

125 YEARS IN THE FINANCIAL MARKETS



ANNUAL REPORT 1999

MESSAGE FROM THE CHAIRMAN OF THE GOVERNING COMMITTEE

We never have a shortage of reasons for acknowledging the efforts of Montreal Exchange personnel, and this holds true for 1999. This year, the accomplishment of our many projects in the midst of massive restructuring would not have been possible without the extraordinary dedication of our employees. They demonstrated their loyalty with steadfast determination and outstanding team spirit; they can all be proud of their achievements. My deepest gratitude goes to everyone involved.

The restructuring agreement required many special meetings at the Governing Committee level. I extend my sincerest appreciation to the Governors for making themselves available and for their invaluable contribution over these past months. I would also like to thank the Exchange's members, the companies listed on the Exchange and all other users of Exchange services for their understanding and patience. There was an understanding of the significance of our strategic objectives and of our efforts to attain them. Strengthened by its success, the Montreal Exchange will continue to seize every promising opportunity to ensure that it remains innovative and competitive.

It can readily be said that 1999 was a year of enormous change. For the Montreal Exchange, as for any other business, such change can have a major impact on revenues. However, given that the transfer of equities trading to the other Canadian exchanges did not take place until the end of November, the consequences of the restructuring on Montreal Exchange earnings were negligible in 1999. Indeed, our year-end results demonstrate that the Exchange remains in a sound financial position, with revenues reaching \$37,083,969, a slight decrease of 4.8% compared with 1998. The Montreal Exchange moved quickly to implement the transfer of equities trading and in early December commenced work on reconfiguring its trading floor in order to accommodate and receive without delay the TSE options market.



Luc Bertrand

The financial contribution of \$24.5 million stemming from the restructuring provides the Montreal Exchange with support in the transition to become the Canadian Derivatives Exchange™. This special financial contribution is clear evidence of the commitment and decision of all securities brokers throughout Canada. I would like to congratulate my colleagues, the chairmen of the Governing Committees of the other stock exchanges, for having acted in the best interests of the public and of the entire securities industry in deciding to support the restructuring project.

Like all institutions the world over, we were well prepared for the year 2000. If the transition was without incident in our offices, it was not so much due to the massive restructuring project as to our major efforts over the past few years to ensure that the transition would be a smooth one. Congratulations to everyone on the *Défi 2000* project.

Finally, I would like to express my appreciation to Gérald A. Lacoste for his six excellent years as President of the Montreal Exchange. Of his many significant accomplishments, I would point out the creation of numerous strategic alliances and the enhanced reputation of the Montreal Exchange internationally as his most significant. A leader with a unique strategic vision, Gérald played a key and central role in bringing Canadian stock exchanges together. On behalf of the Governing Committee, I extend my sincerest thanks for his outstanding contribution and wish him the greatest success in his future endeavours.

A handwritten signature in black ink, appearing to read 'Luc Bertrand'.

Luc Bertrand,
Chairman of the Governing Committee

On March 29, 2000, Mr. Luc Bertrand, Chairman of the Governing Committee since 1998, began his new role as President and Chief Executive Officer of the Montreal Exchange.

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

The Montreal Exchange turned an important page in its history in 1999. As a result of discussions initiated in 1998 regarding the restructuring of all Canadian exchanges, the Montreal Exchange took the first major steps to complete a project of significant proportions, reconfirming our dominant position in the options and futures market. Now, more than ever, we are the Canadian Derivatives Exchange™. We decided to celebrate our 125th anniversary by playing a key role in the restructuring, so as to ensure the longevity of our capital markets and simultaneously enhance the efficiency of the entire Canadian securities market system.



Gérald A. Lacoste

THE RADICAL TRANSFORMATION OF STOCK EXCHANGES

Given the profound changes that we underwent this year, I thought it worthwhile to review the context in which the Montreal Exchange moved towards market specialization.

Like any other industry, exchanges have had to adapt to changing economic forces and technological developments. Global trends affect capital markets and inevitably cause significant change. Three trends have had the greatest impact on Canadian markets at the close of this century: the globalization of exchanges in a deregulatory environment; the telecommunications revolution, and the institutionalization of savings, which has increased the size of mutual funds and pension funds.

One positive gain of this new direction in market conditions was the major breakthrough in terms of access to information. The logical consequence of this phenomenon was concomitant market access. In order to provide this opening up of markets without losing competitive strength, three prerequisites rapidly became necessary: the concentration of liquidity in a single market, reduced transaction costs and the creation of a critical mass. Concentration of liquidity has become essential in order to avoid the impact of the industry's major players on the markets. These same market participants insist on reduced transaction costs. In addition to reduced commissions and lower trading fees, these participants also

seek narrower spreads between buying and selling prices. We cannot thrive in this dramatically changed marketplace without a critical mass of participants, products and resources.

Networks and alliances. The prevailing market context described above necessitates the creation of networks and the forging of alliances in order to satisfy critical mass requirements, to promote liquidity and provide a concentration of market expertise. This need has only intensified. In Europe, the merger of Switzerland's SOFFEX (the Swiss Options and Financial Futures Exchange) and

Germany's DTB (Deutsche Terminbörse) resulted in the creation of EUREX, which has also established a link with CBOT (Chicago Board of Trade). Closer to home, we announced our membership in GLOBEX® Alliance, which links the Montreal Exchange with the Chicago Mercantile Exchange (CME), ParisBourse^{SBF} SA, the Singapore International Monetary Exchange (SIMEX, now the Singapore Exchange) and Brazil's Bolsa de Mercadorias & Futuros (BM&F). This international alliance will provide its partners and their clients with direct and instantaneous access to the full range of products traded on the network's five markets.

Automation and accessibility. Generally speaking, agreements among stock exchanges and the proliferation and upgrading of computerized systems have facilitated access to global capital markets. The Exchange's enhanced automation and recent affiliation with GLOBEX® will provide the Montreal Exchange with greater visibility for its products and 24-hour trading anywhere in the world.

