

# TMX Group Limited

## MANAGEMENT'S DISCUSSION AND ANALYSIS

May 9, 2018

This management's discussion and analysis (MD&A) of TMX Group Limited's (TMX Group) financial condition and financial performance is provided to enable a reader to assess our financial condition, material changes in our financial condition and our financial performance, including our liquidity and capital resources, for the three months ended March 31, 2018 (Q1/18), compared with the three months ended March 31, 2017 (Q1/17) and as at March 31, 2018 and December 31, 2017. This MD&A should be read together with our unaudited condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017, and for the three months ended March 31, 2018 and 2017 (the "interim financial statements"), and the 2017 Annual MD&A.

Our interim financial statements and this MD&A for the three months ended March 31, 2018 are filed with Canadian securities regulators and can be accessed at [www.tmx.com](http://www.tmx.com) and [www.sedar.com](http://www.sedar.com). The financial measures included in this MD&A are based on financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), unless otherwise specified. All amounts are in Canadian dollars unless otherwise indicated.

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

Additional information about TMX Group, including the Annual Information Form, is available at [www.tmx.com](http://www.tmx.com) and [www.sedar.com](http://www.sedar.com). We are not incorporating information contained on our website in this MD&A.

## INITIATIVES AND ACCOMPLISHMENTS<sup>1</sup>

### Global Solutions, Insights and Analytics

In April 2018, we announced the sale of our entire 24.2% interest in FTSE TMX Global Debt Capital Markets Limited ("TMX FTSE") to FTSE International Limited, a wholly owned subsidiary of London Stock Exchange Group. TMX Group's decision to enter into this transaction was made within the scope of the company's strategy to focus resources on growing core data and analytics businesses. The proceeds of \$70.5 million are expected to result in a gain on sale of approximately \$24.1 million before income taxes, which will be reflected in our net income for Q2/18.

### Derivatives Markets

#### *Derivatives Trading and Clearing*

Montreal Exchange (MX) achieved a new record quarterly total volume with 26,539,220 contracts traded in Q1/18.

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<sup>1</sup> The "Initiatives and Accomplishments" section above contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainties related to such statements.

In 2016, we launched single stock futures (SSFs) on about 20 symbols. The balance of the S&P/TSX 60<sup>2</sup> symbols were added throughout Q1/17. In Q1/18, approximately 224,000 contracts were traded, an increase of 46% compared to Q1/17. In February 2018 we filed a proposal to launch SSFs on Exchange Traded Funds (ETFs), subject to regulatory approval.

In April 2018, Canadian Derivatives Clearing Corporation (CDCC), Canada's national central clearing counterparty (CCP) for exchange-traded derivative products, certain over-the-counter (OTC) products and repurchase agreements (repos), announced the launch of its new direct-clearing model for Canadian buy-side firms.

In the second half of 2018, MX is expected to implement extended trading hours from the current 6:00am ET open to a 2:00am ET open. This initiative is in line with MX's mission to be a client focused and globally recognized leading derivatives exchange, as it will allow domestic and international clients to manage their exposure to Canadian markets during non-regular Canadian business hours.

### **Update on Integrated Clearing Platform<sup>3</sup>**

In June 2017, we announced that we had chosen Tata Consultancy Services (TCS), a leading IT services, consulting and business solutions organization, to implement a single, integrated technology platform for Canada's clearing and settlement businesses. The innovative platform, called TCS BaNCS for Market Infrastructure, will replace the legacy systems deployed by CDS and CDCC, subject to regulatory approval where required. Our current estimate of the expected cash outlays is approximately \$55.0 - \$60.0 million from 2017 to 2019, of which approximately \$9.0 million was spent on capital expenditures in 2017. Substantially all of the costs will be related to capital expenditures and we expect that almost half of the total spend will occur in 2018. In Q1/18 we spent an additional \$2.7 million, including \$1.7 million on capital expenditures. The annual savings in operating expenses on a run rate basis, compared with our current cost structure, are expected to be approximately \$6.0 to \$8.0 million, starting in 2020. As we transition to the new platform, it is likely that operating expenses will increase over the short-term before we realize savings in 2020.

## **MARKET CONDITIONS**

Overall, Canadian equities trading volumes were up 23% in Q1/18 compared with Q1/17<sup>4</sup>. The average CBOE Volatility Index (VIX) was 17.4 in Q1/18 up significantly from 11.7 in Q1/17. Trading on TSXV (including NEX) increased with a 24% increase in volumes traded in Q1/18 compared with Q1/17; however, there was a decline of 5% in the volume traded on TSX over the same period. Derivative trading in Canada was positively impacted by speculation around an increase in interest rates as reflected in a 12% increase in the volume of contracts traded on MX in Q1/18 compared with Q1/17.

The more volatile market environment contributed to less favourable conditions for capital raising in Q1/18. On TSX, the total amount of financing dollars raised declined by 34% and the total number of financings decreased by 12% in Q1/18 compared with Q1/17. Looking specifically at IPOs on TSX, there was a 26% increase in the number of IPOs but a 46% decrease in IPO financing dollars raised in Q1/18 compared with last year. The more volatile environment had less of an impact on TSXV (including NEX) where there was a 22% increase in the total amount of financing dollars raised and an 8% increase in the total number of financings in Q1/18 over the same period last year.

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<sup>2</sup> The "S&P/TSX 60" is a product of S&P Dow Jones Indices LLC ("SPDJI") and TSX Inc. ("TSX"). Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services. LLC ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and TSX® is a registered trademark of TSX. SPDJI, Dow Jones, S&P and TSX do not sponsor, endorse, sell or promote any products based on the S&P/TSX 60 and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions or interruptions of the S&P/TSX 60 or any data related thereto.

<sup>3</sup> The "Update on Integrated Clearing Platform" section above contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainties related to such statements.

<sup>4</sup> Source: IIROC (excluding intentional crosses).

On April 18, 2018, The Bank of Canada maintained its overnight rate target of 1.25 per cent.<sup>5</sup> The Bank said the transitory impact of higher gasoline prices and recent minimum wage increases will likely cause inflation in 2018 to be modestly higher than the Bank expected in its *January Monetary Policy Report* (MPR), returning to the 2 per cent target for the rest of the projection horizon. The Bank also said GDP growth in the first quarter was weaker than the Bank had expected, but should rebound in the second quarter, resulting in 2 per cent average growth in the first half of 2018. The economy is projected to operate slightly above its potential over the next three years, with real GDP growth of about 2 per cent in both 2018 and 2019, and 1.8 per cent in 2020.

## **RESULTS OF OPERATIONS**

### **Non-IFRS Financial Measures**

Adjusted earnings per share, adjusted diluted earnings per share, adjusted earnings per share before discontinued operations, and adjusted diluted earnings per share before discontinued operations are non-IFRS measures and do not have standardized meanings prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other companies. We present adjusted earnings per share, adjusted diluted earnings per share, adjusted earnings per share before discontinued operations, and adjusted diluted earnings per share before discontinued operations to indicate ongoing financial performance from period to period, exclusive of a number of adjustments. These adjustments include amortization of intangibles related to acquisitions, non-cash impairment charges, write-off of deferred income tax assets, additional income tax expense on gain on sale of Natural Gas Exchange Inc. (NGX) and Shorcan Energy Brokers Inc. (Shorcan Energy), and transaction costs. Management uses these measures, and excludes certain items, because it believes doing so results in a more effective analysis of underlying operating and financial performance, including, in some cases, our ability to generate cash. Excluding these items also enables comparability across periods. The exclusion of certain items does not imply that they are non-recurring or not useful to investors.

### **Additional IFRS Measures**

Income from operations before strategic re-alignment expenses and income from operations are important indicators of TMX Group's ability to generate liquidity through operating cash flow to fund future working capital needs, service outstanding debts and fund future capital expenditures. The intent of these performance measures is to provide additional useful information to investors and analysts; however, these measures should not be considered in isolation.

