,370
Clearing fund cash deposits (note 4)	<b>4,005</b>	544
Prepaid expenses	<b>1,525</b>	1,980
	<b>93,349</b>	79,450
Long-term investments (note 5)	<b>9,798</b>	6,169
Capital assets (note 6)	<b>14,208</b>	17,792
Future income taxes (note 15)	<b>705</b>	1,061
Goodwill and other intangible assets (note 7)	<b>972</b>	1,165
	<b>\$ 119,032</b>	\$ 105,637

See accompanying notes to consolidated financial statements.

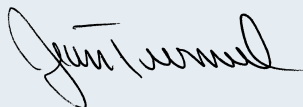
## CONSOLIDATED BALANCE SHEET (CONTINUED)

December 31, 2005,  
with comparative figures for 2004  
(In thousands of dollars)

	2005	2004
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accruals	\$ 10,297	\$ 10,195
Dividends payable	12,721	–
Daily settlements due to clearing members	22,006	23,663
Clearing members' cash margin deposits (note 4)	1,041	5,370
Clearing fund cash deposits (note 4)	4,005	544
Income taxes payable	3,484	789
Current portion of obligations under capital leases (note 10)	3,239	3,490
	<b>56,793</b>	44,051
Obligations under capital leases (note 10)	1,022	4,261
Future income taxes (note 15)	245	562
Shareholders' equity:		
Capital stock (note 11)	45,405	43,389
Contributed surplus (note 11)	825	721
Retained earnings	16,532	14,118
Cumulative translation adjustment (note 12)	(1,790)	(1,465)
	<b>60,972</b>	56,763
Commitments (note 13)		
Contingencies (note 14)		
	<b>\$ 119,032</b>	\$ 105,637

See accompanying notes to consolidated financial statements.

On behalf of the Board,



Director



Director

## CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 2005,  
with comparative figures for 2004  
(In thousands of dollars, except per share amounts  
and number of shares)

	2005	2004
Revenues:		
Transactions	\$26,403	\$19,740
Participants	2,456	4,180
Clearing and option exercise	9,609	7,837
Information systems services (note 18)	15,581	12,160
Market data	8,095	7,787
Other (note 23)	1,020	5,630
	<b>63,164</b>	57,334
Expenses:		
Compensation and benefits	19,891	19,004
Occupancy	2,754	2,520
Computer licences and maintenance	6,397	5,441
Amortization of capital assets and intangible assets	7,586	5,284
General and administrative	6,810	6,525
Telecommunications	2,841	2,510
Public affairs	1,408	1,344
Interest on obligations under capital leases	356	359
	<b>48,043</b>	42,987
Earnings before investment income, other items and income taxes	15,121	14,347
Investment income	1,785	1,059
Equity in results of company subject to significant influence (note 5)	2,278	(2,684)
Gain on dilution (note 5)	1,042	-
Loss and termination fees on disposal of investments in company subject to significant influence and in joint venture (notes 2 and 5)	(699)	-
Earnings before income taxes	19,527	12,722
Income taxes: (note 15)		
Current	4,353	896
Future	39	2,867
	<b>4,392</b>	3,763
Net earnings	<b>\$15,135</b>	\$ 8,959
Basic earnings per share (note 8)	<b>\$ 1.85</b>	\$ 1.11
Diluted earnings per share (note 8)	<b>\$ 1.74</b>	\$ 1.07
Weighted average number of shares outstanding – basic (note 8)	<b>8,197,051</b>	8,061,251
Weighted average number of shares outstanding – diluted (note 8)	<b>8,708,425</b>	8,351,453

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, 2005,  
with comparative figures for 2004  
(In thousands of dollars)

	2005	2004
Retained earnings, beginning of year	\$14,118	\$ 5,159
Net earnings	15,135	8,959
Dividends	(12,721)	–
Retained earnings, end of year	\$16,532	\$14,118

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2005,  
with comparative figures for 2004  
(In thousands of dollars)