New structure. Previously, exchanges consisted of brokers whose mutual trust and respect sufficed as guarantees of a transaction. This mutual company structure is evolving into a corporate structure. Some exchanges have ventured into the area of public offerings, such as the Stockholm Stock Exchange and the Australian Stock Exchange, which as public companies remain subject to the surveillance of securities regulatory authorities. In the coming years, the Montreal Exchange will seriously

consider the possibility of a structure adapted to evolving market realities. Until such time, the Montreal Exchange will continue to be attentive to industry needs and a willing participant in the dialogue emerging from a renewed vision of the marketplace.

A WINNING STRATEGY

This year, we successfully accomplished the restructuring of the Canadian exchanges. Given that the Canadian market is relatively small in size, it is imperative that we develop products of international caliber. Accordingly, our strategy is to build on the products that we know, in order to offer high-quality risk management vehicles. A perfect example is the BAX, the three-month Canadian Bankers Acceptance Futures contract. Along the same lines, in September 1999, we launched a new range of products based on the S&P/TSE 60 Index, which have performed very well to date, indicating an even more promising future. When these index-based products were first introduced, we predicted an average combined daily volume of 2,500 contracts; however, after only four months of trading, they have reached an impressive daily level of 3,800 contracts, despite a slight downturn worldwide in the futures market. We also posted excellent results on the equity options market in 1999 – a record year in terms of volume ever since equity options were introduced on the Montreal Exchange in 1975. On the basis of our market sector strength and the success of our value-added products, we are confident that we can withstand any assaults by the competition.

EXCEPTIONAL COLLABORATIVE EFFORT

The success of a large-scale project such as the restructuring of the Canadian exchanges depends on solid cooperation, wide-ranging competence, and the determination and sustained efforts of a large number of people. I would like to gratefully acknowledge the efforts of everyone involved in the restructuring project, both at the Montreal Exchange and within the various sectors of the Canadian market. I am proud that we have achieved our objectives, and I am firmly convinced that we could not have done so without such extensive personal involvement.

A PROMISING FUTURE

Given that in the year 2000 my career will be taking a new direction, I would like to take this opportunity to express my deep appreciation to the people I have had the opportunity of working with during my tenure as President, and those I have had the pleasure of meeting in my years in senior management at the Exchange. I am leaving behind a team of extraordinary men and women, initiatives launched in a sound and positive transitional period and a range of world-class products that are on the cutting edge. With all these strengths, the Montreal Exchange is more than well prepared for the burgeoning globalization of capital markets.



Gérald A. Lacoste, Q.C.,
President and Chief Executive Officer

THE YEAR IN REVIEW



RESTRUCTURING

In 1999, the agreement among the four principal Canadian

exchanges resulted in the restructuring of capital markets along the lines of market specialization. Under this agreement, equity of large cap issuers now trades on the Toronto Stock Exchange and small cap equity is traded on a new stock exchange, the Canadian Venture Exchange (CDNX), created by the merger of the Vancouver and Alberta stock exchanges. The Montreal Exchange becomes the sole market for derivative products in Canada. The Montreal Exchange has however maintained stock exchange services for Quebec-based small cap issuers who do not meet Toronto Stock Exchange listing requirements. The Montreal Exchange continues to provide listing and regulatory services for these companies, but pursuant to an outsourcing arrangement, trading services for these securities take place on the CDNX electronic trading platform.

Objectives

- Avoid market fragmentation by centralizing liquidity in one market.
- Generate the critical mass required to finance stock exchanges of international caliber.
- Strengthen the competitive position of each exchange in their respective areas of specialization to promote the growth of each Canadian financial centre.
- Streamline regulations and processes.
- Increase access to capital markets for brokerage houses, issuers and investors.

Stages

- The first meetings of the presidents of the four Canadian exchanges took place in the last quarter of 1998.
- In February 1999, at the close of a meeting in Toronto presided by the Montreal Exchange, the four exchanges agreed to the parameters and basic principles on which to elaborate an agreement on the restructuring of Canadian markets.
- In March 1999, the various market participants reached a formal agreement. Although the agreement approved the project, there were two prerequisites for its implementation: the merger of the Vancouver and Alberta stock exchanges and approval of the securities commissions of the provinces concerned.
- On March 15th, the Governing Committee of the Montreal Exchange approved the restructuring project.
- On March 15th, the four principal Canadian exchanges formally announced the signing of an agreement for restructuring the Canadian stock market, subject to the approval of the members and of the relevant regulatory authorities.
- The government of Quebec then created a committee to assess the scope and consequences of the agreement.
- On April 30th, this committee, chaired by Jean Turmel, President, Financial Markets, Treasury and Investment Bank, National Bank of Canada, supported by majority the restructuring agreement and the specialization of the stock exchanges.
- The project was submitted to the members of the Montreal Exchange at a special meeting held on June 22nd. The members endorsed the project and qualified it as crucial for the future given the issues resulting from a changing marketplace.
- The Commission des valeurs mobilières du Québec (CVMQ) held public hearings in Montreal in June. Representatives of the other exchanges, lobby groups and all other interested persons were invited to make submissions. On June 29th, the CVMQ rendered a decision in favour of the restructuring project.
- On November 10th, the project was amended in order to maintain listing services at the Montreal Exchange for a pool of approximately 130 small cap Quebec-based companies.



- Trading of small cap equities was transferred onto the Vancouver Stock Exchange's electronic trading platform on November 22nd.
- On November 27th, the agreement regarding the creation of the Canadian Venture Exchange (CDNX) was ratified by the Vancouver and Alberta stock exchanges and two days later the CDNX opened for trading.
- On December 6th, the Toronto Stock Exchange listed and began trading the senior equities that were previously exclusively listed on the Montreal Exchange. The technological transfer of systems took place without incident and on schedule.
- In the second week of December, the Montreal Exchange dismantled the equities trading floor and began its reconfiguration in order to receive options trading from Toronto without delay.