### **Sale of NGX and Shorcan Energy - discontinued operations**

On December 14, 2017, we completed the sale of NGX and Shorcan Energy. TMX Group has classified the sale of NGX and Shorcan Energy as discontinued operations. Prior to the sale, the operations of NGX and Shorcan Energy entirely comprised of the Energy Trading and Clearing operating segment and a small portion of the Global Solutions, Insights and Analytics operating segment.

The classification of discontinued operations occurred at December 14, 2017 which is the date of disposal of the operations. Accordingly, TMX Group has re-presented the comparative consolidated income statements to show the discontinued operations separately from continuing operations.

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<sup>5</sup> Source: Bank of Canada press release, April 18, 2018.

### Three Months Ended March 31, 2018 Compared with Three Months Ended March 31, 2017

The information below reflects the financial statements of TMX Group for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017.

| (in millions of dollars, except per share amounts)             | Q1/18          | Q1/17   | \$ increase/<br>(decrease) | % increase/<br>(decrease) |
|----------------------------------------------------------------|----------------|---------|----------------------------|---------------------------|
| Revenue                                                        | <b>\$207.2</b> | \$171.2 | \$36.0                     | 21%                       |
| Operating expenses                                             | <b>111.5</b>   | 95.8    | 15.7                       | 16%                       |
| Income from operations <sup>6</sup>                            | <b>95.7</b>    | 75.4    | 20.3                       | 27%                       |
| Net income                                                     | <b>63.1</b>    | 47.3    | 15.8                       | 33%                       |
| Earnings per share before discontinued operations <sup>7</sup> |                |         |                            |                           |
| Basic                                                          | <b>1.14</b>    | 0.77    | 0.37                       | 48%                       |
| Diluted                                                        | <b>1.13</b>    | 0.77    | 0.36                       | 47%                       |
| Earnings per share <sup>8</sup>                                |                |         |                            |                           |
| Basic                                                          | <b>1.14</b>    | 0.86    | 0.28                       | 33%                       |
| Diluted                                                        | <b>1.13</b>    | 0.85    | 0.28                       | 33%                       |
| Adjusted Earnings per share before discontinued operations     |                |         |                            |                           |
| Basic                                                          | <b>1.34</b>    | 1.02    | 0.32                       | 31%                       |
| Diluted                                                        | <b>1.33</b>    | 1.02    | 0.31                       | 30%                       |
| Adjusted Earnings per share <sup>9</sup>                       |                |         |                            |                           |
| Basic                                                          | <b>1.34</b>    | 1.12    | 0.22                       | 20%                       |
| Diluted                                                        | <b>1.33</b>    | 1.11    | 0.22                       | 20%                       |
| Cash flows from operating activities                           | <b>58.6</b>    | 67.0    | (8.4)                      | (13)%                     |

#### Net income

Net income in Q1/18 was \$63.1 million, or \$1.14 per common share on a basic and \$1.13 on a diluted basis, compared with a net income of \$47.3 million, or \$0.86 per common share on a basic and \$0.85 diluted basis, for Q1/17. The increase in net income in Q1/18 reflected higher revenue across each segment of our business including \$27.3 million related to Trayport Holdings Limited and Trayport Inc. (collectively Trayport) (acquired December 14, 2017). The increase was partially offset by higher operating expenses, which included \$17.5 million related to Trayport. In Q1/17, we recorded \$4.8 million of impairment charges related to TMX Atrium, which was sold on April 30, 2017, as well as a non-cash income tax adjustment of \$2.9 million relating to the write-off of deferred income tax assets. The increase in diluted earnings per share was partially offset by the impact from an increase in the number of weighted-average common shares outstanding in Q1/18 compared with Q1/17 and higher net finance costs. In addition, the basic and diluted earnings per share in Q1/17 includes net income related to NGX and Shorcan Energy (sold December 14, 2017).

<sup>6</sup> See discussion under the heading Additional IFRS Financial Measures.

<sup>7</sup> Earnings per share before discontinued operations is based on income before income from discontinued operations, net of tax.

<sup>8</sup> Earnings per share information is based on net income.

<sup>9</sup> See discussion under the heading Non-IFRS Financial Measures.

## Adjusted Earnings per Share and Adjusted Earnings per Share before discontinued operations<sup>10</sup> Reconciliation for Q1/18 and Q1/17

The following is a reconciliation of earnings per share before discontinued operations<sup>11</sup> to adjusted earnings per share<sup>12</sup>:

|                                                                           | Q1/18      |            | Q1/17      |            |
|---------------------------------------------------------------------------|------------|------------|------------|------------|
| (unaudited)                                                               | Basic      | Diluted    | Basic      | Diluted    |
| Earnings per share before discontinued operations <sup>13</sup>           | \$1.14     | \$1.13     | \$0.77     | \$0.77     |
| Adjustments related to:                                                   |            |            |            |            |
| Amortization of intangibles related to acquisitions                       | 0.17       | 0.17       | 0.11       | 0.11       |
| Non-cash impairment charges <sup>14</sup>                                 | —          | —          | 0.09       | 0.09       |
| Transaction costs <sup>15</sup>                                           | 0.00       | 0.00       | —          | —          |
| Write-off of deferred income tax assets <sup>16</sup>                     | —          | —          | 0.05       | 0.05       |
| Additional income tax expense on gain on sale of NGX and Shorcan Energy   | 0.02       | 0.02       | —          | —          |
| Adjusted earnings per share before discontinued operations <sup>17</sup>  | \$1.34     | \$1.33     | \$1.02     | \$1.02     |
| Earnings per share from discontinued operations                           | —          | —          | 0.09       | 0.08       |
| Adjustment related to amortization of intangibles related to acquisitions | —          | —          | 0.01       | 0.01       |
| Adjusted earnings per share <sup>18</sup>                                 | \$1.34     | \$1.33     | \$1.12     | \$1.11     |
| Weighted average number of common shares outstanding                      | 55,444,523 | 55,903,336 | 55,121,250 | 55,617,983 |

Adjusted diluted earnings per share before discontinued operations increased by 30% from \$1.02 in Q1/17 to \$1.33 in Q1/18. The increase in adjusted diluted earnings per share before discontinued operations reflected higher revenue across each segment of our business including \$27.3 million related to Trayport (acquired December 14, 2017). The increase was partially offset by higher operating expenses, which included \$17.5 million related to Trayport. The increase in adjusted diluted earnings per share before discontinued operations was partially offset by the impact from an increase in the number of weighted-average common shares outstanding in Q1/18 compared with Q1/17 and higher net finance costs associated with the increased debt to finance the Trayport acquisition.

<sup>10</sup> See discussion under the heading *Non-IFRS Financial Measures*.

<sup>11</sup> Earnings per share before discontinued operations is based on income before income from discontinued operations, net of tax.

<sup>12</sup> See discussion under the heading *Non-IFRS Financial Measures*.

<sup>13</sup> Earnings per share before discontinued operations is based on income before income from discontinued operations, net of tax.

<sup>14</sup> Related to TMX Atrium.

<sup>15</sup> Includes costs related to the integration of Trayport. See *Operating Expenses*.

<sup>16</sup> Related to TMX Atrium Wireless.

<sup>17</sup> Total adjustments to net income of \$11.0 million in Q1/18 or 20 cents per basic and diluted share. See discussion under the heading *Non-IFRS Financial Measures*.

<sup>18</sup> See discussion under the heading *Non-IFRS Financial Measures*.

