

Consolidated Financial Statements of

**BOURSE DE MONTRÉAL INC.**

Years ended December 31, 2007 and 2006



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## **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the consolidated balance sheets of the Bourse de Montréal Inc. (the "MX") as at December 31, 2007 and 2006, and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the MX's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the MX as at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) KPMG LLP

Chartered Accountants

Montréal, Canada

January 29, 2008

# **BOURSE DE MONTRÉAL INC.**

Consolidated Financial Statements

Years ended December 31, 2007 and 2006

## **Financial Statements**

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# BOURSE DE MONTRÉAL INC.

## Consolidated Balance Sheets

December 31, 2007 and 2006  
(In thousands of dollars)

	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 46,648	\$ 22,919
Temporary investments (note 4)	80,023	36,639
Restricted cash (notes 11 and 22)	1,650	2,700
Receivables (notes 8 and 21)	7,841	7,889
Daily settlements due from clearing members	23,817	6,951
Clearing members' cash margin deposits (note 5)	492	2,312
Clearing fund cash deposits (note 5)	22,949	14,807
Prepaid expenses	1,166	1,690
	<b>184,586</b>	<b>95,907</b>
Long-term investment (note 6)	10,869	9,302
Capital assets (note 7)	15,454	12,319
Future income taxes (note 18)	2,359	2,523
Other assets (note 8)	1,988	2,643
	<b>\$ 215,256</b>	<b>\$ 122,694</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accruals	\$ 13,848	\$ 13,057
Dividends payable	–	13,910
Daily settlements due to clearing members	23,817	6,951
Clearing members' cash margin deposits (note 5)	492	2,312
Clearing fund cash deposits (note 5)	22,949	14,807
Income taxes payable	1,154	3,343
Debts due within one year and current portion of obligations under capital leases (notes 11 and 12)	–	1,072
	<b>62,260</b>	<b>55,452</b>
Future income taxes (note 18)	1,606	812
Accrued employee benefits liability (note 23)	999	713
Shareholders' equity:		
Capital stock (note 13)	139,712	49,258
Contributed surplus (note 13)	572	434
Retained earnings	12,553	16,991
Accumulated other comprehensive loss (note 14)	(2,446)	(966)
	<b>150,391</b>	<b>65,717</b>
Commitments (note 15)		
Contingencies (note 16)		
	<b>\$ 215,256</b>	<b>\$ 122,694</b>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed) Denyse Chicoyne  
Director

(signed) Carmand Normand  
Director

# BOURSE DE MONTRÉAL INC.

## Consolidated Statements of Earnings

Years ended December 31, 2007 and 2006

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

	2007	2006
Revenues:		
Transactions	\$ 39,030	\$ 36,422
Clearing and option exercise	13,910	12,989
Information systems services (note 21)	15,055	15,275
Market data	10,963	10,562
Participants	3,561	3,261
Other	528	751
	83,047	79,260
Expenses:		
Compensation and benefits	24,157	22,061
Occupancy	3,172	2,667
Computer licences and maintenance	5,203	6,184
Amortization of capital assets and other assets	3,342	6,398
General and administrative	9,134	7,674
Telecommunications	2,830	2,536
Public affairs	1,882	1,870
Interest on obligations under capital leases and debts due within one year (notes 11 and 12)	27	154
Other items (note 17)	6,359	2,071
	56,106	51,615
Operating earnings	26,941	27,645
Investment income (note 4)	6,317	2,613
Equity in results of a company subject to significant influence, net of loss of \$551 in 2006 resulting from the impact of distributions (notes 6 and 14)	3,047	1,151
Earnings before income taxes	36,305	31,409
Income taxes (note 18):		
Current	9,452	7,829
Future	1,146	(1,251)
	10,598	6,578
Net earnings	\$ 25,707	\$ 24,831
Basic earnings per share (note 9)	\$ 0.86	\$ 0.95
Diluted earnings per share (note 9)	\$ 0.85	\$ 0.91
Weighted average number of shares outstanding - basic (note 9)	30,010,105	26,228,286
Weighted average number of shares outstanding - diluted (note 9)	30,244,464	27,436,125

See accompanying notes to consolidated financial statements.

# BOURSE DE MONTRÉAL INC.

## Consolidated Statements of Comprehensive Income

Years ended December 31, 2007 and 2006  
(In thousands of dollars)

	2007	2006
Net earnings	\$ 25,707	\$ 24,831
Other comprehensive income:		
Unrealized (loss) or gain on translating financial statements of a self-sustaining foreign operation	(1,480)	824
<b>Comprehensive income</b>	<b>\$ 24,227</b>	<b>\$ 25,655</b>

## Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2007 and 2006  
(in thousands of dollars)

	2007	2006
Capital stock at beginning of year	\$ 49,258	\$ 45,405
Issuance of common shares:		
New issuance of common shares (note 13)	90,866	-
Transaction fees related to issued common shares, net of income taxes of \$391	(1,199)	-
Stock Option Plan (note 13)	217	4,026
Repurchase of shares (note 13)	(1,768)	-
Variation of shares held in guarantee (note 13)	2,338	(173)
Capital stock at end of year	139,712	49,258
Contributed surplus at beginning of year:	434	825
Stock option expense	163	76
Employee share purchase plan expense	91	76
Stock options exercised and share purchase plan reimbursed	(116)	(543)
Contributed surplus at end of year	572	434
Retained earnings at beginning of year:	16,991	16,532
Net earnings	25,707	24,831
Impact of initial adoption of new accounting standards (note 1)	571	-
Dividends	(20,127)	(24,372)
Premium paid on shares repurchased (note 13)	(10,589)	-
Retained earnings at end of year	12,553	16,991
Accumulated other comprehensive loss at beginning of year:	(966)	(1,790)
Impact of changes in currency rates on net investment in self-sustaining foreign operation and impact resulting from distributions from company subject to significant influence (note 14)	(1,480)	824
Accumulated other comprehensive loss at end of year	(2,446)	(966)
<b>Shareholders' equity at end of year</b>	<b>\$ 150,391</b>	<b>\$ 65,717</b>

See accompanying notes to consolidated financial statements.