	2005	2004
Cash flows from (used in) operating activities:		
Net earnings	\$15,135	\$ 8,959
Adjustments for:		
Amortization of capital assets and intangible assets	7,586	5,284
Equity in results of company subject to significant influence	(2,278)	2,684
Loss on disposal of investment in a joint venture	21	–
Loss on disposal of investment in a company subject to significant influence	378	–
Gain on dilution	(1,042)	–
Amortization of premium on investments	27	117
Interest income on discount investments	(633)	5
Future income taxes	39	2,867
Cost of stock option plan	234	245
Cost of deferred share unit plan	–	810
Net change in non-cash operating assets and liabilities (note 16)	5,672	(863)
	<b>25,139</b>	<b>20,108</b>
Cash flows from (used in) investing activities: (note 16)		
Purchase of capital assets	(3,848)	(2,715)
Purchase of intangible assets	(46)	(249)
Purchase of investments	(277,318)	(183,424)
Sale of investments	269,456	179,469
Disposal of investment in a joint venture	(21)	–
Purchase of long-term investments	(1,012)	(3,682)
	<b>(12,789)</b>	<b>(10,601)</b>
Cash flows from (used in) financing activities: (note 16)		
Decrease in obligations under capital leases (note 10)	(3,490)	(2,363)
Share issuance (note 11)	1,886	317
	<b>(1,604)</b>	<b>(2,046)</b>
Net increase in cash and cash equivalents	10,746	7,461
Cash and cash equivalents, beginning of year	15,177	7,716
Cash and cash equivalents, end of year	<b>\$25,923</b>	<b>\$15,177</b>
Cash and cash equivalents are comprised of:		
Cash	\$ 3,427	\$ 2,073
Bankers' acceptances	13,825	9,168
Treasury bills	8,671	3,936
	<b>\$25,923</b>	<b>\$15,177</b>

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2005

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

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 derivative products. The Company also has a Training Service (previously the Derivatives Institute), whose mission is to educate, inform and train individual investors and finance professionals with respect to the use of derivative 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 until December 19, 2005 (note 2) those 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 31.4% interest in the capital stock of the Boston Options Exchange LLC (“BOX”), and the Company’s 8% interest in the capital stock of Oxen Inc. (“Oxen”), until December 19, 2005 (note 5), both investments being in companies subject to significant influence. These investments are accounted for under the equity method, according to which the initial cost of the investment is adjusted to include the Company’s proportionate share of post-acquisition net earnings or losses, less 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

#### **(d) » Daily settlements due from and to clearing members of the CDCC:**

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

As at December 31, 2005, the largest amount due from a clearing member was \$13,397 (\$10,978 in 2004) and the largest amount due to a clearing member was \$7,062 (\$7,961 in 2004).

#### **(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 amortized over periods not exceeding the term of the leases.

Direct costs incurred for the development of software to be used internally are recorded in capital assets under computer development, hardware and software. These costs include, among others, salary costs, hardware and subcontractors and are amortized over their estimated useful lives, over a period of five years.

#### **(f) » Capital assets, other intangibles and goodwill:**

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

#### **(f) » Capital assets, other intangibles and goodwill (continued):**

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

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

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

Deferred share unit plan:

The Company accounts for its deferred share unit plan as a charge to earnings and a liability is recorded as share units are granted, at the fair value at the time of grant, based on the fair value method, as described in note 11. Changes in the fair value of the underlying shares, between the grant date and the valuation date, result in a change in the valuation of the liability. This plan, implemented for certain members of the Board of Directors and for various committees of the Company, was abolished in January 2005 (note 11).

Stock option plan and share purchase plan:

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, 2005

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

### 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) » Tax credits on development costs and government assistance:**

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

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

#### **(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 located 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, 2005

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

### 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 earnings in the period that includes the enactment or substantive enactment date. Future income tax assets are recognized and, if realization is not considered "more likely than not", a valuation allowance is provided.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 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 a company subject to significant influence, as well as the determination of the valuation allowance related to future income tax assets. Actual results could differ from those estimates.

