



**STREET CAPITAL GROUP INC.**

**ANNUAL INFORMATION FORM**

For the fiscal year ended  
**December 31, 2016**

**March 7, 2017**

**STREET CAPITAL GROUP INC.**  
1 Toronto Street, Suite 700, P.O. Box 3  
Toronto, Ontario M5C 2V6

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## 2016 ANNUAL INFORMATION FORM

*(All dollar amounts are in Canadian dollars unless otherwise noted.)*

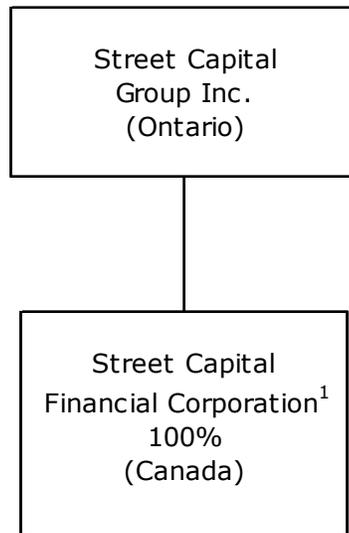
Information in this Annual Information Form ("**AIF**") is given as of December 31, 2016, unless otherwise indicated.

### CORPORATE STRUCTURE

421367 Ontario Limited, the predecessor to Street Capital Group Inc. was incorporated under the *Business Corporations Act* (Ontario) by Articles of Incorporation dated August 2, 1979. It changed its name to Counsel Financial Services Limited by Articles of Amendment, effective October 26, 1979 and changed its name to Counsel Trustco Corporation by Articles of Amendment effective July 15, 1982. The corporation amalgamated with its wholly owned subsidiary, 475848 Ontario Limited (formerly Counsel Management Limited), by Articles of Amalgamation effective December 31, 1984. By Articles of Amendment, effective May 22, 1986, the corporation changed its name to Counsel Corporation. By Articles of Amendment, effective May 5, 1987, the corporation subdivided each of its issued and unissued common shares on a 3 for 2 basis. The corporation amalgamated with its wholly owned subsidiary, Counsel Healthcare Assets Inc., by Articles of Amalgamation effective December 31, 1998. By Articles of Amendment effective June 9, 1999, the corporation simplified its capital structure by replacing its authorized classes and series of preferred shares with one class of an unlimited number of preferred shares, issuable in series, and changing the authorized number of its common shares to an unlimited number. By Articles of Amendment effective December 19, 2003, the corporation was authorized to issue, as a series of preferred shares, 12,000,000 shares designated as Preferred Shares, Series A. The Series A preferred shares were redeemed in full on July 24, 2009. By Articles of Amendment effective July 24, 2009, the corporation was authorized to issue, as a new series of preferred shares, 6,009,616 shares to be designated as Preferred Shares, Series B. On January 25, 2011, all the Series B preferred shares were converted in common shares at \$0.75 per share, which resulted in the issuance of 15,384,617 common shares. The corporation amalgamated with its wholly owned subsidiary, Counsel Capital Corporation, by Articles of Amalgamation effective January 1, 2014. By Articles of Amendment effective June 19, 2015, the corporation changed its name to "Street Capital Group Inc." (hereinafter referred to as "**Street Capital**" or the "**Corporation**").

The registered and principal office of the Corporation is located at 1 Toronto Street, Suite 700, P.O. Box 3, Toronto, Ontario, M5C 2V6, and its telephone number is (647) 259-7873.

The following chart indicates the principal subsidiary of the Corporation, its jurisdiction of incorporation and the percentage of voting securities thereof which are owned directly or indirectly by the Corporation as at December 31, 2016.



<sup>1</sup> Name changed to Street Capital Bank of Canada February 1, 2017

## GENERAL DEVELOPMENT OF THE BUSINESS

### ***Financial Services***

The Corporation is a financial services company which historically has operated primarily in the mortgage lending business. Effective February 1, 2017, as discussed below, the Corporation's wholly-owned subsidiary Street Capital Financial Corporation ("**Street Capital Financial**") began operations as a Canadian Schedule I bank, Street Capital Bank of Canada ("**Street Capital Bank**"). This completed a process that began four years ago and involved the following major events.