# BOURSE DE MONTRÉAL INC.

## Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006  
(In thousands of dollars)

	2007	2006
Cash flows from (used in) operating activities:		
Net earnings	\$ 25,707	\$ 24,831
Adjustments for:		
Amortization of capital assets and other assets	3,342	6,398
Equity in results of a company subject to significant influence	(3,047)	(1,151)
Amortization of premium on investments	46	16
Interest income on discount investments	(1,146)	(453)
Future income taxes	755	(1,251)
Cost of stock option plan and employee share purchase plan	254	152
Change in fair value of financial instruments held for trading	672	-
Unrealized gain on foreign exchange (note 4)	(1,621)	-
Net change in non-cash operating assets and liabilities (note 19)	229	1,021
	25,191	29,563
Cash flows from (used in) investing activities (note 19):		
Purchase of capital assets	(6,873)	(4,633)
Decrease (increase) in other assets	241	(2,337)
Sale of capital assets (note 11)	14	1,319
Purchase of investments	(770,582)	(257,437)
Sale of investments	730,048	253,812
Distributions from a company subject to significant influence	-	2,471
	(47,152)	(6,805)
Cash flows from (used in) financing activities (note 19):		
Restricted cash	1,050	(1,159)
Repayment of obligations under capital leases and debts (notes 11 and 12)	(1,072)	(3,189)
Share issuance (note 13)	92,106	3,310
Shares repurchased	(12,357)	-
Dividends	(34,037)	(23,183)
	45,690	(24,221)
Net increase (decrease) in cash and cash equivalents	23,729	(1,463)
Cash and cash equivalents, beginning of year	22,919	24,382
Cash and cash equivalents, end of year	46,648	22,919
Temporary investments, end of year	80,023	36,639
Cash and cash equivalents and temporary investments, end of year	\$ 126,671	\$ 59,558
Cash and cash equivalents are comprised of:		
Cash	\$ 2,041	\$ 2,792
Bankers' acceptances	16,869	20,127
Treasury bills	9,941	-
Promissory note	17,797	-
	\$ 46,648	\$ 22,919

See accompanying notes to consolidated financial statements.

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

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

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The Bourse de Montréal Inc. (the “MX”) was incorporated on September 29, 2000, following the demutualization of the Montréal Exchange, under Part 1A of the Québec Companies Act. On March 27, 2007, the MX listed its shares on the Toronto Stock Exchange (“TSX”) through a non-offering listing. The MX’s shares are now publicly traded under the symbol MXX. Its principal business activity is to provide a marketplace for the buying and selling of derivative products. The MX is responsible for market and approved participant regulation. In accordance with the Regulations of the Autorité des marchés financiers (the “AMF”), the MX must meet specified financial ratios and other conditions to continue as a self-regulatory organization. Its subsidiary, the Canadian Derivatives Clearing Corporation (the “CDCC”), is the issuer, clearing house and guarantor for options and futures contracts traded at the MX and certain over-the-counter products.

On February 13, 2007, the Board approved a three-for-one stock split of the MX’s common shares, effective March 15, 2007. All per share amounts and the number of shares are presented on a split basis as well as for comparative figures purposes.

## 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) Changes in accounting policies:

On January 1st, 2007, the MX adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook: Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation*. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments. Section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income, but that are excluded from net income calculated in accordance with generally accepted accounting principles. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period.

# **BOURSE DE MONTRÉAL INC.**

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## **1. Significant accounting policies (continued):**

### **(a) Changes in accounting policies (continued):**

Under Section 3855, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included in the consolidated balance sheet and are measured at fair value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost using the effective interest method of amortization. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet.

As a result of the adoption of these new standards, the MX has classified its cash and cash equivalents, restricted cash and temporary investments as held-for-trading. Receivables, daily settlements due from clearing members, clearing members' cash margin deposits and clearing fund cash deposit are classified as loans and receivables. The MX's long-term investment consists of an equity investment and is accounted for under the equity method and thus excluded from the recommendations of this standard. Accounts payable, accruals, daily settlements due to clearing members, clearing members' cash margin deposits, clearing fund cash deposit and short-term debt, including interest payable, are classified as other liabilities, all of which are measured at amortized cost.

The adoption of these new standards resulted in an increase in retained earnings as at January 1, 2007 of \$571, net of income taxes, resulting mainly from the unrealized appreciation of temporary investments. Furthermore, the unrealized loss on translating financial statements of a self-sustaining foreign operation as at December 31, 2006 of \$966, previously presented under Cumulative translation adjustment, has been reclassified to accumulated other comprehensive loss in the consolidated balance sheet.

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## 1. Significant accounting policies (continued):

### (b) Recent accounting standards pending adoption:

In December 2006, the CICA published three new accounting standards: Section 1535 *Capital Disclosures*; Section 3862 *Financial Instruments – Disclosures*; and Section 3863 *Financial Instruments – Presentation*. These new standards will apply to the MX effective January 1, 2008.