Jobs

- It was of paramount importance to find creative solutions in order to minimize the impact of the restructuring on human resources. Employees whose positions were affected by the restructuring were, for the most part, reassigned tasks related to the derivatives market. The jobs affected were located primarily in the listing, market surveillance and trading floor operations. At the beginning of the year, we had forecasted that the reorganization would result in the loss of 25 jobs, but our reclassification and reassignment efforts reduced that figure to 9.
- Conversely, specialization in derivative products and, specifically, the market launch of new products based on the S&P/TSE 60 Index created 35 new jobs on the Montreal trading floor (including options/futures traders and clerks). Furthermore, the March 2000 transfer of options from Toronto created at least 40 more jobs on the trading floor (including specialist and clerical positions).

NEW PRODUCTS

- On July 7, 1999, the Montreal Exchange announced the launch of new futures contracts and options based on the S&P/TSE 60 Index, thereby broadening the choice of strategic solutions using derivative products.
- The official launch took place on August 30th in Montreal and on August 31st in Toronto, and was followed by an international advertising campaign. September 7th marked the opening of trading at the Montreal Exchange, along with the arrival of 23 new traders from Toronto.
- The new products, offered under an agreement signed with Standard & Poor's, include index futures contracts (SXF), index options (SXO) and long-term index options LEAPS® (LSX, ZSX, WSX).
- On December 9th, the Montreal Exchange obtained authorization from the Commodities Futures Trading Commission (CFTC) to offer S&P/TSE 60 Index futures contracts to investors in the United States.
- Figures for the traded volume of the new index-based products exceeded all expectations and are a clear statement of their success. Their performance amply demonstrates the vitality of the Montreal Exchange and strengthens its emerging position in the options and futures markets of the world.





GLOBEX[®] ALLIANCE • On September 14th, the Montreal Exchange announced that it had joined GLOBEX[®] Alliance.

- The Montreal Exchange became the fifth partner in a network consisting of the Chicago Mercantile Exchange (CME), ParisBourse^{SBF} SA, the Singapore International Monetary Exchange (SIMEX) and Brazil's Bolsa de Mercadorias & Futuros (BM&F).
- Like its partners in GLOBEX[®] Alliance, the Montreal Exchange announced its intention to use the NSC (Nouveau Système de Cotation), an electronic trading system developed by EURONEXT, an affiliate of ParisBourse^{SBF} SA.
- By covering the world's three main time zones, GLOBEX[®] Alliance provides access to the most frequently traded futures contracts from a single electronic trading platform.
- The members of each partner stock exchange have direct access to all products traded on the network's markets, as well as to cross margining, resulting in reduced treasury fees for members and their clients.
- This important partnership is the culmination of one of the many Montreal Exchange projects designed to ensure the growth of its derivative products market in Canada.
- The North-South linkage between the Montreal Exchange, the CME and the BM&F constitutes the first integrated market of the Americas.

ANNIVERSARY DATES

125th anniversary of the Montreal Exchange

- The Montreal Exchange celebrated its 125th anniversary in 1999. It was the first securities market place in Canada, after being incorporated on January 28, 1874.
- The origins of the Montreal Exchange date back to 1832 when the first shares changed hands at the Exchange Coffee House in Old Montreal. It then occupied the Montreal Stock Exchange Building before moving to its current location.
- As part of its anniversary celebrations, the public was invited to an open-house weekend on January 30 and 31, 1999.

10th anniversary of the CGB

- In 1989, the Montreal Exchange launched its ten-year futures on Government of Canada bonds (CGB), the second most important futures contract traded on its trading floor.

THE YEAR 2000 • From January to March 1999, at the request of the Montreal

Exchange, the firm KPMG conducted an independent review of the *Défi 2000* program. The reassuring conclusions of the firm's report indicated a high degree of preparation for the Year 2000.

- On June 7, 1999, with the conclusion of industry testing, the Montreal Exchange successfully completed its conversion program and operating systems tests for the Year 2000.
- At the conclusion of industry testing, the Exchange developed a full contingency plan that included personnel availability during critical periods and the implementation of special communication initiatives to handle any problems that could arise failing regular means of communication.
- The Year 2000 conversion took place without incident, owing to the rigorous and efficient management of the *Défi 2000* project.



PARTICIPATION AND INDUSTRY INVOLVEMENT

- In addition to the Montreal Exchange's participation in many industry-related events worldwide, those attending the Savings and Investments Marketplaces in Québec City and Montréal could once again rely on the presence of the Montreal Exchange.
- Gérald A. Lacoste was reelected to the Executive Committee of the International Federation of Stock Exchanges (FIBV), and will continue to serve as President of the International Options Markets Association (IOMA).
- Mr. Lacoste also represents the Montreal Exchange on the boards of directors of the following organizations: the *Centre financier international* (CFI Montréal), *Valorisation-Recherche Québec* (VRQ), the *Institut de finance mathématique de Montréal* (IFM2) and the Financial Markets Consultancy Alliance (FCMA).

TRAINING PROGRAMS

- The Montreal Exchange's introductory and specialized courses on stock and derivative markets attracted approximately 1,500 persons this year.



EDUCATION ROLE

- The Montreal Exchange has continued its public education mission by welcoming more than 12,000 people to its Visitor's Centre, 1,000 more than last year. The Visitor's Centre provides a multitude of learning opportunities through audiovisual interactive stations, multimedia communication tools and two monitors that provide constant access to the Montreal Exchange website.
- The Montreal Exchange's website was visited in 1999 by more than 3.2 million people, an increase of 800,000 websurfers over the previous year.

Visitor's Centre hours:
 Monday to Friday, 8:30 a.m. to 4:30 p.m.
 Website: www.me.org
 E-mail: info@me.org

STATISTICAL INFORMATION

The Montreal Exchange is the sole derivatives exchange in Canada.