At the end of May 2011, the Corporation acquired Street Capital Financial, a Canadian residential mortgage lender that offered a wide spectrum of insurable high ratio and conventional mortgages at competitive interest rates. Since commencing business in 2007, Street Capital Financial had successfully built a broad network of high quality independent brokers, and established stringent underwriting and robust quality assurance processes. These factors contributed to a strong wholesale demand from institutional investors for the mortgages sourced by Street Capital Financial, and the majority of them were sold to these investors.

In December 2012, Street Capital Financial applied to Canada's Minister of Finance for approval to operate as a federally regulated Schedule I bank. While initially keeping the Corporation's business primarily focused on residential mortgage lending, a bank licence would allow expansion into uninsured mortgage lending, consumer lending, deposit taking and related services.

In May 2013, while the bank application was still under review, Street Capital Financial received approvals from the Canada Mortgage and Housing Corporation ("**CMHC**") to be an approved issuer of *National Housing Act* mortgage backed securities ("**NHA MBS**") and an approved seller under the Canada Mortgage Bonds ("**CMB**") program. This enabled

the company's mortgages to be pooled into securities designated for sale to Canada Housing Trust under the CMB program. This ability to securitize mortgages, on a limited scale, provides a secondary source of funding.

In June 2015, the Corporation's shareholders approved an organizational realignment of the Corporation. As part of the reorganization: (i) the name of the corporation was changed to "Street Capital Group Inc.", (ii) the management teams and boards of the Corporation and Street Capital Financial were combined and streamlined, and (iii) all of the Class C non-voting shares of Street Capital Financial, which were held primarily by certain members of Street Capital Financial's management team, were exchanged for 20 million common shares of the Corporation and approximately \$3 million cash.

On December 13, 2016, Street Capital Financial received Letters Patent from the Federal Minister of Finance and an Order to Commence and Carry on Business from the Office of the Superintendent of Financial Institutions (OSFI), Canada, permitting Street Capital Financial to continue and operate as a Canadian Schedule I bank. Effective February 1, 2017, Street Capital Financial has begun operations as Street Capital Bank of Canada in English and Street Capital Banque du Canada in French. Street Capital Bank's head office is located in Toronto. Please note that in the remainder of this AIF, all references to Street Capital Financial have been replaced with Street Capital Bank (the "**Bank**"), where appropriate.

### ***Legacy Business***

In the first quarter of 2013, reflecting and accelerating the Corporation's strategy to focus on financial services, the Corporation's board of directors (the "Board of Directors") approved of a plan to dispose of the Corporation's non-core operating business segments (i.e. case goods, through Fleetwood Fine Furniture LP, asset liquidation, through Heritage Global Inc., and real estate). The case goods business and real estate properties were sold to third parties while the shares of the asset liquidation business were distributed to the Corporation's shareholders.

At the same time, the Corporation also began winding down its private equity business, which is carried on through the Corporation's wholly-owned subsidiary, Knight's Bridge Capital Partners Inc. At the end of 2015 the Corporation had successfully divested most of its core holdings, and retained only two investments. Only one of these, an investment in the publicly traded shares of Differential Brands Group Inc. ("DBGI"), was material. This investment was partially exited during the first quarter of 2016, and in connection with the exit the Corporation received approximately \$1.4 million. The Corporation continues to plan final exits from the remaining portfolio, but the timing will depend on market conditions and is therefore uncertain.

## DESCRIPTION OF THE BUSINESS OF THE CORPORATION

The Corporation's operations are currently concentrated in residential mortgage lending through its wholly owned subsidiary, Street Capital Bank, which was founded in 2007 by several members of its current senior management team, all of whom previously occupied senior management positions at large Canadian financial institutions. Street Capital Bank grew to establish itself as one of the largest non-bank mortgage lenders in Canada, with a number three broker market share position at the end of Q3 2016, the last date for which information was available prior to the issue of this Annual Information Form, and more than \$27 billion in mortgages under administration ("**MUA**") at December 31, 2016. On December 13, 2016 Street Capital Bank was approved to commence business operations as a federally regulated Schedule I bank, and bank operations began on February 1, 2017.

A description of the Corporation's business is included in its Management's Discussion and Analysis of Results of Operations and Financial Condition for the year ended December 31, 2016 ("**MD&A**"), which is incorporated herein by reference. The Corporation's MD&A and related audited financial statements are available on SEDAR at [www.sedar.com](http://www.sedar.com).