### 2. INTEREST IN A JOINT VENTURE:

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:

	2005	2004
Current assets	\$ –	\$280
Current liabilities	–	46
Revenues	12	19
Net loss	(213)	(66)
Cash used in operations	(146)	(141)

On December 19, 2005, CDCC disposed of its investment in Clearco for a consideration of \$1. This transaction generated a loss on disposal of investment of \$21.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 3. TEMPORARY INVESTMENTS:

	Effective interest rates as at December 31, 2005	2005		2004		
		Cost	Fair value	Effective interest rates as at December 31, 2004	Cost	Fair value
Federal bonds:						
Maturing in less than one year	2.85%	\$ 7,004	\$ 7,031	2.24%	\$ 2,593	\$ 2,618
Maturing between 1 year and less than 3 years	3.51%	203	205	2.88%	7,449	7,461
Maturing between 3 years and less than 10 years	3.97%	5,105	5,096	–	–	–
Maturing in 10 years and more	–	–	–	4.85%	55	57
Provincial bonds:						
Maturing in less than one year	3.16%	2,719	2,724	2.75%	2,055	2,059
Maturing between 1 year and less than 3 years	2.66%	402	407	3.18%	2,516	2,568
Maturing between 3 years and less than 10 years	4.14%	5,292	5,346	3.79%	1,514	1,578
Maturing in 10 years and more	4.82%	8,795	9,421	5.48%	5,190	5,453
Corporate bonds:						
Maturing between 1 year and less than 3 years	3.19%	406	402	3.42%	494	497
Maturing between 3 years and less than 10 years	4.80%	281	286	4.40%	779	789
Maturing in 10 years and more	5.66%	2,370	2,541	6.25%	1,464	1,540
		\$32,577	\$33,459		\$24,109	\$24,620

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 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.

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:

	2005	2004
Margin deposits:		
Government securities, at face value	\$1,718,376	\$1,377,021
Letters of credit, at face value	39,595	307,465
Equity securities (to cover short positions), at market value	397,075	125,121
	<b>\$2,155,046</b>	<b>\$1,809,607</b>
Clearing fund deposits:		
Government securities, at face value	\$ 227,149	\$ 174,434

### 5. LONG-TERM INVESTMENTS:

#### **(a) » BOX:**

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

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

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

On June 10, 2005, the Company acquired 0.7% of the capital stock of BOX for a cash consideration of \$1,012 (US\$810), increasing its share in BOX to 31.4%. This transaction resulted in a goodwill of \$838 included in the investment in BOX.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 5. LONG-TERM INVESTMENTS (CONTINUED):

#### (b) » Oxen:

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.

On December 19, 2005, the Company ended the agreement entered into on July 7, 2004 with Oxen. The Company sold back its 8% share in Oxen for \$1. The disposal of this investment generated a loss of \$678, including a termination fee of \$300.

	2005	2004
31.4% (31.7% in 2004) interest in the capital stock of BOX	\$12,523	\$11,511
Share in accumulated losses	(3,620)	(5,920)
Gain on dilution	2,685	1,643
Cumulative translation adjustment	(1,790)	(1,465)
Investment in BOX (31.4% (31.7% in 2004) of capital stock)	9,798	5,769
Investment in Oxen (8% of capital stock in 2004)	400	400
Share in accumulated losses	(22)	–
Loss on disposal of investment in Oxen	(378)	–
Investment in Oxen (8% of capital stock in 2004)	–	400
Long-term investments	<b>\$ 9,798</b>	<b>\$ 6,169</b>

The Company's share in the net book value of BOX amounts to \$7,545 as at December 31, 2005 (\$4,285 as at December 31, 2004).