Section 1535 establishes disclosure requirements concerning (a) an entity's objectives, policies and processes for managing capital; (b) the quantitative data about what the entity regards as capital; and (c) whether the entity has complied with any capital requirements and the consequences of non-compliance with such capital requirements.

Section 3862 and 3863 consist of a comprehensive series of disclosure requirements and presentation rules applicable to financial instruments. They revise and enhance the disclosure requirements set out in Section 3861 *Financial Instruments – Disclosure and Presentation* and carry forward unchanged the presentation requirements of Section 3861.

Section 3862 establishes disclosure requirements that enable users of financial statements to evaluate the significance of financial instruments for an entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

### (c) Consolidation and long-term investment:

The consolidated financial statements include the accounts of the Bourse de Montréal Inc. and those of its wholly-owned subsidiary, the CDCC, and since August 14, 2006, those of the Montréal Climate Exchange Inc. ("MCeX"), which was created in partnership with the Chicago Climate Exchange Inc. ("CCX") and in which MX owns a participation of 51% (note 15). Since March 23, 2007, the financial statements also include the accounts of Canadian Resources Exchange Inc. ("CAREX"), a joint venture. The MX uses the proportionate consolidation method to account for its 50% ownership interest in the assets, liabilities, revenues, expenses and cash flows of the joint venture.

Long-term investment consists of the MX's 31.4% interest in the units of the Boston Options Exchange Group LLC ("BOX") in the U.S., a company subject to significant influence. This investment is accounted for under the equity method, according to which the initial cost of the investment is adjusted to include the MX's proportionate share of post-acquisition net earnings or losses, less dividends and distributions. The investment is written down when there is clear evidence that an other-than-temporary decline in value has occurred.

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## 1. Significant accounting policies (continued):

(d) 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 fair value with changes in fair value being recorded in earnings in the periods in which they occur. Fair value is determined based on quoted market values.

(e) Temporary investments:

Temporary investments consist of fixed income securities and are carried at fair value with changes in fair value being recorded in earnings in the periods in which they occur. Fair value is determined based on quoted market values.

(f) 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, 2007, the largest amount due from a clearing member was \$10,917 (\$3,044 in 2006) and the largest amount due to a clearing member was \$9,251 (\$2,139 in 2006).

(g) Capital assets:

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

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

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

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

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## 1. Significant accounting policies (continued):

### (h) Other assets:

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

The development cost of software is capitalized and amortized over five years, the estimated economic life of the product.

Licence and maintenance fees are capitalized and amortized on a straight-line basis over two to three years.

Fees for the acquisition of an additional interest in BOX, currently included in other assets, will be included in the purchase price when the transaction is completed, or will be expensed if the transaction is not realized.

### (i) Capital assets, goodwill and other intangibles:

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

Goodwill is not amortized and is tested for impairment as at December 31 of each year 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.

### (j) Stock-based compensation:

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

# **BOURSE DE MONTRÉAL INC.**

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## **1. Significant accounting policies (continued):**

### **(k) Revenue recognition:**

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

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

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

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

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

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

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

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

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

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

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

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## 1. Significant accounting policies (continued):

### (m) Foreign currency translation:

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

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

### (n) Employee future benefits:

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

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

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

# **BOURSE DE MONTRÉAL INC.**

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## **1. Significant accounting policies (continued):**

### (o) Income taxes:

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

### (p) Measurement uncertainty:

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

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

## **2. Going-private transaction:**

On December 10, 2007, the MX and TSX Group Inc. ("TSX Group") announced that they had agreed to combine their organizations to create TMX Group ("TMX"). TMX will list, trade, clear and offer market data for both cash and derivatives markets across multiple asset classes.

Under this combination agreement, the TSX Group will indirectly acquire all of the MX's outstanding common shares for total consideration of 15,346,000 TSX Group common shares and \$428,200 in cash.

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## 2. Going-private transaction (continued):

The combination will require the approval of two thirds of the votes cast by the shareholders of the MX present at a special meeting which will be held to consider the amalgamation on February 13, 2008. The combination will also be subject to regulatory approvals, including approvals of the AMF, the Ontario Securities Commission, the Competition Bureau, the Toronto Stock Exchange, the United States Securities and Exchange Commission ("SEC") by virtue of the BOX operating agreement, and to certain other conditions customary for an agreement of this nature.

## 3. Interest in a joint venture:

On March 13, 2007, the MX concluded an agreement with NYMEX Holdings, Inc. (« NYMEX ») to create CAREX, a joint venture over which the two partners exercise joint control and share equally in the profits or losses. CAREX will provide the Canadian market with trading and clearing services for over-the-counter and on-exchange products relating to energy (including natural gas, heavy crude oil and electricity), metals and soft commodities. Under the terms of this agreement, effective March 23, 2007, the MX and NYMEX each invested \$2,000 in the new joint venture in order to fund initial working capital requirements.