## Revenue

| (in millions of dollars)                       | Q1/18   | Q1/17   | \$ increase/<br>(decrease) | % increase/<br>(decrease) |
|------------------------------------------------|---------|---------|----------------------------|---------------------------|
| Capital Formation                              | \$50.4  | \$44.8  | \$5.6                      | 13%                       |
| Equities and Fixed Income Trading and Clearing | 51.1    | 48.2    | 2.9                        | 6%                        |
| Derivatives Trading and Clearing               | 31.3    | 28.1    | 3.2                        | 11%                       |
| Global Solutions, Insights and Analytics       | 72.7    | 50.3    | 22.4                       | 45%                       |
| Other                                          | 1.7     | (0.2)   | 1.9                        | 950%                      |
|                                                | \$207.2 | \$171.2 | \$36.0                     | 21%                       |

Revenue was \$207.2 million in Q1/18, up \$36.0 million or 21% compared with \$171.2 million in Q1/17 largely attributable to an increase in *Global Solutions, Insights and Analytics* revenue reflecting the inclusion of revenue from Trayport (acquired December 14, 2017) of \$27.3 million, partially offset by a decline of \$6.5 million in revenue from TMX Atrium (sold on April 30, 2017). There were also increases in *Capital Formation*, *Fixed Income trading*, *CDS*, and *Derivatives trading and clearing* revenue. *Other* revenue increased largely due to the impact from recognizing net foreign exchange gains mainly on U.S. dollar net monetary liabilities in Q1/18 compared with net foreign exchange losses in Q1/17.

## Capital Formation

| (in millions of dollars) | Q1/18  | Q1/17  | \$ increase/<br>(decrease) | % increase/<br>(decrease) |
|--------------------------|--------|--------|----------------------------|---------------------------|
| Initial listing fees     | \$3.7  | \$2.8  | \$0.9                      | 32%                       |
| Additional listing fees  | 21.9   | 19.6   | 2.3                        | 12%                       |
| Sustaining listing fees  | 17.6   | 17.2   | 0.4                        | 2%                        |
| Other issuer services    | 7.2    | 5.2    | 2.0                        | 38%                       |
|                          | \$50.4 | \$44.8 | \$5.6                      | 13%                       |

- Effective January 1, 2018, we changed our method for recognizing *initial listing fee* revenue in accordance with IFRS 15, *Revenue from Contracts with Customers* (see **Changes in accounting policies**). In Q1/18, we recognized \$0.8 million of total *initial listing fees* received of \$2.7 million with the balance of \$1.9 million to be recognized over the remaining 12 months. Since the cumulative impact of this change was recorded effective January 1, 2018, we also recognized *initial listing fees* received in 2017 of \$2.9 million during Q1/18. Under IFRS 15, total *initial listing fees* of \$3.7 million were approximately \$1.0 million higher than would have been the case if *initial listing fees* were recognized when the listing occurred. The impact of this change resulted in an increase in initial listing fee revenue from Q1/17 to Q1/18.
- Based on initial listing fees billed in 2017 and Q1 2018, the following amounts have been deferred to be recognized in Q2/18, Q3/18, and Q4/18: \$2.6 million, \$1.7 million, and \$0.9 million respectively. Total *initial listing fee* revenue for future quarters will depend on listing activity in those quarters.
- Additional listing fees* in Q1/18 increased from Q1/17 reflecting the impact of a higher maximum additional listing fee on TSX. There was also an increase in *additional listing fees* on TSXV reflecting an increase in the number of financings

and financing dollars raised. The increases were somewhat offset by the impact of a 13% decrease in the number of transactions billed on TSX.

- Issuers listed on TSX and TSXV pay annual sustaining listing fees primarily based on their market capitalization at the end of the prior calendar year, subject to minimum and maximum fees. There was an increase in *sustaining listing fees* on both TSX and TSXV due to the increase in the market capitalization of issuers at December 31, 2017 compared with December 31, 2016. The increase was partially offset by the impact from certain price reductions for issuers listed on TSX.
- *Other issuer services* revenue in Q1/18 was higher compared to Q1/17 reflecting increased revenue from TSX Trust for transfer agent services and margin income.

## Equity and Fixed Income Trading and Clearing

| (in millions of dollars)                                                            | Q1/18         | Q1/17  | \$ increase/<br>(decrease) | % increase/<br>(decrease) |
|-------------------------------------------------------------------------------------|---------------|--------|----------------------------|---------------------------|
| Equity and fixed income trading                                                     | <b>\$29.3</b> | \$29.2 | \$0.1                      | 0%                        |
| Equity and fixed Income - clearing, settlement, depository and other services (CDS) | <b>21.8</b>   | 19.0   | 2.8                        | 15%                       |
|                                                                                     | <b>\$51.1</b> | \$48.2 | \$2.9                      | 6%                        |

- There was an increase in *Equity and Fixed Income Trading and Clearing* revenue in Q1/18 compared with Q1/17 reflecting higher *fixed income trading* revenue due to increased activity in swaps.
- There was a slight decrease in *Equity trading* revenue. The overall volume of securities traded on our equities marketplaces increased by 5% (42.8 billion securities in Q1/18 versus 40.9 billion securities in Q1/17). The impact of volume decreases on TSX and Alpha of 5% and 4%, respectively in Q1/18 compared with Q1/17 were largely offset by the impact from a volume increase on TSXV of 24% over the same periods. The impact of the overall increase in volumes was somewhat offset by a less favourable product mix.
- Excluding intentional crosses, in all listed issues in Canada, our combined domestic equities trading market share was approximately 57% in Q1/18, down 10% from approximately 67% in Q1/17. The decline in market share reflects an increase in trading volume on other markets of issues not listed or traded on TSX or TSXV. We only trade securities that are listed on TSX or TSXV.
- Excluding intentional crosses, for TSX and TSXV listed issues, our combined domestic equities trading market share was approximately 68% in Q1/18, down 3% from approximately 71% in Q1/17.
- CDS revenue increased by 15% from Q1/17 to Q1/18 largely reflecting revisions to the fee schedule for issuer services implemented on March 1, 2017, as well as higher clearing and settlement activity on increased volumes and higher custody fees.

## Derivatives Trading and Clearing

| (in millions of dollars) | Q1/18         | Q1/17  | \$ increase | % increase |
|--------------------------|---------------|--------|-------------|------------|
|                          | <b>\$31.3</b> | \$28.1 | \$3.2       | 11%        |

- The increase in *Derivatives Trading and Clearing* revenue was driven by higher revenue from MX and CDCC reflecting higher volumes. Volumes increased by 12% on MX (26.5 million contracts traded in Q1/18 versus 23.7 million contracts traded in Q1/17), setting a new record for total quarterly volumes.

## Global Solutions, Insights and Analytics

| (in millions of dollars)  | Q1/18         | Q1/17  | \$ increase | % increase |
|---------------------------|---------------|--------|-------------|------------|
| GSIA (excluding Trayport) | <b>\$45.4</b> | \$50.3 | (\$4.9)     | (10)%      |
| Trayport                  | <b>\$27.3</b> | \$0.0  | \$27.3      | n/a        |
|                           | <b>\$72.7</b> | \$50.3 | \$22.4      | 45%        |

- The increase in *Global Solutions, Insights and Analytics (GSIA)* revenue in Q1/18 compared with Q1/17 reflected the inclusion of revenue from Trayport (acquired December 14, 2017) of \$27.3 million, an increase in subscription revenue, higher revenue from usage based quotes and feeds, increased co-location revenue and higher revenue from benchmarks and indices.
- These increases were partially offset by a decline of \$6.5 million in revenue from TMX Atrium (sold on April 30, 2017), and lower revenue recoveries related to under-reported usage of real-time quotes in prior periods. In addition, there was an unfavourable impact from a stronger Canadian dollar relative to the U.S. dollar in Q1/18 compared with Q1/17.

### GSIA (excluding Trayport)

- The average number of professional market data subscriptions for TSX and TSXV products decreased by 1% in Q1/18 from Q1/17 (102,764 professional market data subscriptions in Q1/18 compared with 103,402 in Q1/17).
- The average number of MX professional market data subscriptions was up 8% in Q1/18 from Q1/17 (19,372 MX professional market data subscriptions in Q1/18 compared with 18,006 in Q1/17).