BOX is a LLC, therefore, the income taxes of BOX are payable by the owners according to their share in BOX. The Company has future income tax assets in BOX that can be used against future earnings generated by BOX. These assets amount to \$1,020, and represent losses carried forward and timing differences. A valuation allowance of the same amount has been recorded.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 6. CAPITAL ASSETS:

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

The amortization expense on hardware and software under capital leases amounts to \$3,254 in 2005 (\$2,261 in 2004).

	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
	<b>\$35,542</b>	<b>\$17,750</b>	<b>\$17,792</b>

In September 2005, the Company identified assets related to its trading platform to be replaced by an internally developed software offering better performance. Even if these assets were still usable and the fair value exceeded their carrying value, these assets had capacity limits and the Company was dependent on a third party for its trading platform. A review of the estimated amortization period and a test for recoverability of these assets were made. The review resulted in an additional charge to amortization of \$912.

In 2004, 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 revision brought a supplementary amortization expense of \$434 in 2004 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 (nil in 2005).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 7. GOODWILL AND OTHER INTANGIBLE ASSETS:

	2005		
	Cost	Accumulated amortization	Net book value
On-line training programs	\$1,465	\$ 801	\$ 664
Goodwill	308	–	308
			<b>\$ 972</b>

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

The amortization expense of the other intangible assets was \$239 in 2005 (\$247 in 2004).

### 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:

	2005	2004
Net earnings	\$15,135	\$ 8,959
Weighted average number of shares outstanding – basic	8,197,051	8,061,251
Dilutive effect of stock options	511,374	290,202
Weighted average number of shares outstanding – diluted	8,708,425	8,351,453
Basic earnings per share	\$ 1.85	\$ 1.11
Diluted earnings per share	\$ 1.74	\$ 1.07

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 9. OPERATING LINES OF CREDIT:

The Company has operating lines of credit of \$3,000. From these authorized credits, an amount of \$1,445 has been given as a guarantee to the trustee of the employee future benefit plan (see note 20). When used, these lines of credit bear interest at the banks' prime rate and are renewable annually (see note 22 for other authorized credits).

### 10. OBLIGATIONS UNDER CAPITAL LEASES:

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

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

The obligations under capital leases are re-invoiced at cost as part of the services provided to BOX. In the event that BOX defaults, the 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.

### 11. CAPITAL STOCK:

	2005	2004
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:		
8,481,155 common shares (8,285,100 in 2004)	<b>\$47,019</b>	\$44,196
Held in guarantee for loans under share purchase plan:		
187,647 common shares (185,409 in 2004)	<b>(1,614)</b>	(807)
Issued:		
8,293,508 common shares (8,099,691 in 2004)	<b>\$45,405</b>	\$43,389

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 11. CAPITAL STOCK (CONTINUED):

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.

On December 1, 2005, the Company declared a dividend of \$1.50 per share. This dividend will be payable on February 7, 2006 to the registered shareholders of record on February 6, 2006.

#### (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.

	Number of options	Weighted average exercise price
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 January 1, 2005	838,000	5.09
Granted during 2005	—	—
Cancelled during 2005	(3,000)	5.09
Options outstanding as at December 31, 2005	835,000	\$5.09

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 11. CAPITAL STOCK (CONTINUED):

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

The following table summarizes information about outstanding and exercisable options as at December 31, 2005:

Exercise price	Number of options	Outstanding options		Exercisable options	
		Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of options	Weighted average exercise price
\$4.96	615,000	\$4.96	5	615,000	\$4.96
5.15	145,000	5.15	7	145,000	5.15
6.00	75,000	6.00	8	50,000	6.00
	835,000	\$5.09		810,000	\$5.06

No options were granted in 2005. In 2004, the fair value of the 75,000 stock options granted was fixed at \$2.86 using the Black-Scholes option pricing model, assuming a fair value of \$6.50 for the Company's shares, a risk-free rate of 5%, a dividend yield of 0%, an expected volatility of 1% and an expected life for the options of 10 years. Two thirds of these stock options were vested during 2004 and 2005, the remaining stock options will vest on January 1, 2006.