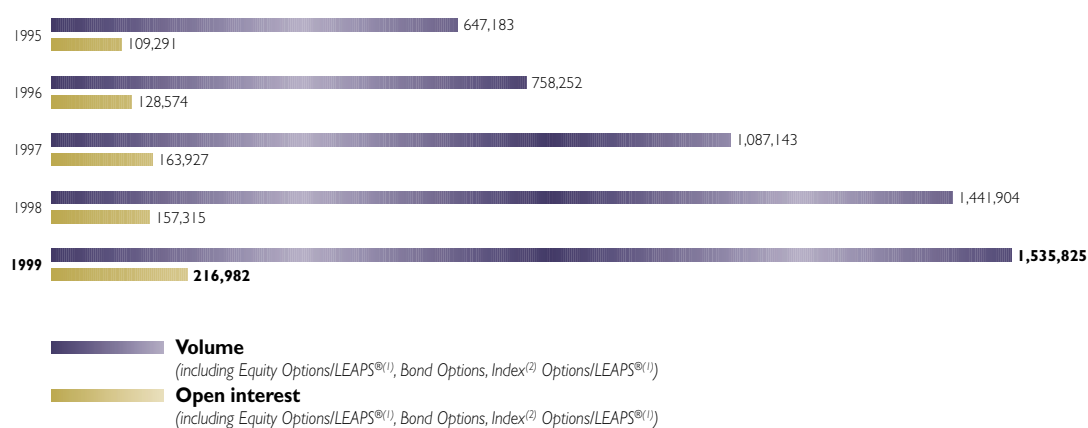
OPTIONS MARKET IN 1999

Options in 1999

Products	Number of classes	Traded value (\$)	Volume	Open interest as of December 31, 1999
Equity Options	50	328,624,037	1,439,476	173,291
Long-Term (LEAPS ^{®(1)}) Equity Options	11	20,060,457	44,849	18,410
Bond Options	4	8,403,239	9,190	466
S&P Canada 60 ⁽²⁾ Index Options	1	60,559,180	40,650	23,155
S&P Canada 60 ⁽²⁾ Long-Term (LEAPS ^{®(1)}) Index Options	1	6,215,850	1,660	1,660
Total	67	423,862,763	1,535,825	216,982

(1) LEAPS is a registered trademark of the Chicago Board Options Exchange, Inc.

(2) Products based on the S&P/TSE 60 Index





The five most active options classes

	Symbol	Volume
ATI Technologies Inc.	ATY	274,783
Imasco Limited	IMS	108,750
Bank of Montreal	BMO	93,837
National Bank of Canada	NA	91,489
Bombardier Inc., Cl. B	BBD.B	89,991

- Total volume, including Equity Options/LEAPS^{®(1)}, Bond Options, Index⁽²⁾ Options/LEAPS^{®(1)}: 1,535,825 traded contracts, an increase of 6.51%.
- In terms of traded contracts for a given year, the best results since the inception of the options market at the Montreal Exchange in 1975.
- Traded value (including Equity Options/LEAPS^{®(1)}, Bond Options, Index⁽²⁾ Options/LEAPS^{®(1)}): an increase of 20.69%.
- Open interest for options (including Equity Options/LEAPS^{®(1)}, Bond Options, Index⁽²⁾ Options/LEAPS^{®(1)}) as of December 31, 1999: an increase of 37.92%.
- In 1999: twelve new options classes listed.
- Two new options products began trading on September 7, 1999: S&P Canada 60 Index⁽²⁾ Options and S&P Canada 60 Long-Term (LEAPS^{®(1)}) Index⁽²⁾ Options.

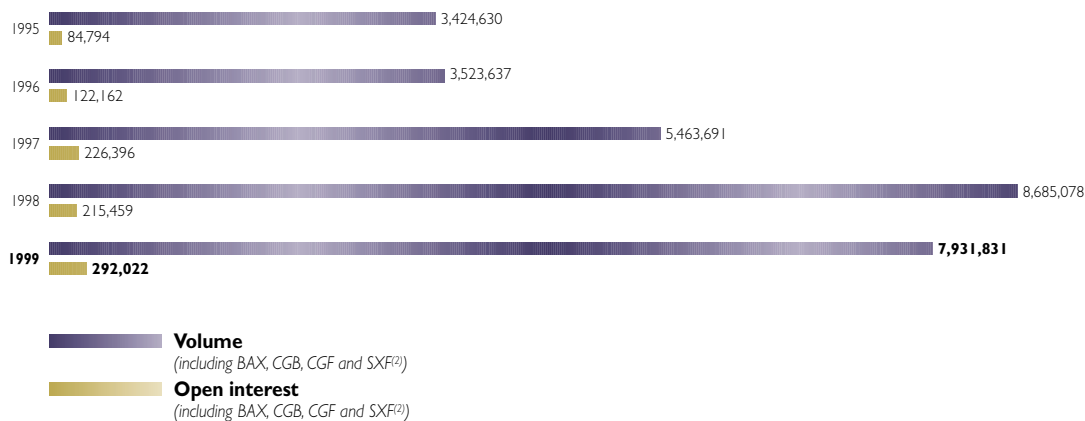
⁽¹⁾ LEAPS is a registered trademark of the Chicago Board Options Exchange, Inc.