### Trayport

The following table summarizes the average number of Trayport subscribers over the last seven quarters:

|                              | Q1/18  | Q4/17  | Q3/17  | Q2/17  | Q1/17  | Q4/16  | Q3/16  |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Trader Subscribers           | 4,225  | 4,046  | 4,018  | 4,026  | 4,001  | 3,960  | 3,776  |
| Total Subscribers            | 20,208 | 19,967 | 19,908 | 20,104 | 19,889 | 19,754 | 19,222 |
| Revenue (in millions of GBP) | £15.4  | £14.9  | £15.2  | £15.1  | £14.7  | £14.6  | £13.9  |

Total Subscribers: all chargeable licenses of core Trayport products in core customer segments: Traders, Brokers and Exchanges. Trader Subscribers are a subset of Total Subscribers. Trader Subscribers revenue represents over 50% of total Trayport revenue.

Revenue from Trayport's core subscriber business was £14.7 million in Q1/18, up 6% over Q1/17. Revenue from Contigo; the ancillary non-subscriber based risk application business of Trayport; was £0.7 million in Q1/18, a decline of 23% over Q1/17.

## Other

| (in millions of dollars) | Q1/18        | Q1/17    | \$ increase | % increase |
|--------------------------|--------------|----------|-------------|------------|
|                          | <b>\$1.7</b> | \$ (0.2) | \$1.9       | 950%       |

- The increase in *Other* revenue was largely due to the impact from recognizing net foreign exchange gains mainly on U.S. dollar net monetary liabilities in Q1/18 compared with net foreign exchange losses in Q1/17.

## Operating expenses

| (in millions of dollars)            | Q1/18          | Q1/17  | \$ increase/<br>(decrease) | % increase/<br>(decrease) |
|-------------------------------------|----------------|--------|----------------------------|---------------------------|
| Compensation and benefits           | <b>\$57.7</b>  | \$47.2 | \$10.5                     | 22%                       |
| Information and trading systems     | <b>12.6</b>    | 16.0   | (3.4)                      | (21)%                     |
| Selling, general and administration | <b>23.9</b>    | 18.9   | 5.0                        | 26%                       |
| Depreciation and amortization       | <b>17.3</b>    | 13.7   | 3.6                        | 26%                       |
|                                     | <b>\$111.5</b> | \$95.8 | \$15.7                     | 16%                       |

Operating expenses in Q1/18 were \$111.5 million, up \$15.7 million or 16%, from \$95.8 million in Q1/17. There were increased costs related to Trayport (acquired December 14, 2017) of \$17.5 million, as well as an increase in severance costs of \$3.0 million related to organizational changes and the shutdown of AgriClear. As part of the active management of our investments in innovation initiatives, we decided to discontinue AgriClear's business operations and focus on other opportunities. The increases were offset partially by reduced costs related to TMX Atrium (sold on April 30, 2017) of approximately \$7.5 million. In Q1/18, there were \$0.2 million of transaction costs related to Trayport (< 1 cent per basic and diluted share).

## Compensation and benefits<sup>19</sup>

| (in millions of dollars) | Q1/18         | Q1/17  | \$ increase | % increase |
|--------------------------|---------------|--------|-------------|------------|
|                          | <b>\$57.7</b> | \$47.2 | \$10.5      | 22%        |

- Compensation and benefits* costs increased in Q1/18 reflecting increased costs related to inclusion of Trayport (acquired December 14, 2017) of approximately \$8.5 million, an increase in severance related to organizational changes and the shutdown of AgriClear of \$3.0 million, and higher employee performance incentive plan costs. The organizational changes are expected to generate an annual savings of approximately \$2 million starting in Q2/18.

<sup>19</sup> The "Compensation and benefits" section above contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainties related to such statements.

- These increases were partially offset by reduced costs related to TMX Atrium (sold April 30, 2017) of approximately \$1.2 million and lower costs related to projects (net of labour capitalization).
- There were 1,237 TMX Group employees at March 31, 2018 versus 1,062 employees at March 31, 2017 reflecting a higher headcount related to the acquisition of Trayport which employs approximately 222 people. This increase was partially offset by reductions in headcount from the sale of TMX Atrium which employed approximately 20 people, and the sale of NGX and Shorcan Energy which collectively employed approximately 70 people. The net increase in headcount was attributable to investing in the various growth areas of our business.

### Information and trading systems

| (in millions of dollars) | Q1/18  | Q1/17  | \$ (decrease) | % (decrease) |
|--------------------------|--------|--------|---------------|--------------|
|                          | \$12.6 | \$16.0 | \$(3.4)       | (21)%        |

- *Information and trading systems* expenses decreased in Q1/18 compared with Q1/17 reflecting reduced costs related to TMX Atrium of \$4.7 million partially offset by costs related to Trayport of \$1.2 million.

### Selling, general and administration

| (in millions of dollars) | Q1/18  | Q1/17  | \$ increase | % increase |
|--------------------------|--------|--------|-------------|------------|
|                          | \$23.9 | \$18.9 | \$5.0       | 26%        |

- *Selling, general and administration* expenses increased in Q1/18 compared with Q1/17 primarily due to the inclusion of Trayport costs of \$1.9 million as well as increased project costs and higher fees, partially offset by reduced costs related to TMX Atrium of \$0.7 million.

### Depreciation and amortization

| (in millions of dollars) | Q1/18  | Q1/17  | \$ increase | % increase |
|--------------------------|--------|--------|-------------|------------|
|                          | \$17.3 | \$13.7 | \$3.6       | 26%        |

- Higher *Depreciation and amortization* costs largely reflects increased amortization related to Trayport of \$5.9 million, partially offset by reductions in amortization related to TMX Atrium of \$0.9 million, and Quantum XA of \$1.2 million.
- The *Depreciation and amortization* costs in Q1/18 of \$17.3 million included \$12.1 million related to amortization of intangibles related to acquisitions (17 cents per basic and diluted share).
- The *Depreciation and amortization* costs in Q1/17 of \$13.7 million included \$7.7 million related to amortization of intangibles related to acquisitions (11 cents per basic and diluted share).

## Additional Information

### Share of net income from equity accounted investees

| (in millions of dollars) | Q1/18 | Q1/17 | \$ (decrease) | % (decrease) |
|--------------------------|-------|-------|---------------|--------------|
|                          | \$1.0 | \$1.3 | \$(0.3)       | (23)%        |

- The decrease in our share of net income from equity accounted investees of \$0.3 million reflected a decrease in the contribution from BOX somewhat offset by an increase in the contribution from FTSE TMX Global Debt Capital Markets Limited (sold April 12, 2018).

### Impairment charges

| (in millions of dollars) | Q1/18 | Q1/17 | \$ (decrease) | % (decrease) |
|--------------------------|-------|-------|---------------|--------------|
|                          | \$0.0 | \$4.8 | \$(4.8)       | (100)%       |

- In Q1/17 we determined that the fair value of TMX Atrium was below its carrying value, resulting in impairment charges of \$4.8 million relating to the write-down of goodwill.

### Net finance costs

| (in millions of dollars) | Q1/18  | Q1/17 | \$ increase | % increase |
|--------------------------|--------|-------|-------------|------------|
|                          | \$10.0 | \$6.9 | \$3.1       | 45%        |

- The increase in net finance costs from Q1/17 to Q1/18 reflected higher interest expense due to increased debt levels following the Trayport acquisition. In Q1/18, we also had a higher average interest rate on our debt driven by the interest rate on our long term Series D Debentures compared with that on Commercial Paper.

### Income tax expense and effective tax rate

| Income Tax Expense (in millions of dollars) |        | Effective Tax Rate (%) |       |
|---------------------------------------------|--------|------------------------|-------|
| Q1/18                                       | Q1/17  | Q1/18                  | Q1/17 |
| \$23.6                                      | \$22.4 | 27%                    | 34%   |

- Excluding adjustments, primarily relating to the items noted below, the effective tax rate would have been approximately 26% for Q1/18 and 27% for Q1/17.
- In Q1/18, we recorded an additional \$1.2 million in income tax expense (2 cents per basic and diluted share) related to the sale of NGX and Shorcan Energy which increased our effective tax rate and income tax expenses for Q1/18.
- In Q1/17, we incurred non-cash impairment charges of \$4.8 million related to TMX Atrium. We also wrote-down \$2.9 million of deferred tax assets relating to TMX Atrium Wireless. These items increased our effective tax rate and income tax expense for Q1/17.