The total cost of stock options granted is established according to the fair value method at the grant date. The compensation cost related to these options is recognized over a three-year period, being the period over which the options vest, from the grant date. During the year, the Company recorded a compensation cost of \$178 (\$171 in 2004).

#### (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. On April 18, 2005, the Autorité des marchés financiers ("AMF") approved a new subscription period to the employee share purchase plan for employees held from May 6 to June 6, 2005 allowing a total subscription of 200,000 shares. At the end of the subscription period, 112,055 shares were issued at a price of \$13.74 per share for a total of \$1,539 based on the fair value of the shares established using the discounted cash flow method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 11. CAPITAL STOCK (CONTINUED):

#### (b) » Share purchase plan (continued):

Interest-free loans were granted to employees to buy these shares and the loans are payable through equal payroll deductions over periods varying from 1 to 5 years (maximum of 3 years for loans of the last subscription) from the date of acquisition. The unpaid balance of the loans at December 31, 2005 is \$1,614 (\$807 in 2004). 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. These loans are recorded as a reduction of capital stock. The shares purchased by means of share purchase loans are considered, in substance, as stock options, exercised during the term of the share purchase loan. Loans granted for the purchase of these shares are repayable in all circumstances regardless of the variation in share value.

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

During the year, the Company recorded a compensation cost of \$56 (\$74 in 2004).

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

#### (c) » Private placement for the Directors:

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

#### (d) » Deferred share unit plan:

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

	Number
Deferred share units outstanding as at January 1, 2004	97,992
Granted during 2004	41,496
Deferred share units outstanding as at January 1, 2005	139,488
Exercised in 2005 <sup>(1)</sup>	(139,488)
Deferred share units outstanding as at December 31, 2005	–

During the year, the Company recorded a charge of \$470 (\$810 in 2004).

<sup>(1)</sup> At December 31, 2005, included in accounts payable and accruals, is the unpaid balance of \$146 (10,626 units).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 12. CUMULATIVE TRANSLATION ADJUSTMENT:

	2005	2004
Beginning balance	\$ (1,465)	\$ (866)
Impact of changes in currency rates on net investment in self-sustaining foreign operation	(371)	(599)
Impact resulting from transaction reducing the interest in company subject to significant influence (note 5)	46	–
Ending balance	\$ (1,790)	\$ (1,465)

### 13. COMMITMENTS:

The Company rents its premises and equipment under operating lease agreements expiring between 2006 and 2015, and is committed under service and licence agreements until 2007.

As at December 31, 2005, total minimum lease payments and minimum payments required for each of the following years under these commitments were as follows:

	Occupancy and equipment leases	Licence and maintenance agreements	Total
2006	\$ 4,267	\$ 2,595	\$ 6,862
2007	3,553	3,349	6,902
2008	1,914	–	1,914
2009	1,544	–	1,544
2010	1,542	–	1,542
2011 and after	5,991	–	5,991
Total minimum payments required	\$18,811	\$ 5,944	\$24,755

Between January 1 and February 6, 2006, 792,000 stock options were exercised at a weighted average exercise price of \$5.09 which has generated an additional dividend payable of \$1,188. The Company has granted loans bearing interest at 5% on 595,000 shares. The dividend payable on these shares will be applied against the loans. The loans are repayable at the latest in February 2009 and interests are payable annually in February.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

(In thousands of dollars, except per share amounts  
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### 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, 2005. Any liability, if any, resulting from these legal actions, would be recorded in the year during which the damages would be known.