The financial statements include the MX's proportionate share of the assets, liabilities, revenues, expenses and cash flows of the joint venture as follows for the year ended December 31, 2007:

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Revenues	\$	298
Expenses		(932)
Investment income		132
Net loss		(502)
Assets		4,177
Liabilities		679
Cash used in operations		15

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# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 4. Temporary investments:

	2007			2006		
	Effective yield to maturity rates as at December 31, 2007	Cost	Fair value	Effective interest rates as at December 31, 2006	Cost	Fair value
Federal bonds:						
Maturing in less than one year	4.61%	\$ 24,657	\$ 24,648	4.45%	\$ 5,633	\$ 5,646
Maturing between 1 year and less than 3 years	4.05%	5,076	5,116	–	–	–
Maturing between 3 years and less than 10 years	4.32%	7,795	7,802	4.32%	11,139	11,129
Maturing in 10 years and more	–	–	–	3.91%	306	308
Provincial bonds:						
Maturing in less than one year	3.94%	17,900	17,913	4.35%	1,011	1,013
Maturing between 1 year and less than 3 years	4.14%	4,049	4,106	3.88%	431	442
Maturing between 3 years and less than 10 years	4.30%	2,927	2,989	4.30%	1,572	1,630
Maturing in 10 years and more	–	–	–	5.10%	7,878	8,551
Corporate bonds:						
Maturing in less than one year	4.50%	6,223	6,224	3.19%	390	390
Maturing between 1 year and less than 3 years	4.98%	1,437	1,415	4.24%	1,892	1,894
Maturing between 3 years and less than 10 years	5.05%	9,829	9,810	4.50%	5,917	5,932
Maturing in 10 years and more	–	–	–	5.53%	470	505
		\$ 79,893	\$ 80,023		\$ 36,639	\$ 37,440

Temporary investments include investments having a fair value of US\$30,171 (C\$29,908) (nil in US dollars in 2006). Investment income for the year ended December 31, 2007 includes an unrealized foreign exchange gain of \$1,621 (nil in 2006).

## 5. Clearing fund and members' margin deposits:

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

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 5. Clearing fund and members' margin deposits (continued):

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

	2007	2006
Margin deposits:		
Government securities, at face value	\$ 2,342,753	\$ 1,794,482
Letters of credit, at face value	334,120	186,392
Equity securities (to cover short positions), at market value <sup>(1)</sup>	1,207,314	1,275,804
	<u>\$ 3,884,187</u>	<u>\$ 3,256,678</u>
Clearing fund deposits:		
Government securities, at face value	\$ 158,698	\$ 338,623

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

## 6. Long-term investment:

The MX has a 31.4% interest in the units of BOX, an electronic exchange for the trading of American equity options.

In 2006, the MX made a commitment to acquire an additional interest in BOX. This commitment was subsequently revised in 2007 (note 15 (b)).

	2007	2006
31.4% interest in BOX	\$ 11,685	\$ 11,685
Goodwill	838	838
Share in accumulated profit (losses)	578	(2,469)
Accumulated distributions	(2,471)	(2,471)
Gain on dilution	2,685	2,685
Accumulated other comprehensive loss	(2,446)	(966)
Investment in BOX	<u>\$ 10,869</u>	<u>\$ 9,302</u>

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 6. Long-term investment (continued):

The MX's interest in the net book value of BOX amounts to \$8,817 as at December 31, 2007 (\$7,038 as at December 31, 2006).

BOX is a LLC and, therefore, the income taxes of BOX are payable by the owners according to their units in BOX. The MX has future income tax assets resulting from timing differences in BOX that can be used against future earnings generated by BOX, amounting to \$245 (note 18).

## 7. Capital assets:

	2007		
	Cost	Accumulated amortization	Net book value
Computer development, hardware and software	\$ 21,157	\$ 9,136	\$ 12,021
Computer hardware and software under capital leases	2,245	2,245	–
Leasehold improvements	13,778	10,644	3,134
Furniture, fixtures and equipment	935	636	299
	<b>\$ 38,115</b>	<b>\$ 22,661</b>	<b>\$ 15,454</b>

In 2007, the amortization expense on capital assets represents \$2,955 (\$6,044 in 2006), including \$80 (\$2,564 in 2006) on hardware and software under capital leases.

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

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 7. Capital assets (continued):

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

As at December 31, 2007, capital assets under development having a carrying value of \$2,757 were not yet being amortized (\$2,292 in 2006).

## 8. Other assets:

				2007
	Cost	Accumulated amortization	Net book value	
Goodwill <sup>(1)</sup>	\$ 308	\$ –	\$ 308	
Software development costs and licence and maintenance fees	1,281	270	1,011	
On-line training programs	1,311	1,163	148	
Deferred acquisition costs related to BOX	460	–	460	
Loans to employees <sup>(2)</sup>	61	–	61	
	<b>\$ 3,421</b>	<b>\$ 1,433</b>	<b>\$ 1,988</b>	

				2006
	Cost	Accumulated amortization	Net book value	
Goodwill <sup>(1)</sup>	\$ 308	\$ –	\$ 308	
Software development costs and licence and maintenance fees	1,469	73	1,396	
On-line training programs	1,311	973	338	
Deferred acquisition costs related to BOX	200	–	200	
Loans to employees <sup>(2)</sup>	401	–	401	
	<b>\$ 3,689</b>	<b>\$ 1,046</b>	<b>\$ 2,643</b>	

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## 8. Other assets (continued):

The amortization expense of on-line training programs was \$190 in 2007 (\$281 in 2006) and the amortization of software development costs and licence and maintenance fees was \$197 in 2007 (\$73 in 2006).

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

<sup>(2)</sup> Loans to employees as at December 31, 2007 amounted to \$159 (\$713 in 2006). The current portion of these loans amounts to \$98 (\$312 in 2006) and is presented in receivables. The fair value of loans to employees approximates their accounting value and it is determined using the present value of the future repayments. As at December 31, 2007, loans to employees are presented at amortized cost. The terms of the loans are the same as those of the share purchase plan loans presented in note 13 (b).