## Total equity

| (in millions of dollars) | As at March 31, 2018 | as at December 31,<br>2017 | \$ increase |
|--------------------------|----------------------|----------------------------|-------------|
| Total equity             | \$3,285.2            | \$3,182.8                  | \$102.4     |

- At March 31, 2018, there were 55,507,875 common shares issued and outstanding and 2,089,748 options outstanding under the share option plan.
- At May 4, 2018, there were 55,530,138 common shares issued and outstanding and 2,066,685 options outstanding under the share option plan.
- The increase in *Total equity* is primarily attributable to the inclusion of net income of \$63.1 million, an unrealized gain of \$65.3 million on translating the financial statements of Trayport, proceeds from exercised share options of \$5.8 million, less dividend payments to shareholders of TMX Group of \$27.7 million.

## Segments

The following information reflects TMX Group's segment results for the three months ended March 31, 2018 compared with the three months ended March 31, 2017.

### *Three months ended March 31, 2018*

| (in millions of dollars)        | Capital<br>Formation | Equities and<br>Fixed<br>Income<br>Trading &<br>Clearing | Derivatives<br>Trading &<br>Clearing | Global<br>Solutions,<br>Insights &<br>Analytics | Other  | Total    |
|---------------------------------|----------------------|----------------------------------------------------------|--------------------------------------|-------------------------------------------------|--------|----------|
| Revenue from external customers | \$ 50.4              | \$ 51.1                                                  | \$ 31.3                              | \$ 72.7                                         | \$ 1.7 | \$ 207.2 |
| Inter-segment revenue           | —                    | 0.3                                                      | —                                    | 0.2                                             | (0.5)  | —        |
| Total revenue                   | 50.4                 | 51.4                                                     | 31.3                                 | 72.9                                            | 1.2    | 207.2    |
| Income (loss) from operations   | 28.8                 | 23.8                                                     | 14.1                                 | 45.2                                            | (16.2) | 95.7     |

### *Three months ended March 31, 2017*

| (in millions of dollars)        | Capital<br>Formation | Equities and<br>Fixed<br>Income<br>Trading &<br>Clearing | Derivatives<br>Trading &<br>Clearing | Global<br>Solutions,<br>Insights &<br>Analytics | Other    | Total    |
|---------------------------------|----------------------|----------------------------------------------------------|--------------------------------------|-------------------------------------------------|----------|----------|
| Revenue from external customers | \$ 44.8              | \$ 48.2                                                  | \$ 28.1                              | \$ 50.3                                         | \$ (0.2) | \$ 171.2 |
| Inter-segment revenue           | —                    | 0.6                                                      | —                                    | 0.2                                             | (0.8)    | —        |
| Total revenue                   | 44.8                 | 48.8                                                     | 28.1                                 | 50.5                                            | (1.0)    | 171.2    |
| Income (loss) from operations   | 24.7                 | 22.3                                                     | 12.9                                 | 28.7                                            | (13.2)   | 75.4     |

### *Income (loss) from operations*

The increase in *Income from operations* from *Capital Formation* reflects higher revenue from all fee types as well as higher revenue from TSX Trust in Q1/18 compared with Q1/17. This was partially offset by higher operating expenses in Q1/18 compared with Q1/17.

The increase in *income from operations* from *Equities and Fixed Income Trading and Clearing* was driven by higher revenue from *Fixed Income Trading* and CDS partially offset by lower *Equities Trading* revenue, and higher operating expenses in Q1/18 compared with Q1/17.

*Income from operations* from *Derivatives Trading and Clearing* increased reflecting higher revenue from MX and CDCC, due to a 12% increase in volumes on MX as well as higher revenue per contract due to client mix. This was partially offset by higher operating expenses in Q1/18 compared with Q1/17.

The increase in *Income from operations* from *Global Solutions, Insights and Analytics* largely reflects the positive impacts from the inclusion of Trayport and the sale of TMX Atrium. In Q1/18 Trayport earned approximately \$27.3 million of revenue, and incurred approximately \$17.5 million in operating expenses. In Q1/17 TMX Atrium earned approximately \$6.5 million of revenue, and incurred approximately \$7.5 million in operating expenses.

*Other* includes certain revenue as well as corporate and other costs related to initiatives, not allocated to the operating segments. Revenue related to foreign exchange gains and losses and other services are presented in the *Other* segment. Costs and expenses related to the amortization of purchased intangibles, along with certain consolidation and elimination adjustments, are also presented in *Other*. The higher *loss from operations* for the *Other* segment reflected an increase in corporate costs largely related to the amortization of Trayport intangibles. This decrease was partially offset by higher *Other* revenue primarily due to recognizing net foreign exchange gains on U.S. dollar net monetary liabilities in Q1/18 compared with foreign exchanges losses in Q1/17.

## LIQUIDITY AND CAPITAL RESOURCES

### Summary of Cash Flows

#### *Three months ended March 31, 2018 compared with Three months ended March 31, 2017*

| (in millions of dollars)                       | Three months<br>ended March 31,<br>2018 | Three months<br>ended March 31,<br>2017 | \$ increase /<br>(decrease) in cash |
|------------------------------------------------|-----------------------------------------|-----------------------------------------|-------------------------------------|
| Cash flows from operating activities           | \$58.6                                  | \$67.0                                  | \$(8.4)                             |
| Cash flows from/(used in) financing activities | (61.3)                                  | (24.4)                                  | (36.9)                              |
| Cash flows used in investing activities        | (9.7)                                   | (11.3)                                  | 1.6                                 |

- In Q1/18, *Cash flows from operating activities* decreased slightly compared with Q1/17 reflecting a decrease in cash related to trade and other receivables, and prepaid expenses as well as other assets and liabilities. In addition, there was an increase in income taxes paid. The decreases in cash were largely offset by an increase in cash from trade and other payables as well as from income from operations (excluding depreciation and amortization).
- In Q1/18, *Cash flows used in financing activities* increased from Q1/17 primarily due to a net reduction in the issuance of Commercial Paper and a decrease in proceeds from exercised options.
- In Q1/18, there was a decrease in *Cash flows used in investing activities* compared with Q1/17 reflecting an increase in cash outlays for additions to premises and equipment and intangible assets, partially offset by the impact from a net sale of marketable securities.

## **Summary of Cash Position and Other Matters**<sup>20</sup>

### **Cash, Cash Equivalents and Marketable Securities**

| (in millions of dollars) | As at March 31,<br>2018 | as at December 31,<br>2017 | \$ (decrease) |
|--------------------------|-------------------------|----------------------------|---------------|
|                          | <b>\$210.6</b>          | \$225.1                    | \$(14.5)      |

We had \$210.6 million of cash, cash equivalents and marketable securities at March 31, 2018. There was a decrease in cash, cash equivalents and marketable securities primarily reflecting a net decrease in Commercial Paper of approximately \$37.0 million, a cash outflow for dividends to TMX Group shareholders of \$27.7 million and additions to premises and equipment and intangible assets of \$13.2 million. These decreases in cash were offset by cash flows from operating activities of \$58.6 million and proceeds from exercised options of \$5.8 million. Based on our current business operations and model, we believe that we have sufficient cash resources to operate our business, make interest payments, as well as meet our covenants under the trust indentures governing our debentures and the terms of the Amended and Restated Credit Agreement (as amended on December 14, 2017) and commercial paper program (Commercial Paper Program) (see **LIQUIDITY AND CAPITAL RESOURCES - Commercial Paper, Debentures, Credit and Liquidity Facilities**), and satisfy the capital maintenance requirements imposed by regulators.