⁽²⁾ Products based on the S&P/TSE 60 Index



FUTURES MARKET IN 1999

Futures contracts

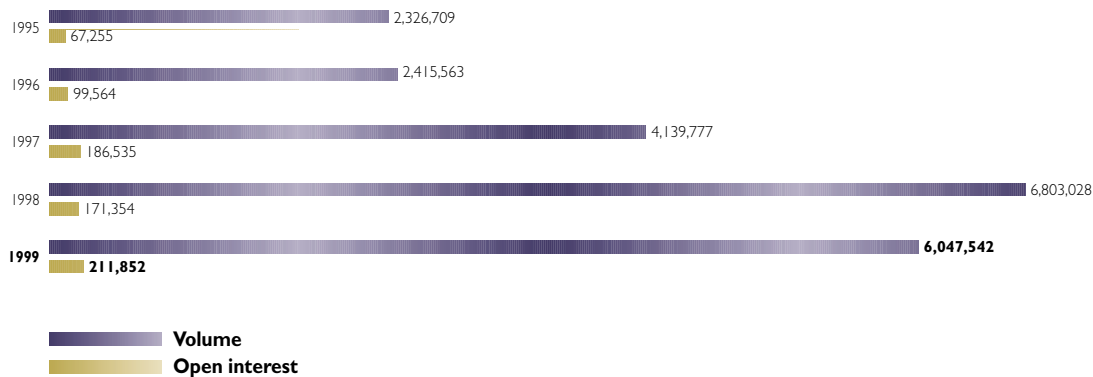


⁽²⁾ Products based on the S&P/TSE 60 Index

- Futures market: 7,931,831 traded contracts.
- A new futures contract (SXF) based on the S&P/TSE 60 Index began trading on September 7, 1999: 262,058 traded contracts.
- Open interest as of December 31, 1999: 292,022 contracts, an increase of 35.53% for all futures contracts combined.
- Open outcry trading floor: 261 traders, including 171 independent traders.

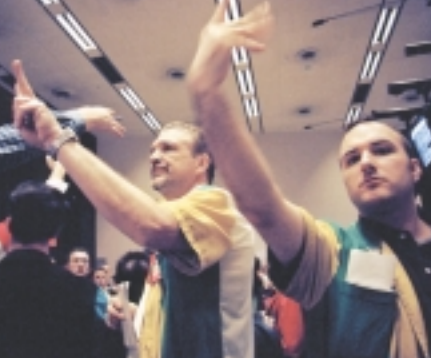
BAX

(Three-month Canadian Bankers' Acceptance Futures)



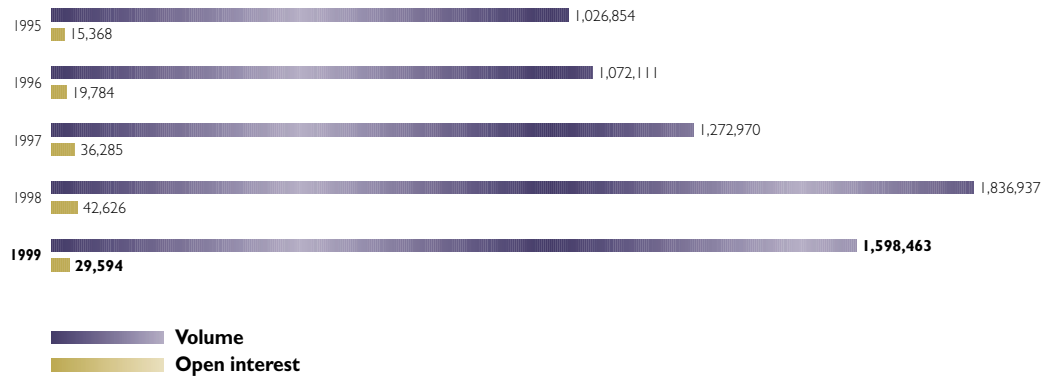
- Open interest as of December 31, 1999: 211,852 contracts, an increase of 23.63%.





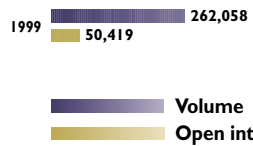
CGB

(Ten-year Government of Canada Bond Futures)



SXF

(S&P Canada 60 Index Futures⁽²⁾)



⁽²⁾ Products based on the S&P/TSE 60 Index



MARKET CAPITALIZATION

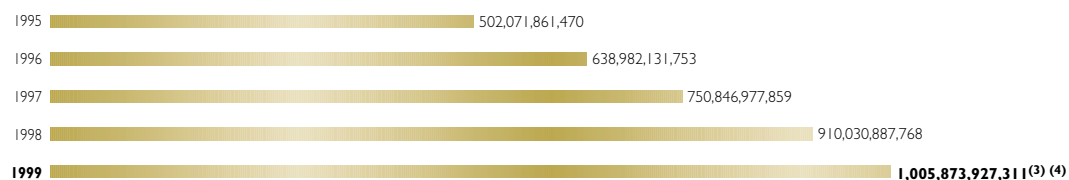
New Listings

	1999	1998	1997	1996	1995
Number of companies	20	34	65	48	23
Number of issues	22	42	70	56	26

Initial Public Offerings (IPOs)

	1999	1998	1997	1996	1995
Number of IPOs	14	24	50	25	11
Amount	\$6,468,991,829	\$3,228,867,467	\$7,379,271,585	\$709,247,218	\$2,469,395,500

Market capitalization (\$)



- Market capitalization as of November 30, 1999⁽³⁾: \$1,005.9 billion, an increase of 10.5% compared to December 31, 1998.
- As of November 30, 1999⁽³⁾: 532 companies listed/759 issues listed.
- As of December 31, 1999⁽⁴⁾: 129 companies listed/140 issues listed.

⁽³⁾ Market capitalization as of November 30, 1999 (before the transfer of large capitalization equities to the Toronto Stock Exchange). On December 31st, the market capitalization was \$684,884,548.

⁽⁴⁾ Transition year: the transfer of stock trading, according to the Canadian exchanges agreement, occurred on November 22, 1999, for small capitalization equities and on December 6, 1999, for large capitalization equities. This transfer explains the reduction in the number of listed companies and the overall market capitalization at the end of the year.