## 9. Earnings per share:

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

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

	2007	2006
Net earnings	\$ 25,707	\$ 24,831
Weighted average number of shares outstanding - basic	30,010,105	26,228,286
Dilutive effect of stock options and shares held in guarantee	234,359	1,207,839
Weighted average number of shares outstanding - diluted	30,244,464	27,436,125
Basic earnings per share	\$ 0.86	\$ 0.95
Diluted earnings per share	\$ 0.85	\$ 0.91

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# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## 10. Operating line of credit:

The MX has an operating line of credit of \$3,000. From this authorized credit, an amount of \$2,120 has been given as a guarantee to the trustee of the employee future benefit plan (see note 23). When used, this line of credit bears interest at the banks' prime rate and is renewable annually (see note 25 for other authorized credit).

## 11. Debts due within one year:

In October 2006, the MX disposed of equipment under capital leases for an amount equal to its net book value of \$1,319, including \$869 invoiced to BOX to cover the resulting loss incurred from this transaction, under the existing agreement with BOX (note 21). These amounts were collected as at December 31, 2006. At the same time, the MX has entered into a new agreement with the lessor in order to exclude the equipment sold as per the initial leases, thereby transforming part of the obligations under the capital lease into short-term debts for an amount of \$992. Under the new agreement, cash of \$972 was transferred to a trust account as security for the lessor and has been used to reimburse totally the short-term debts during 2007.

The short-term debts were bearing interest at rates varying between 5.2% to 6.5%. The interest expense for 2007 amounts to \$25 (\$17 in 2006).

## 12. Obligations under capital leases:

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Obligations under capital leases for computer hardware and software as at December 31, 2006	\$ 82
Minimum payments due in 2007 under capital leases	82
Less amount representing interest (rates varying between 5.2% and 6.5%)	2
Present value of minimum payments due under capital leases	80
Current portion of obligations under capital leases	80
	\$ -

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# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## 12. Obligations under capital leases (continued):

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

The interest expense for 2007 amounts to \$2 (\$137 in 2006).

## 13. Capital stock:

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	2007	2006
Authorized:		
An unlimited number of shares, without par value:		
Common, voting and participating		
Preferred, non-voting, dividend to be determined upon issuance		
Total issued, including in guarantee:		
30,655,683 common shares (27,819,465 in 2006)	\$ 139,821	\$ 51,589
Held in guarantee for loans under share purchase plan:		
33,228 common shares (256,173 in 2006)	(109)	(800)
Held in guarantee for loans under stock option plan:		
Nil common shares (894,954 in 2006)	–	(1,531)
Issued and paid:		
30,622,455 common shares (26,668,338 in 2006)	\$ 139,712	\$ 49,258

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

On July 25, 2007, the MX declared a dividend of \$0.35 per share. This dividend was payable on August 16, 2007 to the registered shareholders of record on August 3, 2007.

On November 30, 2006, the MX declared a dividend of \$0.50 per share. This dividend was payable on January 12, 2007 to the registered shareholders of record on January 5, 2007.

On March 13, 2007, the MX and NYMEX entered into an agreement whereby NYMEX purchased, on March 23, 2007, 3,097,718 newly-issued MX common shares for \$29 $\frac{1}{3}$  per common share, totaling net proceeds of \$89,667 (net of transaction fees).

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## 13. Capital stock (continued):

On March 13, 2007, the MX concluded a second agreement with NYMEX, whereby the MX granted NYMEX a pre-emptive right allowing it, subject to regulatory approval and certain conditions, to maintain its proportionate ownership in MX shares should there be an issuance of MX shares.

MX used a portion of the proceeds from the NYMEX investment to fund the payment of a special dividend of \$0.33½ per common share of an aggregate dividend amount of \$9,293. This dividend was paid on April 12, 2007 to shareholders of record on March 22, 2007. In addition to general corporate purposes, the proceeds will also be used under a normal course issuer bid, starting on March 23, 2007 and ending on March 22, 2008, to purchase up to 2,412,143 MX common shares. The purchases will be made at market prices through the facilities of the TSX in accordance with its rules and policies. The common shares thereby purchased will be cancelled. Under the normal course issuer bid, during 2007, MX repurchased and cancelled 387,500 common shares at an average price of \$31.89 per share for a total consideration of \$12,357. Premiums paid above the average carrying value of the common shares of \$10,589 were charged to retained earnings. Following the announcement by MX and TSX Group on December 10, 2007 concerning their agreement to combine their organizations, the purchase of shares under the normal course issuer bid has been halted.

### (a) Stock option plan:

On October 30, 2000, the Board of Directors (the "Board") approved the creation of a stock option plan (the "Plan") available to the MX's management. The term of each option and the number of underlying shares was determined by the Board. Some 2,541,000 common shares were likely to be purchased under options granted pursuant to the stock option plan. The maximum number of common shares that could have been granted to a single person was limited to 5% of the MX's issued and outstanding common shares. The exercise price of each option represented the amount as determined by the Board without being lower than the fair market value of the shares on the date of the grant.

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

On February 13, 2007, the Board agreed to terminate the above existing stock option plan, but to maintain the options still outstanding and unexercised. As at December 31, 2007, 3,000 options related to this stock option plan were still outstanding and unexercised.