Going forward, we expect to have increased capital requirements related to premises as we consolidate our Toronto and Montreal facilities. Approximately \$17.0 million of capital expenditure was spent in 2017, and a further approximately \$13.0 million of spending is expected in 2018. In Q1/18 we spent approximately \$6.8 million of capital expenditure. The expected annual savings will result in reductions in operating expenses of approximately \$2.4 to \$2.8 million on a run rate basis starting in Q3/18. During Q2/18, we also expect to record charges of approximately \$4.6 million related to lease terminations.

We will also have cash outlays in integrating our clearing platforms (see - **INITIATIVES AND ACCOMPLISHMENTS - Update on Integrated Clearing Platform**)

Debt financing of future investment opportunities could be limited by current and future economic conditions, the covenants in the Amended and Restated Credit Agreement (as amended on December 14, 2017) and the Debentures, and by capital maintenance requirements imposed by regulators. At March 31, 2018, there was \$358.3 million of Commercial Paper outstanding, and the authorized limit under the program was \$500.0 million. Our Series A Debentures are due on October 3, 2018. Our current plan is to repay the full amount owing of \$400.0 million with proceeds from a combination of excess cash, proceeds from our Commercial Paper Program and a debt offering.

### **Total Assets**

| (in millions of dollars) | As at March 31,<br>2018 | as at December 31,<br>2017 | \$ increase |
|--------------------------|-------------------------|----------------------------|-------------|
|                          | <b>\$25,902.5</b>       | \$25,624.8                 | \$277.7     |

- Our consolidated balance sheet as at March 31, 2018 includes outstanding balances on open REPO agreements within *Balances with Clearing Members and Participants*. These balances have equal amounts included within *Total Liabilities*. The increase in *Total Assets* of \$277.7 million from December 31, 2017 reflected higher balances in CDCC at March 31, 2018.

<sup>20</sup> The "Summary of Cash Position and Other Matters" section above contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainties related to such statements.

## **Commercial Paper, Debentures, Credit and Liquidity Facilities**

### **Commercial Paper**

| (in millions of dollars) | <b>As at March 31,<br/>2018</b> | as at December 31,<br>2017 | <b>\$ (decrease)</b> |
|--------------------------|---------------------------------|----------------------------|----------------------|
|                          | <b>\$358.3</b>                  | \$395.3                    | \$(37.0)             |

There was \$358.3 million outstanding under the program at March 31, 2018 reflecting a net reduction in Q1/18 of approximately \$37.0 million from December 31, 2017. The Commercial Paper outstanding at March 31, 2018 included approximately \$339.0 million issued in Canadian dollars and approximately \$19.3 million in the Canadian dollar equivalent amount of U.S.dollar Commercial Paper. Commercial paper is short term in nature, and the average term to maturity from the date of issue in Q1/18, for Commercial Paper outstanding at March 31, 2018, was 62.1 days on Canadian dollar Commercial Paper and 32.3 days on U.S.dollar Commercial Paper.

### **Debentures**

TMX Group has the following Debentures outstanding:

| (in millions of dollars) | <b>As at March 31,<br/>2018</b> | as at December 31,<br>2017 | <b>\$ (decrease)</b> |
|--------------------------|---------------------------------|----------------------------|----------------------|
| Current Debentures       | <b>\$399.8</b>                  | \$399.8                    | \$0.0                |
| Non-Current Debentures   | <b>\$547.5</b>                  | \$547.6                    | \$(0.1)              |
|                          | <b>\$947.3</b>                  | \$947.4                    | \$(0.1)              |

For additional information on the Debentures, see **Debentures** under the heading **LIQUIDITY AND CAPITAL RESOURCES** in our 2017 Annual MD&A.

### **Credit Facilities**

For additional information on our credit facilities, please see **Credit Facilities** under the heading **LIQUIDITY AND CAPITAL RESOURCES** in our 2017 Annual MD&A.

As at March 31, 2018, all covenants were met under the Amended and Restated Credit Agreement, as amended December 14, 2017.

### **Interest Rate Swaps (IRS)**

As at March 31, 2018 we have the following IRS in place:

| <b>Interest Rate</b> | <b>Maturity Date</b> | <b>Principal (in millions)</b> |
|----------------------|----------------------|--------------------------------|
| 1.08%                | May 2, 2019          | \$100.0                        |

This swap was put in place to economically hedge the issuance of commercial paper starting on October 3, 2016 (see **MANAGING CAPITAL** in our 2017 Annual MD&A). As this IRS was not designated as a hedge for accounting purposes, it is possible that there will be fluctuations in net income as we mark to market the fair value of this IRS each quarter until maturity.

## Effective Interest Rates

The effective interest rates as at March 31, 2018 for the Debentures and Commercial Paper are shown below:

| Debentures and Commercial Paper                           | Principal<br>(\$CAD millions) | Maturity              | All-in Rate         |
|-----------------------------------------------------------|-------------------------------|-----------------------|---------------------|
| Series A Debentures                                       | \$400.0                       | Oct. 3, 2018          | 3.253%              |
| Series B Debentures                                       | 250.0                         | Oct. 3, 2023          | 4.461%              |
| Series D Debentures                                       | 300.0                         | Dec. 11, 2024         | 2.997%              |
| Commercial Paper, CAD - interest rate economically hedged | 100.0                         | Apr 2 - Apr 11, 2018  | 1.08% <sup>21</sup> |
| Commercial Paper, CAD - interest rate unhedged            | 239.0                         | Apr 2 - May 15, 2018  | 1.64% <sup>22</sup> |
| Commercial Paper, USD - interest rate unhedged            | 19.3                          | Apr 16 - Apr 25, 2018 | 1.93% <sup>23</sup> |

## Other Credit and Liquidity Facilities

On March 27, 2018, CDS amended the secured standby credit agreement to increase the arrangement from US\$400.0 million, or Canadian equivalent, to US\$720.0 million, or Canadian equivalent. This agreement was amended so the facility is available to support processing and settlement activities in the event of a Participant default in the New York Link Service and The Depository Trust Company Direct Link Service. The facility will allow CDS to increase the amount available for an additional US\$600.0 million or Canadian equivalent, with approval of the lenders.

Borrowings under the secured facility are obtained by pledging or providing collateral pledged by Participants primarily in the form of debt instruments issued or guaranteed by federal, provincial and/or municipal governments in Canada, or US treasury instruments and equity instruments. Depending upon the currency drawn, the borrowing rate for the secured standby credit arrangement is the US base rate plus 150 bps or the Canadian prime rate plus 150 bps.

On the same date, CDS also entered into a credit agreement of \$2.0 billion or US equivalent that can be drawn in either Canadian or US currency. This arrangement is available to support settlement activities in the event of a Participant default with CDS's Continuous Net Settlement service. The facility will allow CDS to increase in the amount available for an additional \$500.0 million or US equivalent, with approval of the lenders.

Borrowings under the secured facility are obtained by pledging or providing collateral pledged by Participants primarily in the form of debt and equity instruments. Depending upon the currency drawn, the borrowing rate for the secured standby credit arrangement is the US base rate plus 150 bps or the Canadian prime rate plus 150 bps.

The CDCC facility, which expired on March 3, 2018 was extended to March 1, 2019 and increased from \$300.0 million to \$400.0 million.

For additional information, see **Other Credit and Liquidity Facilities** under the heading **LIQUIDITY AND CAPITAL RESOURCES** in our 2017 Annual MD&A.

<sup>21</sup> Rate denoted in CAD.

<sup>22</sup> Rate denoted in CAD.

<sup>23</sup> Rate denoted in USD.

## **MANAGING CAPITAL**

Our primary objectives in managing capital are described in our 2017 Annual MD&A.

As at March 31, 2018, we were in compliance with all of the externally imposed capital requirements. See **Credit Facilities** and **MANAGING CAPITAL** in our 2017 MD&A for a description of the financial covenants imposed on us.