EQUITY MARKET IN 1999

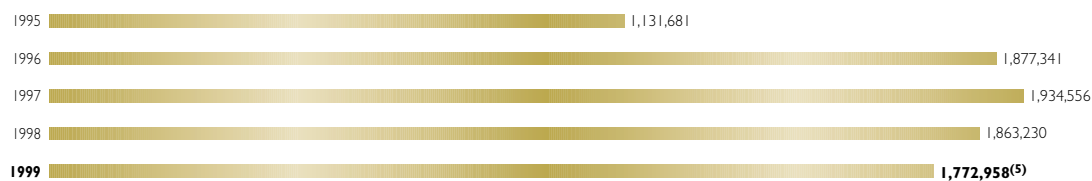
Equity market Traded value (\$)



Volume



Transactions



The 10 most active issues in 1999 (in terms of value)

	Value (\$)	Volume
BioChem Pharma Inc.	1,945,955,249	56,398,025
BCE Inc.	1,898,623,612	26,655,158
CGI Group Inc., Cl. A*	1,544,113,111	46,325,976
BCE Emergis Inc.	1,493,469,643	45,335,381
Canadian Imperial Bank of Commerce	1,330,270,450	37,558,174
Bombardier Inc., Cl. B	1,317,508,127	58,406,010
Royal Bank of Canada	1,301,313,703	18,596,736
TransCanada Pipelines Limited	1,030,663,906	51,834,932
Nortel Networks Corporation*	1,005,406,326	10,943,983
Toronto-Dominion Bank (The)*	988,460,865	20,277,655

* The actual volume is indicated despite splits that have occurred during the year.

⁽⁵⁾ Transition year: the transfer of stock trading, according to the Canadian Exchanges agreement, occurred on November 22, 1999, for small capitalization equities and on December 6, 1999, for large capitalization equities. This transfer explains the reduction of the volume and of the number of traded contracts at the end of the year.

XXM Index⁽⁶⁾

- The Canadian Market Portfolio Index (XXM) closed the year at 4,131.89 points.
- Highest level (at the closing): December 24th, at 4,195.26 points, the XXM posted a new record since its inception.
- Lowest level (at the closing): March 3rd, at 3,281.55 points.

⁽⁶⁾ As a result of the restructuring of the Canadian exchanges, the XXM Index was removed.

THE MONTREAL EXCHANGE

AUDITORS' REPORT TO THE MEMBERS

We have audited the balance sheet of the Montreal Exchange ("Exchange") as at December 31, 1999, and the statements of income and capital and cash flows for the year then ended. These financial statements are the responsibility of the Exchange'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. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Exchange as at December 31, 1999, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Montréal, Canada
February 25, 2000

THE MONTREAL EXCHANGE

BALANCE SHEET

December 31, 1999, with comparative figures for 1998

	1999	1998
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 605,099	\$ 2,806,474
Short-term investments (note 4)	16,848,299	5,298,598
Accounts receivable	4,036,554	4,635,497
Amount receivable from the Toronto Stock Exchange (note 2)	5,500,000	—
Prepaid expenses	360,780	268,603
	27,350,732	13,009,172
Investments (note 4)	8,949,114	7,039,234
Amount receivable from the Toronto Stock Exchange (note 2)	5,500,000	—
Capital assets (note 5)	14,560,327	18,168,596
	\$56,360,173	\$38,217,002
Liabilities and Capital		
Current liabilities:		
Accounts payable and accrued charges (note 7)	\$ 5,859,094	\$ 8,200,425
Sundry deposits	409,277	512,570
Deferred contributions (note 2)	9,000,000	—
	15,268,371	8,712,995
Deferred contributions (note 2)	15,932,568	—
Capital (notes 8 and 9)	25,159,234	29,504,007
Commitments (notes 8 and 10)		
Subsequent event (note 14)		
	\$56,360,173	\$38,217,002

See accompanying notes to financial statements.

On behalf of the Governing Committee:


Governor


Governor

THE MONTREAL EXCHANGE

STATEMENT OF INCOME AND CAPITAL

Year ended December 31, 1999, with comparative figures for 1998

	1999	1998
Revenue:		
Members	\$15,535,366	\$16,928,366
Listed companies	9,281,252	10,626,710
Market data	10,838,956	9,750,485
Other	1,428,395	1,653,272
	37,083,969	38,958,833
Expenses:		
Salaries and benefits	13,215,845	13,850,211
Premises and equipment operations	6,304,393	6,260,987
Amortization	5,916,932	5,707,467
General and administrative expenses	5,527,085	6,276,081
Telecommunications	1,817,516	1,636,665
Public affairs	1,410,743	1,815,292
	34,192,514	35,546,703
Excess of revenue over expenses before investment income and other items	2,891,455	3,412,130
Investment income	815,698	944,962
Excess of revenue over expenses before the following items	3,707,153	4,357,092
Expenses for the year 2000 conversion	34,478	1,500,000
Write-off of capital assets related to restructuring	3,907,705	–
Restructuring costs	4,109,743	–
Excess of (expenses over revenue) revenue over expenses	(4,344,773)	2,857,092
Capital, beginning of year	29,504,007	26,646,915
Capital, end of year	\$25,159,234	\$29,504,007
Capital at end of year consists of:		
Unrestricted capital (note 9)	\$23,063,798	\$27,408,571
Contingency Fund (note 8)	2,095,436	2,095,436

See accompanying notes to financial statements.

THE MONTREAL EXCHANGE

STATEMENT OF CASH FLOWS

Year ended December 31, 1999, with comparative figures for 1998

	1999	1998
Cash flows from operating activities:		
Excess of (expenses over revenue)		
revenue over expenses	\$ (4,344,773)	\$ 2,857,092
Adjustments for:		
Amortization	5,916,932	5,707,467
Write-off of capital assets	3,907,705	–
Amortization of discounts on investments	(564,733)	(657,113)
Net change in non-cash operating assets and liabilities (note 11)	(1,657,047)	651,606
	3,258,084	8,559,052
Cash flows from investing activities:		
Purchase of capital assets	(6,497,179)	(9,254,580)
Purchase of investments	(108,091,460)	(28,169,460)
Sale of investments	95,196,612	30,847,590
	(19,392,027)	(6,576,450)
Cash flows from financing activities:		
Repayment of long-term debt	–	(1,596,304)
Deferred contributions	13,932,568	–
	13,932,568	(1,596,304)
Net (decrease) increase in cash and cash equivalents	(2,201,375)	386,298
Cash and cash equivalents, beginning of year	2,806,474	2,420,176
Cash and cash equivalents, end of year	\$ 605,099	\$ 2,806,474

See accompanying notes to financial statements.