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 13. Capital stock (continued):

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

At the same time, the Board approved the creation of a new stock option plan for officers and key employees of the MX and its wholly-owned subsidiary, CDCC. This plan, for a total duration varying between 7 to 10 years, foresees a total reserve of 1,800,000 common shares. A block of fifty percent (50%) of options granted will be vested upon achieving performance criteria, as determined annually, while the second block of 50% is only subject to the passage of time. The stock options will be vested evenly over a four-year period. The exercise price of a stock option shall not be less than the weighted average price of the shares on the TSX during the five trading days immediately preceding the day on which the stock option was granted. The Board has full latitude on all aspects of the plan.

The following table summarizes information on outstanding options as at December 31, 2007 and 2006:

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	129,000	\$ 1.72	2,505,000	\$ 1.70
Granted	128,880	41.59	–	–
Cancelled	(33,280)	42.42	–	–
Exercised	(126,000)	1.72	(2,376,000)	1.69
Options outstanding, end of year	98,600	\$ 40.09	129,000	\$ 1.72

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 13. Capital stock (continued):

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

The following table summarizes information about outstanding and exercisable options at December 31, 2007:

Range of 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
\$33.88 to 42.42	95,600	\$ 41.29	9	16,600	\$ 42.42
\$1.72	3,000	1.72	5	3,000	1.72

During the year, the MX recorded compensation cost of \$163 (\$76 in 2006) related to the stock option plans. The following weighted average assumptions were used:

	2007
Weighted average fair value of options at grant date	\$ 8.76
Risk-free interest rate	4.62%
Dividend yield	2.00%
Expected volatility	25.00%
Expected life	3.79 years

An amount of \$25, related to the exercised options under the stock option plan, has been transferred from contributed surplus to capital stock (\$467 in 2006).

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## 13. Capital stock (continued):

### (b) Share purchase plan:

An employee share purchase plan was implemented in March 2001 for a maximum of 1,200,000 shares, which was reached in 2003 when the MX issued 424,308 shares at \$1.50 per share, for an amount totalling \$637. On April 18, 2005, the AMF approved a new subscription period for the employees under the employee share purchase plan from May 6 to June 6, 2005 for a maximum subscription of 600,000 shares. At the end of the subscription period, 336,165 shares were issued at a price of \$4.58 per share for a total of \$1,539 based on the fair value of the shares. The fair value was established using the discounted cash flow method.

Interest-free loans were granted to employees to buy these shares and the loans are payable through equal payroll deductions over periods varying from 1 to 5 years (maximum of 3 years for loans of the last subscription) from the date of acquisition. The unpaid balance of the loans at December 31, 2007 is \$109 (\$800 in 2006). The total loan payment is secured by a first hypothec with delivery in favour of the MX on all shares acquired by way of loan. These loans are recorded as a reduction of capital stock. The shares purchased by means of share purchase loans are considered, in substance, as stock options, exercised during the term of the share purchase loan. Loans granted for the purchase of these shares are repayable in all circumstances regardless of the variation in share value.

On February 13, 2007, the Board agreed to terminate the above existing employee share purchase plan and approved the creation of a new employee share purchase plan. Under the terms of this plan, the eligible employees may contribute up to 10% of their annual base salary. The MX contributes an amount equal to 50% of the eligible employee's contribution, up to a maximum of \$2.5 per year. This plan took effect on March 23, 2007, the date on which the receipt in respect to the final non-offering prospectus was issued by the securities regulatory authorities, and employee and employer contributions started in the second quarter of 2007.

During the year, the MX recorded a compensation cost related to the employee share purchase plan, which totalled \$91 (\$76 in 2006), and credited contributed surplus for an equivalent amount.

An amount of \$91 related to the reimbursement of the loans granted under the share purchase plan has been transferred from contributed surplus to capital stock (\$76 in 2006).

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 14. Accumulated other comprehensive loss:

	2007	2006
Beginning balance	\$ (966)	\$ (1,790)
Impact of changes in currency rates on net investment in self-sustaining foreign operation	(1,480)	273
Impact resulting from distributions from company subject to significant influence	–	551
Ending balance	\$ (2,446)	\$ (966)

## 15. Commitments:

- (a) The MX rents its premises and certain equipment under operating lease agreements expiring between 2008 and 2015, and is committed under service and licence agreements until 2010.

As at December 31, 2007, 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
2008	\$ 2,367	\$ 977	\$ 3,344
2009	2,171	122	2,293
2010	1,822	20	1,842
2011	1,742	20	1,762
2012	1,510	–	1,510
2013 and thereafter	4,006	–	4,006
Total minimum payments required	\$ 13,618	\$ 1,139	\$ 14,757

Lease expense amounts to \$2,102 (\$1,944 in 2006).

# **BOURSE DE MONTRÉAL INC.**

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## **15. Commitments (continued):**

- (b) In 2006, the MX made a commitment to acquire a further 13.3% ownership interest in BOX from an existing unitholder for US\$34,175 (C\$39,828 as at December 31, 2006). This commitment was subsequently revised and, on December 21, 2007, MX announced that it had reached an agreement to increase its ownership position in BOX from 31.4% to 53.2% for US\$52,500 in cash (C\$52,043 as at December 31, 2007). This acquisition is subject to the prior approval of the SEC, as well as to customary closing conditions. The MX intends to finance this transaction with existing cash resources.
- (c) The MX has also entered into a commitment in respect of MCEX, pursuant to which it has agreed with the CCX that it will fund the first US\$3,000 of MCEX's initial working capital requirements. As at December 31, 2007, a cumulative amount of \$468 had already been disbursed.
- (d) Under the combination agreement with TSX Group, MX has agreed to pay TSX Group a termination fee of up to \$45,700, including reimbursement of expenses of up to \$7,500, in certain circumstances if the transaction is not completed. MX's commitments towards service providers are estimated at \$11,080 if the transaction is completed and \$80 if the transaction is not completed, in addition to a reimbursement of out-of-pocket expenses over \$100 in all cases. Furthermore, MX has awarded retention bonuses, amounting to \$700, of which \$400 is payable even if the transaction is not completed (note 2).