### 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:

	2005	2004
Earnings before income taxes	<b>\$19,527</b>	\$12,722
Tax rate as set out by laws	<b>31.1%</b>	31.1%
Income taxes computed	<b>6,073</b>	3,957
Unrecognized tax benefit resulting from losses of BOX	–	1,055
Recognized tax benefit resulting from losses of BOX	<b>(893)</b>	–
Other change in valuation allowance	<b>(68)</b>	(98)
Impact of tax rate differential for BOX	<b>204</b>	(240)
Adjustment to future tax assets and liabilities for enacted changes in tax rates	–	(8)
Gain on dilution	<b>(324)</b>	–
Provincial tax holiday	<b>(905)</b>	(914)
Impact of subsidiary and joint venture tax rate differential	<b>198</b>	112
Effect of permanent differences	<b>114</b>	37
Tax on large corporations	–	115
Other	<b>(7)</b>	(253)
Income taxes	<b>\$ 4,392</b>	\$ 3,763

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

(In thousands of dollars, except per share amounts  
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### 15. INCOME TAXES (CONTINUED):

#### (b) » Future income taxes:

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

	2005	2004
Future income tax assets:		
Capital assets	\$ 123	\$ 131
Goodwill	1,082	1,169
Deferred share unit plan	–	352
Regulatory Division reserve fund	375	277
Employee future benefits plan	100	48
Investment in BOX	523	1,100
Operating losses and timing differences of BOX	1,020	1,977
Capital losses	83	–
Operating losses available for carry forward	–	54
Capital leases	–	130
Other	107	69
Future income tax assets	<u>3,413</u>	<u>5,307</u>
Valuation allowance	(2,708)	(4,246)
Future income tax assets, net	<u>\$ 705</u>	<u>\$1,061</u>
Future income tax liabilities:		
Capital assets	\$ (184)	\$ (562)
Capital leases	(61)	–
Future income tax liabilities	<u>\$ (245)</u>	<u>\$ (562)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

(In thousands of dollars, except per share amounts  
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### 16. SUPPLEMENTAL CASH FLOW INFORMATION:

	2005	2004
(a) Interest paid	\$ 356	\$ 359
Income taxes paid	1,505	87
(b) Net change in non-cash operating assets and liabilities:		
Receivables	\$ 2,335	\$ (1,675)
Daily settlements due from clearing members	1,657	(16,893)
Clearing members' cash margin deposits	4,329	(4,861)
Clearing fund cash deposits	(3,461)	3,697
Prepaid expenses	455	(497)
Accounts payable and accruals	187	520
Income tax expenses	2,695	789
Daily settlements due to clearing members	(1,657)	16,893
Clearing members' cash margin deposits	(4,329)	4,861
Clearing fund cash deposits	3,461	(3,697)
	<b>\$ 5,672</b>	<b>\$ (863)</b>
(c) Non-cash transactions related to:		
Investing activities:		
Purchase of capital assets financed through accounts payable	\$ 451	\$ 536
Deferred share units included in accounts payable	-	810
Purchase of capital assets financed through capital leases	-	4,506
Financing activities:		
Loans granted for share purchases	1,460	-
Transfer from contributed surplus to capital stock related to the reimbursement of loans on shares financed under the share purchase plan	130	-
Dividends payable	12,721	-

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

(In thousands of dollars, except per share amounts  
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### 17. TAX CREDITS ON DEVELOPMENT COSTS AND GOVERNMENT ASSISTANCE:

In 2005, the Company recorded tax credits for an amount of \$263 related to development costs incurred in 2002 and 2003 for the purpose of improving technologies used for the trading platform.

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. Had the Company not met these conditions, the Ministère could have applied various measures, including the suspension or cancellation of the agreement or the repayment of the amounts received by the Company.

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 \$828 in 2005 (\$624 in 2004).

### 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, in order to establish the technical structure at BOX. These charges were presented as a reduction of compensation and benefits, computer licences and maintenance, and general and administrative expenses.

Furthermore, beginning in 2004, the Company became an official supplier to BOX and now charges at the exchange amount, being the amount established and agreed to by BOX, salaries, telecommunication services, computer equipment, and other services. The amounts invoiced in 2005 amounted to \$15,581 (\$12,160 in 2004). These transactions were undertaken in the normal course of business.

Refer to note 10 for additional related party transactions.