Since inception, Street Capital Bank's core operations have centered on the origination and subsequent sale of both high ratio and conventional prime residential mortgages at competitive interest rates in all provinces of Canada, with the current exception of Quebec. The mortgages are originated primarily through the Bank's network of high quality independent mortgage brokers, after which the majority of the mortgages underwritten are sold on a whole loan basis to top-tier regulated financial institutional investors in return for a cash premium, a servicing fee over the life of the mortgage, and, in some cases, an excess interest rate spread over the life of the mortgage. The remaining mortgages are either securitized through the NHA MBS program or held directly by the Bank. The effect of selling the majority of the Bank's originated mortgages is that the Corporation transfers substantially all of the risks of ownership to third parties.

Despite the transfer of credit risk on these mortgages, the Bank remains focused and committed to credit quality, and it maintains stringent underwriting and robust quality assurance processes. The resulting high credit quality of the Bank's MUA contributes to the strong wholesale demand from institutional investors for its prime mortgages, and during 2016 the Bank entered into contracts with two new investors. Typically the investors commit to the purchase of prime residential mortgages at the point of the Bank's mortgage commitment. Through these sales the Corporation mitigates its exposure to both interest rate risk and liquidity risk. Much less frequently, the Bank may sell funded prime insured loans on a whole loan basis. These sales may expose the Corporation to short-term interest rate risk and liquidity risk, which are within its risk limits.

Street Capital Bank is also an approved issuer of NHA MBS and an approved seller under the CMB program, and therefore can access the securitization market directly as a secondary source of liquidity for prime insured mortgages. While direct securitization of prime insured mortgages can be more profitable over the life of the mortgage, in the absence of a secondary transaction, such as the sale of the interest only strip, the underlying mortgages remain on the Bank's balance sheet and attract regulatory capital in the calculation of the leverage ratio prescribed by OSFI. Since the Bank can earn a better rate of return on capital on its uninsured mortgage product, and on its planned credit card products, the Corporation does not intend to make prime insured mortgage securitization a

major part of its funding model. However, the Bank may, on occasion, securitize prime insured mortgages and sell the interest only strips, up to any external limits imposed, when this is deemed an efficient use of capital.

The Bank outsources the servicing of its MUA to third party providers, but continues to administer the mortgages, and therefore remains the point of contact with borrowers throughout the mortgage term. This ongoing customer relationship is a key part of the long term growth, profitability and recognition of the Street Capital Bank brand, since it promotes renewals, which are highly profitable due to their much lower acquisition costs compared to new mortgages. It additionally provides potential cross-sell opportunities for new product launches as the banking business expands. Mortgage renewals are an important part of the Bank's business model given their higher profitability, and the Bank targets a renewal rate of approximately 75 - 80%, in line with the industry norm. Street Capital Bank expects to achieve higher overall margins as mortgage renewals become a greater part of its mix of business.

In February 2017, in connection with beginning operations as a Schedule 1 bank, Street Capital Bank became a member of the Canadian Deposit Insurance Corporation ("CDIC") and began accepting CDIC-insured deposits. Deposit products are offered through a network of licensed investment dealers and include one to five year guaranteed investment certificates ("GICs") and a 90 day cashable GIC, all at competitive interest rates.

The Bank has relatively modest plans for uninsured lending origination in 2017, with increasing targets into 2018 and beyond. The deposit base referenced above will be used to fund the Bank's uninsured residential mortgage lending product, which will create an on-balance sheet lending base that will generate recurring net interest income. This mortgage product, which will be originated through the Bank's network of high quality mortgage brokers, serves a growing segment of quality, but underserved, borrowers who may not qualify for a prime insured residential mortgage, such as new immigrants and self-employed individuals.

Additionally, during 2017 the Bank will focus on infrastructure and the development of a compelling credit card offering to be launched in 2018. The product will initially be offered to both qualifying borrowers in the current base of approximately 130,000 customers, and to new mortgage clients.

Although the Bank's market share and its gains on sale of mortgages have increased overall, year over year, its quarterly operating results tend to fluctuate due to the seasonal nature of its core business. Mortgage originations tend to follow seasonal housing market trends, where the spring and summer markets outperform the fall and winter ones, generally leading to relatively higher gains on sale in Q2 and Q3 compared to Q4 and Q1.

The Bank's current mortgage products, and the additional products and services that it plans to introduce, compete with similar products of banks, insurance companies and other lenders. There are no other significant factors with respect to the Corporation's competitive environment.