## QUARTERLY FINANCIAL INFORMATION

| (in millions of dollars except per share amounts - unaudited)                                     | Mar 31<br>2018 | Dec 31<br>2017 | Sept 30<br>2017 | Jun 30<br>2017 | Mar 31<br>2017 | Dec 31<br>2016 | Sept 30<br>2016 | Jun 30<br>2016 |
|---------------------------------------------------------------------------------------------------|----------------|----------------|-----------------|----------------|----------------|----------------|-----------------|----------------|
| Capital Formation                                                                                 | \$50.4         | \$49.4         | \$43.0          | \$51.6         | \$44.8         | \$46.6         | \$45.9          | \$51.8         |
| Equities and Fixed Income Trading                                                                 | 29.3           | 25.2           | 22.9            | 26.8           | 29.2           | 26.5           | 23.7            | 26.5           |
| Equities and fixed Income - clearing, settlement, depository and other services (CDS)             | 21.8           | 20.4           | 18.7            | 19.9           | 19.0           | 18.2           | 17.4            | 18.1           |
| Derivatives Trading & Clearing                                                                    | 31.3           | 27.6           | 27.7            | 31.4           | 28.1           | 28.4           | 27.2            | 30.4           |
| Global Solutions, Insights and Analytics                                                          | 72.7           | 48.3           | 41.6            | 46.3           | 50.3           | 53.2           | 51.9            | 52.2           |
| Other                                                                                             | 1.7            | —              | (2.0)           | (1.0)          | (0.2)          | 2.0            | 0.3             | 0.8            |
| Revenue                                                                                           | 207.2          | 170.9          | 151.9           | 175.0          | 171.2          | 174.9          | 166.4           | 179.8          |
| Operating expenses before acquisition costs and strategic re-alignment expenses                   | 111.5          | 87.1           | 84.1            | 89.6           | 95.8           | 96.1           | 93.6            | 97.4           |
| Income from operations before acquisition costs and strategic re-alignment expenses <sup>24</sup> | 95.7           | 83.8           | 67.8            | 85.4           | 75.4           | 78.8           | 72.8            | 82.4           |
| Acquisition costs                                                                                 | —              | 13.4           | 0.4             | —              | —              | —              | —               | —              |
| Strategic re-alignment expenses                                                                   | —              | —              | —               | —              | —              | —              | 17.7            | 2.0            |
| Income from operations <sup>25</sup>                                                              | 95.7           | 70.4           | 67.4            | 85.4           | 75.4           | 78.8           | 55.1            | 80.4           |
| Income before income from discontinued operations, net of tax                                     | 63.1           | 41.2           | 47.0            | 61.2           | 42.6           | 47.6           | 36.5            | 54.0           |
| income from discontinued operations, net of tax                                                   | —              | 161.1          | 4.9             | 5.3            | 4.7            | 5.0            | 2.7             | 4.3            |
| Net Income (loss)                                                                                 | 63.1           | 202.3          | 51.9            | 66.5           | 47.3           | 52.6           | 39.2            | 58.3           |
| Earnings per share before discontinued operations <sup>26</sup>                                   |                |                |                 |                |                |                |                 |                |
| Basic                                                                                             | 1.14           | 0.74           | 0.85            | 1.11           | 0.77           | 0.87           | 0.67            | 0.99           |
| Diluted                                                                                           | 1.13           | 0.74           | 0.84            | 1.10           | 0.77           | 0.86           | 0.67            | 0.99           |
| Earnings per share: <sup>27</sup>                                                                 |                |                |                 |                |                |                |                 |                |
| Basic                                                                                             | 1.14           | 3.65           | 0.94            | 1.20           | 0.86           | 0.96           | 0.72            | 1.07           |
| Diluted                                                                                           | 1.13           | 3.63           | 0.93            | 1.19           | 0.85           | 0.95           | 0.72            | 1.07           |

<sup>24</sup> See discussion under the heading "Additional IFRS Financial Measures".

<sup>25</sup> See discussion under the heading "Additional IFRS Financial Measures".

<sup>26</sup> Earnings per share before discontinued operations is based on income before income from discontinued operations, net of tax.

<sup>27</sup> Earnings per share information is based on net income.

## **Q1/18 compared with Q4/17**

- *Revenue* was \$207.2 million in Q1/18, up \$36.3 million from Q4/17 reflecting increases in all segments including an increase in Trayport revenue of \$22.8 million (acquired December 14, 2017).
- *Operating expenses before acquisition costs and strategic re-alignment expenses* were up in Q1/18 compared with Q4/17 reflecting an increase of \$14.6 million in Trayport expenses, higher severance costs of \$4.9 million, increased payroll taxes of \$3.1 million as well as higher employee performance incentive plan costs of \$1.8 million.
- *Income from operations before acquisition costs and strategic re-alignment expenses* and *Income from operations* increased from Q4/17 to Q1/18 due to higher revenue partially offset by higher operating expenses.
- *Net Income* in Q1/18 was \$63.1 million, or \$1.14 per common share on a basic and \$1.13 on a diluted basis, compared with net income of \$202.3 million, or \$3.65 per common share on a basic and \$3.63 on a diluted basis in Q4/17. There was a gain on the sale of NGX and Shorcan Energy in Q4/17. Excluding this gain, there was an increase in net income from Q4/17 to Q1/18 due to the higher revenue partially offset by higher operating expenses.

***For additional information on the seven previous quarters please see Select Annual and Quarterly Financial Information in our 2017 Annual MD&A***

## **Accounting and Control Matters**

### **Changes in accounting policies**

The following new IFRS standards and amendments were effective for TMX Group from January 1, 2018:

- IFRS 15, *Revenue from Contracts with Customers*;
- IFRS 9, *Financial Instruments*;
- Annual improvements 2014-2016 cycle (Amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards* and IAS 28, *Investments in Associates and Joint Ventures*);
- Classification and measurement of share-based payment transactions (Amendments to IFRS 2, *Share-based Payments*); and
- IFRIC 22, *Foreign currency transactions and advance consideration* (Interpretation of IAS 21, *The Effects of Changes in Foreign Exchange Rates*)

There was no significant impact on the interim financial statements as a result of their adoption, except for IFRS 15. IFRS 15 establishes a single comprehensive framework in determining the timing and amount of revenue to be recognized, and requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and judgment used in the measurement and recognition of revenue.

TMX Group adopted IFRS 15, using the cumulative effect method, by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18, *Revenue*.

The effect of initially applying IFRS 15 is attributed to the timing of recognition of initial listing fees. Under IFRS 15, revenue is recognized when performance obligations have been satisfied. The identification of performance obligations and determining the timing of when performance obligations are satisfied, either at a point in time or over time, requires judgement. Under IAS 18, initial listing fees were recognized when the listing had occurred. Under IFRS 15, TMX Group determined that the initial listing service was not a distinct service from the initial year sustaining service and therefore concluded that the initial listing fee should be deferred over a 12- month period from the date of listing, which is the period

over which the customer has a material right. There were no other changes to the recognition of revenue as a result of applying IFRS 15.

In Q1/18, we recognized \$0.8 million of total *initial listing fees* received of \$2.7 million with the balance of \$1.9 million to be recognized over the remaining 12 months. Since the cumulative impact of this change was recorded effective January 1, 2018, we also recognized *initial listing fees* received in 2017 of \$2.9 million during Q1/18. Under IFRS 15, *initial listing fees* of \$3.7 million were approximately \$1.0 million higher than would have been the case if *initial listing fees* were recognized when the listing occurred.

Based on initial listing fees billed in 2017 and Q1 2018, the following amounts have been deferred to be recognized in Q2/18, Q3/18, and Q4/18: \$2.6 million, \$1.7 million, and \$0.9 million respectively. Total *initial listing fee* revenue for future quarters will depend on listing activity in those quarters. There were no other changes to the recognition of revenue as a result of applying IFRS 15.