As at December 31, 2005, the receivables from BOX are \$854 (\$1,683 in 2004).

In 2005, the Company had operations in the normal course of business with its joint venture, Clearco, for an amount of \$433 (\$79 in 2004).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 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 financial 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.

	2005		
	Bourse	CDCC	Consolidated
Revenues from exchange and clearing	\$37,587	\$ 9,996	\$47,583
Revenues from information systems services	15,581	–	15,581
Investment income	1,229	556	1,785
Amortization of capital assets and intangible assets	7,339	247	7,586
Equity in results of company subject to significant influence (notes 5 and 18)	2,278	–	2,278
Net earnings	11,168	3,967	15,135
Purchase of capital assets and intangible assets	3,791	124	3,915
Assets	74,310	44,722	119,032

	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 results 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 19. SEGMENTED INFORMATION (CONTINUED):

Regulatory Division:

Pursuant to a decision rendered by the AMF on November 24, 2000, the Company created a separate regulatory division, responsible for approved participants and market regulation and operating on a cost recovery basis. The AMF accepted that, effective January 1, 2005, the Regulatory Division perform its regulatory functions exclusively in the area of derivatives. Also, at that date, the Division transferred its functions and delegated authority regarding securities dealers in order to bring all these dealers, and their representatives and officers under the jurisdiction of one self-regulatory organization in Quebec, the Investment Dealers Association of Canada (IDA). For the year ended December 31, 2005, the Division has generated revenues of \$2,462 (\$4,009 in 2004) and incurred direct expenses of \$885 (\$1,836 in 2004) and indirect expenses of \$657 (\$1,565 in 2004). The surplus of the Division at December 31, 2005 totals \$1,541 and is presented in accounts payable and accruals. Of this amount, \$796 will be reimbursed to approved participants at the beginning of 2006.

### 20. EMPLOYEE FUTURE BENEFITS:

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

	2005	2004
Accrued benefit obligation:		
Balance at beginning of year	\$ 847	\$ 650
Current service cost	159	150
Interest cost	60	47
Actuarial loss	319	–
Balance at end of year	<b>\$1,385</b>	\$ 847
Plan assets:		
Fair value at beginning of year	\$ 52	\$ –
Annual return on plan assets	5	2
Employer contributions	54	50
Actuarial Gain	8	–
Fair value at end of year	<b>\$ 119</b>	\$ 52
Accrued benefit liability:		
Funded status – plan deficit	<b>\$1,266</b>	\$ 795
Unamortized past service costs	(545)	(598)
Actuarial loss unamortized	(311)	–
Balance at end of year	<b>\$ 410</b>	\$ 197

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 20. EMPLOYEE FUTURE BENEFITS (CONTINUED):

The liability is included in accounts payable and accruals in the consolidated balance sheet. The contributions from the employer of \$52 in 2005 and \$50 in 2004 were invested in a diversified fund.

The Company has provided a letter of guarantee in the amount of \$1,445 to the benefit of the trustee of the employee future benefits 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):

	2005	2004
	Expense and obligation	Expense and obligation
Discount rate	5.0%	6.5%
Expected long-term rate of return on plan assets	5.0%	6.5%
Rate of compensation increase	3.0%	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.

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

	2005	2004
Current service cost	\$159	\$150
Interest cost	60	47
Expected return on plan assets	(5)	(2)
Amortization of past service costs	52	52
Net benefit plan expense	\$266	\$247

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 21. FINANCIAL INSTRUMENTS:

**(a) » Credit risk:**

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 return on cash and cash equivalents and temporary investments and the fair value of temporary investments to vary either upward or downward.

**(c) » Fair value of financial instruments:**

The carrying amount of 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 56% of the Company's revenues for the year ended December 31, 2005 were generated by BOX and four approved participants on behalf of numerous clients (48% in 2004).