## **16. Contingencies:**

The MX is a party to legal actions for damages in connection with the closing of the trading floor. During 2007, no legal actions have been settled. As at December 31, 2007, there was a total of \$27,269 remaining in unsettled legal actions against which the MX defended itself vigorously. A court decision is expected in the coming months. Even though the court decision cannot be determined with certainty as at December 31, 2007, the management of the MX believes that the decision will not have a material adverse impact on the MX's operating results or financial position.

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 17. Other items:

Other items are comprised of:

Years ended December 31	2007	2006
Professional fees in connection with the preparation of our non-offering prospectus and the listing of our shares	\$ 2,725	\$ –
Professional fees in connection with the planned combination with the TSX Group	2,312	–
Settlement charges and provision relating to the closing of our trading floor	–	2,071
Early termination penalties on computer licence and maintenance agreements	1,322	–
	\$ 6,359	\$ 2,071

## 18. 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:

	2007	2006
Earnings before income taxes	\$ 36,305	\$ 31,409
Tax rate as set out by laws	32.02%	32.02%
Income taxes as computed	11,624	10,057
Recognized tax benefit resulting from losses and other timing differences of BOX	–	(1,021)
Other change in valuation allowance	187	(968)
Impact of tax rate differential for BOX	252	140
Adjustment to future tax assets and liabilities for enacted changes in tax rates	96	(183)
Gain on dilution and realization of cumulative translation adjustment	–	177
Provincial tax holiday	(1,891)	(1,953)
Impact of provincial tax rate differential	435	165
Effect of permanent differences	73	286
Other	(178)	(122)
Income taxes	\$ 10,598	\$ 6,578

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 18. Income taxes (continued):

Future income taxes:

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

	2007	2006
Future income tax assets:		
Capital assets	\$ 73	\$ 98
Goodwill	951	1,023
Regulatory Division reserve fund	437	534
Transaction fees related to issued common shares	317	–
Employee future benefits plan	269	220
Investment in BOX	317	618
Operating losses in affiliates and timing differences of BOX (note 6)	483	532
Capital losses	115	166
Other	67	116
Future income tax assets	3,029	3,307
Valuation allowance	(670)	(784)
Future income tax assets, net	\$ 2,359	\$ 2,523
Future income tax liabilities:		
Capital assets	\$ (1,002)	\$ (786)
Unrealized gain on foreign exchange	(579)	–
Capital leases	(25)	(26)
Future income tax liabilities	\$ (1,606)	\$ (812)

As at December 31, 2007, the MX has capital losses carried forward of \$954 which can be used to reduce future capital gains, for an unlimited period.

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 19. Supplemental cash flow information:

	2007	2006
Interest paid	\$ 35	\$ 157
Income taxes paid	11,774	7,568
Net change in non-cash operating assets and liabilities:		
Receivables	\$ 48	\$ (1,305)
Daily settlements due from clearing members	(16,866)	15,055
Clearing members' cash margin deposits	1,820	(1,271)
Clearing fund cash deposits	(8,142)	(10,802)
Prepaid expenses	524	(165)
Accounts payable and accruals	1,560	2,329
Income tax payable	(2,189)	(141)
Accrued employees benefits liability	286	303
Daily settlements due to clearing members	16,866	(15,055)
Clearing members' cash margin deposits	(1,820)	1,271
Clearing fund cash deposits	8,142	10,802
	\$ 229	\$ 1,021
Non-cash transactions related to:		
Investing activities:		
Purchase of capital assets financed through accounts payable	\$ 523	\$ 1,292
Financing activities:		
Loans granted for share purchases	-	3,042
Transfer from contributed surplus to capital stock related to the reimbursement of loans on shares financed under the share purchase plan	91	76
Transfer from contributed surplus to capital stock related to the reimbursement of loans on shares financed under the stock option plan	-	467
Dividends payable	-	13,910

# **BOURSE DE MONTRÉAL INC.**

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## **20. Tax credits on development costs and government assistance:**

In 2007, the MX recorded tax credits in the amount of \$163 related to development costs. The costs were incurred to improve the technologies used for the trading platform. In 2006, the amount of tax credit recorded was \$548.

On April 9, 2001, the ministère des Finances du Québec announced the application of tax measures to support the financial sector in the province of Quebec, including securities exchanges such as the MX. These measures provide income tax exemption, capital tax exemption, and an exemption from employer contributions to the Health Services Fund relating to the eligible activities carried out by the MX for the period from October 1, 2000 to December 31, 2010. On June 12, 2003, these exemptions were reduced by 25%. These exemptions, other than the income tax exemption, total approximately \$1,004 in 2007 (\$890 in 2006).

## **21. Related party transactions:**

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

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

Beginning in February 2004, the MX became an official supplier to BOX and its charges at the exchange amount, being the amount established and agreed to by BOX, salaries, telecommunication services, computer equipment, and other services. The revenues generated in 2007 amount to \$15,055 (\$15,275 in 2006), including an amount of \$2,212 indirectly charged to BOX (nil in 2006). These transactions were undertaken in the normal course of business. An amount of \$390 receivable from BOX is included in receivables as at December 31, 2007 (\$20 in 2006).