THE MONTREAL EXCHANGE

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 1999

The Montreal Exchange is a non-profit organization incorporated without share capital under a special law of Quebec (1874). Its principal business activity is to provide a market place for the buying and selling of securities and derivative products.

I. SIGNIFICANT ACCOUNTING POLICIES:

(a) Statement of cash flows:

In 1999, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants with respect to the presentation of cash flow information. Under these new recommendations, all non-cash transactions are excluded from the cash flows from investing and financing activities and disclosed elsewhere in the financial statements, so as to disclose all information pertaining to both investing and financing activities. Changes in short-term borrowings, other than bank overdrafts that are an integral part of the day-to-day cash management process, are recorded as financing activities. These recommendations must be applied on a retroactive basis. The information for 1998 has been restated in order to conform to the 1999 presentation.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of liquid investments that have a settlement date of three months or less and are carried at cost which approximates their fair value.

(c) Short-term investments:

Short-term investments consist of temporary investments, such as banker's acceptances and bonds that have a settlement date in the next fiscal year. Short-term investments are carried at the lower of cost and fair value.

(d) Investments:

Investments in bonds are carried at cost adjusted with the amortization of premiums and discounts.

The Exchange owns 50% of the capital stock of the Canadian Derivatives Clearing Corporation. The by-laws of the Canadian Derivatives Clearing Corporation provide that the operations shall be carried on without purpose of surplus for its shareholders or its clearing members and that any surplus shall be used in promoting its objectives. Accordingly, the Exchange carries the investment at cost.

(e) Capital assets:

Capital assets are carried at cost less accumulated amortization. Amortization is provided using the following rates on the straight-line basis:

Asset	Rate
Computer development, hardware and software	20% to 33%
Furniture, fixtures and equipment	20%

Leasehold improvements are being amortized over periods varying from 5 to 9 years.

(f) Revenue from listing fees:

Revenue from listing fees is recognized in the year of listing.

(g) 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 year.

Significant areas requiring the use of management estimates relate to the useful life of assets for amortization purposes and evaluation of net recoverable amount and the evaluation of certain accrued charges. Consequently, actual results could differ from those estimates.

2. CANADIAN EXCHANGES RESTRUCTURING:

On March 15, 1999, the four major Canadian exchanges, of which the Montreal Exchange is part, entered into an agreement to restructure their field of expertise. On November 10, 1999, an addendum to the agreement of March 15, 1999, was also signed.

Under this agreement, each exchange will exclusively provide trading services as follows: all options and futures contracts at the Montreal Exchange, all senior securities at the Toronto Stock Exchange and all junior securities at the Canadian Venture Exchange (the exchange to result from the merger of the Alberta Stock Exchange and the Vancouver Stock Exchange).

According to the addendum signed on November 10, 1999, the Montreal Exchange will maintain the listing of securities of Quebec-based junior issuers and will continue to provide the services associated therewith. To this end, the Montreal Exchange has entered into outsourcing arrangements with the Canadian Venture Exchange ("CDNX") for the trading of the securities of such junior issuers on the CDNX trading system, starting November 22, 1999. Any excess revenue over expenses will be remitted to the CDNX.

The Montreal Exchange transferred its listing to the Toronto Stock Exchange on December 3, 1999. The transfer of the options market from the Toronto Stock Exchange to the Montreal Exchange will take place in March 2000.

Under this 10-year agreement, the Montreal Exchange will receive, from the other Canadian exchanges, a total amount of \$24.5 million, bearing interest at prime rate beginning May 1, 1999. Of this amount, \$13.5 million was received on May 1, 1999, and \$5.5 million will be paid by the Toronto Stock Exchange on both May 1, 2000 and 2001.

In addition, the agreement provides that, by March 31, 2000, the Toronto Stock Exchange will have transferred its investments in the Canadian Derivatives Clearing Corporation to the Montreal Exchange, while the Montreal Exchange will have transferred its investments in The Canadian Depository for Securities Ltd. to the Toronto Stock Exchange.

The total amount of \$24.5 million to be received by the Montreal Exchange and the interest earned thereof will be recognized into income starting in fiscal year 2000 based on the net revenue loss resulting from the transfer of trading activities.

As at December 31, 1999, deferred contributions included the total amount of \$24.5 million and the interest earned thereof.

3. CASH AND CASH EQUIVALENTS:

	1999	1998
Cash	\$605,099	\$1,099,123
Banker's acceptances	-	1,707,351
	\$605,099	\$2,806,474

4. INVESTMENTS:

	1999		1998	
	Fair value	Cost	Fair value	Cost
Short-term investments:				
Banker's acceptances	\$13,928,271	\$13,932,568	\$ -	\$ -
Bonds, maturing in the next fiscal year	2,915,354	2,915,731	5,320,417	5,298,598
		16,848,299		5,298,598
Long-term investments:				
Bonds, maturing between 1 year and less than 5 years	8,322,486	8,382,447	6,606,359	6,472,567
Investments in Canadian Derivatives Clearing Corporation, at cost	-	566,667	-	566,667
		8,949,114		7,039,234
		\$25,797,413		\$12,337,832

The Exchange considers that an amount of \$2,095,436 in bonds in 1999 (1998: \$2,095,436) is committed to the Contingency Fund.

The fair value of banker's acceptances and bonds is calculated based on market value.

The fair value of the investment in the Canadian Derivatives Clearing Corporation is not disclosed, since it is impractical to determine the fair value with enough accuracy given the nature of the investment.