### **Future changes in accounting policies**

The following standard is not yet effective for the year ending December 31, 2018, and has not been applied in the preparation of the financial statements:

- IFRS 16, Leases - The IASB issued a new standard on leases which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements. IFRS 16 supersedes IAS 17, Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, differentiating between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Among other significant changes, the distinction between operating and finance leases is removed and assets and liabilities are recognized in respect of all leases. Further, IFRS 16 requires a front-loaded pattern for the recognition of lease expense over the life of the lease. The mandatory effective date for IFRS 16 is for annual periods beginning on or after January 1, 2019 with earlier application permitted for entities that have also adopted IFRS 15. TMX Group intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. TMX Group is assessing the potential impact on its consolidated financial statements. The extent of the impact of adoption of the standard has not yet been determined.

## **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

### ***Disclosure Controls and Procedures***

TMX Group's disclosure controls and procedures (DCP), as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109) are designed to provide reasonable assurance that information required to be disclosed in our filings under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. They are also designed to provide reasonable assurance that all information required to be disclosed in these filings is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as appropriate, to allow timely decisions regarding public disclosure. We regularly review our disclosure controls and procedures; however, they cannot provide an absolute level of assurance because of the inherent limitations in control systems to prevent or detect all misstatements due to error or fraud.

### ***Internal Control over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting (ICFR), as defined in NI 52-109. ICFR means a process designed by or under the supervision of the CEO and CFO, and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS, and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of TMX Group; (2) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of TMX Group are being made only in accordance with authorizations of management and directors of TMX Group; and (3) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of TMX Group's assets that could have a material effect on the financial statements.

All internal control systems have inherent limitations and therefore our ICFR can only provide reasonable assurance and may not prevent or detect misstatements due to error or fraud.

### Limitation on Scope of Design

TMX Group has limited the scope of design of DCP and our ICFR to exclude controls, policies and procedures of Trayport which was acquired on December 14, 2017, the financial performance of which is included in our March 31, 2018 interim financial statements. The scope limitation is in accordance with section 3.3(1)(b) of NI 52-109 which allows an issuer to limit its design of DCP and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days before the end of the fiscal period.

The tables below presents the summary financial information of Trayport:

| (in millions of dollars)              | As at March 31, 2018              |
|---------------------------------------|-----------------------------------|
| Current assets                        | 32.3                              |
| Non-current assets <sup>28</sup>      | 1,087.5                           |
| Current liabilities                   | 20.3                              |
| Non-current liabilities <sup>29</sup> | 71.8                              |
| <hr/>                                 |                                   |
| (in millions of dollars)              | Three months ended March 31, 2018 |
| Revenue                               | 27.3                              |
| Expense <sup>30</sup>                 | 17.5                              |
| Income from operations                | 9.8                               |

### **Changes in Internal Control over Financial Reporting**

There were no changes to internal control over financial reporting during the quarter ended March 31, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

<sup>28</sup> Non-current assets as at March 31, 2018 includes \$1,076.1 million of goodwill and intangibles related to the acquisition of Trayport.

<sup>29</sup> Non-current liabilities as at March 31, 2018 includes \$71.0 million of deferred tax liabilities related to the acquisition of Trayport.

<sup>30</sup> Expense for the three months ended March 31, 2018 includes \$4.4 million of amortization of intangibles related to the acquisition of Trayport.

## CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A of TMX Group contains “forward-looking information” (as defined in applicable Canadian securities legislation) that is based on expectations, assumptions, estimates, projections and other factors that management believes to be relevant as of the date of this MD&A. Often, but not always, such forward-looking information can be identified by the use of forward-looking words such as “plans,” “expects,” “is expected,” “budget,” “scheduled,” “targeted,” “estimates,” “forecasts,” “intends,” “anticipates,” “believes,” or variations or the negatives of such words and phrases or statements that certain actions, events or results “may,” “could,” “would,” “might,” or “will” be taken, occur or be achieved or not be taken, occur or be achieved. Forward-looking information, by its nature, requires us to make assumptions and is subject to significant risks and uncertainties which may give rise to the possibility that our expectations or conclusions will not prove to be accurate and that our assumptions may not be correct.

Examples of forward-looking information in this MD&A include, but are not limited to, the ability of TMX Group to de-leverage and the timing thereof; TMX Group's business integration initiative including the integration of clearing platforms, including the expected cash expenditures related to the integration of our clearing platforms and the anticipated cost savings resulting from this initiative and the timing of the integration and the anticipated savings; costs associated with the consolidation of office premises and anticipated cost savings related to consolidation of office premises statements; other statements related to cost reductions and strategic realignment expenses; the impact of changes to each of our equity trading fees, market data fees, and additional listing fees on TMX Group's revenue; the impact of the increase of market capitalization of TSX and TSXV issuers overall (from 2016 to 2017) net of changes to sustaining fees on TMX Group's revenue; the expected annual cost savings resulting from organizational changes made in early 2018, and the timing thereof; TMX Group's anticipated statutory income tax rate for 2018; factors relating to stock, and derivatives exchanges and clearing houses and the business, strategic goals and priorities, market conditions, pricing, proposed technology and other initiatives, financial results or financial condition, operations and prospects of TMX Group which are subject to significant risks and uncertainties.

These risks include: competition from other exchanges or marketplaces, including alternative trading systems and new technologies, on a national and international basis; dependence on the economy of Canada; adverse effects on our results caused by global economic conditions or uncertainties including changes in business cycles that impact our sector; failure to retain and attract qualified personnel; geopolitical and other factors which could cause business interruption; dependence on information technology; vulnerability of our networks and third party service providers to security risks, including cyber-attacks; failure to properly identify or implement our strategies; regulatory constraints; constraints imposed by our level of indebtedness, risks of litigation or other proceedings; dependence on adequate numbers of customers; failure to develop, market or gain acceptance of new products; failure to effectively integrate acquisitions, including the Trayport acquisition, to achieve planned economics, or divest under performing businesses; currency risk; adverse effect of new business activities; adverse effects from business divestitures; not being able to meet cash requirements because of our holding company structure and restrictions on paying dividends; dependence on third-party suppliers and service providers; dependence of trading operations on a small number of clients; risks associated with our clearing operations; challenges related to international expansion; restrictions on ownership of TMX Group common shares; inability to protect our intellectual property; adverse effect of a systemic market event on certain of our businesses; risks associated with the credit of customers; cost structures being largely fixed; the failure to realize cost reductions in the amount or the time frame anticipated; dependence on market activity that cannot be controlled; the regulatory constraints that apply to the business of TMX Group and its regulated subsidiaries, costs of on exchange clearing and depository services, trading volumes (which could be higher or lower than estimated) and revenues; future levels of revenues being lower than expected or costs being higher than expected.

Forward-looking information is based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions in connection with the ability of TMX Group to successfully compete against global and regional marketplaces; business and economic conditions generally; exchange rates (including estimates of exchange rates from Canadian dollars to the U.S. dollar or British pound sterling), commodities prices, the level of trading and activity on markets, and particularly the level of trading in TMX Group's key products; business development and marketing and sales

activity; the continued availability of financing on appropriate terms for future projects; productivity at TMX Group, as well as that of TMX Group's competitors; market competition; research and development activities; the successful introduction and client acceptance of new products; successful introduction of various technology assets and capabilities; the impact on TMX Group and its customers of various regulations; TMX Group's ongoing relations with its employees; and the extent of any labour, equipment or other disruptions at any of its operations of any significance other than any planned maintenance or similar shutdowns.

While we anticipate that subsequent events and developments may cause our views to change, we have no intention to update this forward-looking information, except as required by applicable securities law. This forward-looking information should not be relied upon as representing our views as of any date subsequent to the date of this MD&A. We have attempted to identify important factors that could cause actual actions, events or results to differ materially from those current expectations described in forward-looking information. However, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended and that could cause actual actions, events or results to differ materially from current expectations. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. These factors are not intended to represent a complete list of the factors that could affect us. A description of the above-mentioned items is contained under the heading **RISKS AND UNCERTAINTIES** in the 2017 Annual MD&A.