In 2007, the MX incurred cost for its joint venture CAREX in the amount of \$224. These costs were recharged to CAREX. An amount of \$252 receivable from CAREX, including all taxes applicable, is included in receivables as at December 31, 2007.

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## 22. Segmented information:

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

Exchange:

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

Clearing House (CDCC):

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

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

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			2007
	Exchange	Clearing- House	Consolidated
Revenues from exchange and clearing	\$ 53,818	\$ 14,174	\$ 67,992
Revenues from information systems services (note 21)	15,055	–	15,055
Investment income	5,301	1,016	6,317
Amortization of capital assets and other assets	3,245	97	3,342
Equity in results of company subject to significant influence (note 6)	3,047	–	3,047
Net earnings	18,437	7,270	25,707
Purchase of capital assets and other assets	5,474	389	5,863
Assets	154,465	60,791	215,256

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# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 22. Segmented information (continued):

			2006
	Exchange	Clearing- House	Consolidated
Revenues from exchange and clearing	\$ 50,737	\$ 13,248	\$ 63,985
Revenues from information systems services (note 21)	15,275	–	15,275
Investment income	1,541	1,072	2,613
Amortization of capital assets and other assets	6,307	91	6,398
Equity in results of company subject to significant influence (note 6)	1,151	–	1,151
Net earnings	17,006	7,825	24,831
Purchase of capital assets and other assets	6,212	280	6,492
Assets	80,574	42,120	122,694

### Regulatory Division:

Pursuant to a decision rendered by the AMF on November 24, 2000, the MX created a separate regulatory division, responsible for approved participants and market regulation and operating on a cost recovery basis. For the year ended December 31, 2007, the Regulatory Division generated gross revenues of \$3,286 (\$3,220 in 2006) and incurred direct expenses of \$1,480 (\$1,361 in 2006) and indirect expenses of \$1,083 (\$876 in 2006). The surplus of the Regulatory Division at December 31, 2007 totals \$1,624 (\$1,728 in 2006) and is presented in accounts payable and accruals, and an equivalent amount is included in restricted cash. Of this amount, \$399 will be reimbursed to approved participants at the beginning of 2008.

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 23. Employee future benefits:

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

	2007	2006
Accrued benefit obligation:		
Balance at beginning of year	\$ 1,700	\$ 1,385
Current service cost	238	225
Interest cost	91	75
Actuarial loss	(125)	15
<b>Balance at end of year</b>	<b>\$ 1,904</b>	<b>\$ 1,700</b>
Plan assets:		
Fair value at beginning of year	\$ 198	\$ 119
Annual return on plan assets	17	7
Employer contributions	90	58
Actuarial gain	(17)	14
<b>Fair value at end of year</b>	<b>\$ 288</b>	<b>\$ 198</b>
Accrued benefit liability:		
Funded status - plan deficit	\$ 1,616	\$ 1,502
Unamortized past service costs	(441)	(493)
Actuarial loss unamortized	(176)	(296)
<b>Balance at end of year</b>	<b>\$ 999</b>	<b>\$ 713</b>

The contributions from the employer of \$90 in 2007 and \$58 in 2006 were invested in a diversified fund.

The MX has provided a letter of guarantee in the amount of \$2,120 to the benefit of the trustee of the employee future benefit plan, using a part of the operating line of credit already in place with its bank (note 10).

# BOURSE DE MONTRÉAL INC.

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

## 23. Employee future benefits (continued):

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

	2007	2006
	Expense and obligation	
Discount rate	5.35%	5.00%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%

The actuarial valuation for funding purposes of the pension plan is as of January 1, 2007. The next actuarial valuation for funding purposes must be performed as at January 1, 2010 at the latest. The measurement date for the plan assets and the accrued benefit obligation is January 1.

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

	2007	2006
Current service cost	\$ 238	\$ 225
Interest cost	91	75
Expected return on plan assets	(17)	(7)
Amortization of past service costs	52	52
Amortization of actual loss	12	16
Net benefit plan expense	\$ 376	\$ 361

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

## 24. Financial instruments:

### (a) Credit risk:

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

# **BOURSE DE MONTRÉAL INC.**

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## **24. Financial instruments (continued):**

### (b) Interest rate risk:

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

### (c) Fair value of financial instruments:

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

### (d) Concentration of credit risk:

Approximately 18% of the MX's revenues for the year ended December 31, 2007 were generated by BOX in information systems services (19% in 2006), while four approved participants on behalf of numerous clients, representing individually at least 6% of MX's revenues, generated 35% of MX's revenues in 2007 (33% in 2006), for a combined total of 53% in 2007 (52% in 2006).

## **25. Risk management:**

In its role of clearing house, the CDCC assumes the obligations that arise from a defaulting member's derivative positions. The CDCC employs various techniques to minimize its exposure in the event of such a default. The principal technique is the collection of risk-based margin deposits in the form of cash, letters of credit, equities and liquid government securities (note 5). Should a clearing member fail to meet a daily margin call or otherwise not honour their obligations under open futures and options contracts, margin deposits would be available to apply against costs incurred by the CDCC in liquidating the positions.

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

The CDCC also maintains a clearing fund through deposits of cash and securities from clearing members (note 5). 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.

# **BOURSE DE MONTRÉAL INC.**

Notes to Consolidated Financial Statements, Continued

Years ended December 31, 2007 and 2006

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

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## **25. Risk management (continued):**

If, by a member's 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 they were first established.

## **26. Comparative figures:**

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