5. CAPITAL ASSETS:

	1999		
	Cost	Accumulated amortization	Net book value
Computer development, hardware and software	\$14,776,137	\$ 8,716,989	\$ 6,059,148
Leasehold improvements	18,323,963	10,944,385	7,379,578
Furniture, fixtures and equipment	3,635,245	2,513,644	1,121,601
	\$36,735,345	\$22,175,018	\$14,560,327
			1998
	Cost	Accumulated amortization	Net book value
Computer development, hardware and software	\$26,810,770	\$18,011,125	\$ 8,799,645
Leasehold improvements	17,170,867	9,426,908	7,743,959
Furniture, fixtures and equipment	3,666,655	2,041,663	1,624,992
	\$47,648,292	\$29,479,696	\$18,168,596

6. OPERATING LINES OF CREDIT:

The Exchange has operating lines of credit of \$5,500,000. As at December 31, 1999, these unused lines of credit bore interest at the banks' prime rate.

7. ACCOUNTS PAYABLE AND ACCRUED CHARGES:

	1999	1998
Accounts payable and accrued charges	\$5,859,094	\$7,007,648
Provision for expenses related to the year 2000 conversion	-	1,192,777
	\$5,859,094	\$8,200,425

8. CONTINGENCY FUND:

The Contingency Fund was established to bear any potential claims arising from the Canadian Investor Protection Fund ("Fund") and other related contingencies.

The Exchange is a participant, under a commitment for the industry, in the Fund created to reimburse investors in the event of a member's insolvency. The Exchange is liable to reimburse the lesser of \$2,000,000 and an amount equal to 10% of the total amount paid out of the Fund, subject to a minimum liability equal to the lesser of \$1,000,000 and the total amount paid out of the Fund, for claims incurred in respect of clients of insolvent members under its audit jurisdiction. In addition, the Exchange has guaranteed, jointly and severally with the other members of the Fund, the operating lines of credit of the Fund. As at December 31, 1999, these operating lines of credit were unused. However, the Exchange may recover from its members any amount paid under its commitments to the Fund.

9. CAPITAL:

The Exchange has 105 authorized memberships of which 84 were issued as at December 31, 1999.

10. COMMITMENTS:

Leases:

The Exchange rents its premises and equipment under operating leases expiring between 2000 and 2005.

As at December 31, 1999, future minimum payments, for each of the next fiscal years and in aggregate, under the operating leases were as follows:

2000	\$ 2,361,811
2001	2,001,707
2002	1,780,546
2003	1,663,591
2004	1,586,274
Thereafter	1,580,796
Total minimum lease payments	\$10,974,725

11. SUPPLEMENTAL CASH FLOW INFORMATION:

	1999	1998
(a) Interest paid	\$ 4,971	\$ 33,216
(b) Net change in non-cash operating assets and liabilities:		
Accounts receivable	\$ 598,943	\$ 471,044
Prepaid expenses	(92,177)	211,930
Accounts payable and accrued charges	(2,060,520)	124,230
Sundry deposits	(103,293)	(155,598)
	\$ (1,657,047)	\$ 651,606
(c) Non-cash operations from:		
Investing activities:		
Purchase of capital assets financed through accounts payable	\$ (283,062)	\$(697,143)
Amount receivable from the Toronto Stock Exchange	(11,000,000)	-
Financing activities:		
Non-cash portion of deferred contributions	11,000,000	-

12. FINANCIAL INSTRUMENTS:**(a) Credit risk:**

The Exchange does not have a significant exposure to any individual customer. The Exchange reviews a customer's credit history before extending credit and conducts regular reviews of its existing customer's 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) Fair value of financial instruments:

The carrying amount of accounts receivable and accounts payable approximates their fair value because of the near-term maturity of those instruments.

13. COMPARATIVE FIGURES:

Certain of the 1998 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

14. SUBSEQUENT EVENT:

The Exchange has approved the purchase of a derivative-based trading system for \$13 million in its budget.

As at February 25, 2000, the Exchange had entered into a contract with EURONEXT for a substantial portion of this amount.

MANAGEMENT

December 1999

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President and Chief Executive Officer

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Director, Research and Development

Richard Bourbonnière

Vice-President, Floor Operations

Sylvain Damour

Vice-President, Operations, I.T.

Pierre Di Salvo

Director, Market Information

Louis Doyle

Director, Equities Division

André Forcier

Senior Representative,
Derivative Products

Giovanni Giarrusso

Senior Executive Vice-President,
Markets

Jean Gosselin

Chief Examiner, Member Regulation

Andrew Molson

Director, Communications

Louise Laflamme

Director, Finance,
Human Resources and
Administration

Ann McCarthy

Senior Representative
Marketing, Derivative Products

Claudine Samray

Deputy General Secretary

Marie-Anne Selbach

Director, Corporate Services

Rosanna Teti

Vice-President, Business Solutions, I.T.

Jean Tremblay

Director, Market Integrity,
Equities and Options

COMMITTEES

December 1999

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Member Governors

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Centre de perfectionnement de
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Commerciales and Senior Advisor
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Monitor Company

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Groupe Laperrière & Verreault inc.

Ex officio Governor

Gérald A. Lacoste

President and Chief Executive Officer
Montreal Exchange

Participating Staff

Claudine Samray

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Managing Director
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Jason McCarthy

Trader
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Edmond Pietroforte

Independent Trader "Jitney"

Marc Rivet

Independent Trader

ACTIVE MEMBERS OF THE MONTREAL EXCHANGE

as of December 31, 1999

Jason Tsadilas

Trader
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Donald Wroblewski

Head Trader, Derivative
Product Services
Refco Futures (Canada) Ltd.

Kevin Yendzio

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Yves Cloutier

Richard Bourbonnière
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Pit Officials

**Market Quality, Derivative
Products Department's
Personnel**

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Governor Emeritus, McGill University
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The Chairman and the President
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