### 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 his obligations under open futures and options contracts, margin deposits would be available to apply against costs incurred by the CDCC in liquidating the positions.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Year ended December 31, 2005

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

### 22. RISK MANAGEMENT (CONTINUED):

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 in 2004 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. 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, 2005)

**Jean Turmel****—Chairman of the Board**

President, Perseus Capital inc.  
Director since 2004

**Carmand Normand****—Vice-Chairman of the Board**

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

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

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**

Director  
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, Global  
Research Division  
RBC Capital Markets  
Director since 2000

**Jacques O. Nadeau**

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

**Louis Vachon**

Chairman and CEO, National Bank  
Financial Group and Chairman, Natcan  
Investment Management  
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 April 1, 2006, Mr. Stephen J. Elgee will hold  
the position of President, Faversham Holdings Inc.

## BOARD OF DIRECTORS—CDCC\* (AS OF DECEMBER 31, 2005)

**Thomas S. Monahan****—Chairman of the Board**

Managing Director  
CIBC World Markets Inc.

**Marie-Claude Beaulieu**

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

**Luc Bertrand**

President and Chief Executive Officer  
Montréal Exchange Inc.

**Peter Copestake**

Senior Vice-President and Treasurer  
Manulife Financial

**Michel Favreau**

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

**Claude Turcot**

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

## SPECIAL COMMITTEE—REGULATORY DIVISION

**Gaston Ostiguy****—President of the Committee**

Chief Financial Officer,  
Everest Securities Inc.

**Nabil Antaki**

Professor and Associate Director  
Centre for the Law of Business and  
International Trade (CDACI)  
Faculty of Law  
Université de Montréal

**Pierre-Paul Côté**

Full Professor, Faculty of Law,  
University of Montréal

**Viateur Gagnon****Jean-Pierre Gallardo**

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

**Giovanni Giarrusso**

Advisor, Capital Markets  
President, Giarrusso Consulting Inc.

**Pierre Lizé**

Consultant—Securities

\* Canadian Derivatives Clearing Corporation (CDCC)

## MANAGEMENT OF THE MONTRÉAL EXCHANGE (AS OF MARCH 13, 2006)

## EXECUTIVE COMMITTEE

**Luc Bertrand\***

President and  
Chief Executive Officer

**Louise Laflamme\***

Executive Vice-President and  
Chief Financial Officer

**Philippe Loumeau\***

Senior Executive Vice-President and  
Chief Operating Officer

\* Member, Management Committee

## MANAGEMENT COMMITTEE

**Michel Favreau**

Executive Vice-President and  
Chief Clearing Officer, CDCC

**Denis Grégoire**

Vice-President,  
Human Resources

**Joëlle Saint-Arnault**

Vice-President,  
Legal Affairs and Secretary

**Glenn Goucher**

Senior Vice-President,  
Financial Markets

**Alain Laurendeau**

Vice-President,  
Finance and Administration

**Rosanna Teti**

Senior Vice-President,  
Information Technology Solutions

## MANAGEMENT

**Robert Bessette**

Director,  
Quality Assurance

**Brian Z. Gelfand**

Vice-President,  
Business Development

**Josée Larin**

Director,  
Project Office

**Jacques Tanguay**

Vice-President,  
Regulatory Division

**Léon Bitton**

Vice-President,  
Research and Development

**Jean Guilbault**

Director,  
Systems Development  
and Architecture

**Ann McCarthy**

Director,  
Access Solutions

**Laurent Terrasse**

Director,  
Marketing and Promotion

**Richard Bourbonnière**

Vice-President,  
Market Operations

**Lara Krivokucha**

Director,  
Risk Management, CDCC

**Réjean Rhéaume**

Director,  
Organizational Efficiency

**Jean-Yves Trempe**

Director,  
Market Data Services

**Olivier De Beaufort**

Vice-President,  
Commercial Strategy

**Francis Larin**

Director and Legal Counsel,  
Regulatory Division

**Jean-Charles Robillard**

Director,  
Media Relations  
and Communications

**Roger Warner**

Director,  
Operations, CDCC



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