The following table sets out the Corporation's consolidated results of operations for the three years ended December 31, 2014, 2015 and 2016.

<i>(in thousands of \$ except per share data and as otherwise defined)</i>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	\$	\$	\$
<b>Revenue</b>			
Net gain on sale of mortgages	56,484	76,068	<b>68,413</b>
Net interest and other income (loss)	5,788	(908)	<b>(141)</b>
<b>Total revenue</b>	<b>62,272</b>	<b>75,160</b>	<b>68,272</b>
<b>Expenses and fair value adjustments</b>			
Operating expenses	37,792	42,933	<b>46,770</b>
Restructuring expenses (recoveries)	-	50,240	<b>(813)</b>
Fair value (appreciation) depreciation	(26,983)	11,892	<b>2,476</b>
<b>Income (loss) before income taxes, discontinued operations and non-controlling interest</b>	<b>51,463</b>	<b>(29,905)</b>	<b>19,839</b>
Income taxes	7,045	6,835	<b>6,187</b>
<b>Income (loss) from continuing operations</b>	<b>44,418</b>	<b>(36,740)</b>	<b>13,652</b>
Income (loss) from discontinued operations	(11,594)	17	<b>510</b>
Net (income) loss attributable to non-controlling interest	(19,895)	6,688	<b>2,104</b>
<b>Net income (loss) attributable to shareholders</b>	<b>12,929</b>	<b>(30,035)</b>	<b>16,266</b>
<b>Basic and diluted net income (loss) per share</b>			
Continuing operations	0.25	(0.27)	<b>0.13</b>
Discontinued operations	(0.12)	0.00	<b>0.00</b>
<b>Basic and diluted net income (loss) per share</b>	<b>0.13</b>	<b>(0.27)</b>	<b>0.13</b>
<b>Adjusted net income</b>	<b>17,435</b>	<b>23,773</b>	<b>16,360</b>
<b>Adjusted net income per share</b>	<b>0.17</b>	<b>0.21</b>	<b>0.13</b>
<b>Return on equity</b>	<b>12.4%</b>	<b>(25.9%)</b>	<b>12.8%</b>
<b>Adjusted return on equity</b>	<b>16.7%</b>	<b>20.5%</b>	<b>12.9%</b>
<b>Net gain on sale as a % of mortgages sold</b>	<b>0.73%</b>	<b>0.84%</b>	<b>0.73%</b>
<b>Mortgages under administration (in billions of \$)</b>	<b>21.59</b>	<b>24.75</b>	<b>27.70</b>
<b>Mortgage sales (in billions of \$)</b>	<b>7.75</b>	<b>9.04</b>	<b>9.37</b>
<b>Renewal volumes (as a % of total sales)</b>	<b>11.5%</b>	<b>19.6%</b>	<b>15.3%</b>

*Note: please see the section Non-GAAP Measures, included in the MD&A referenced above, for further detail and numerical reconciliations of Non-GAAP measures to the most directly comparable measure specified, defined or determined under the GAAP presented in the Company's financial statements. The Non-GAAP measures are intended to provide insight into the Corporation's core operating business (the Bank) by removing the items associated with the Corporation's legacy businesses, including non-recurring items.*

## **Risk Factors and Risk Management**

An investment in the Corporation's securities involves a number of risks. The Corporation is exposed to various types of risks owing to the nature of its business activities, and like other financial institutions, it is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may influence an investor to buy, sell or hold shares in the Corporation. Business risks include strategic, credit, liquidity, interest rate, investment, operational, reputational and regulatory and legislative risk. The Corporation has established policies, processes and frameworks to measure and monitor the risks. The Board of Directors and the Bank's Enterprise Risk Management Committee play an active role in monitoring the Corporation's key risks and in determining the policies and limits that are best suited to manage these risks. The policies are reviewed and approved by the Board of Directors at least annually. Additional risks and uncertainties not currently known to the Corporation, or that the Corporation currently considers immaterial, may also have a material adverse effect on the Corporation's business, financial condition, or results of operations. Many of these risk factors are beyond the Corporation's direct control.

The key risks faced by the Corporation and the way in which the Corporation manages them can be found in the MD&A referenced above. The Corporation cautions that the discussion of risks is not exhaustive. When considering whether to purchase common shares of the Corporation, investors and others should carefully consider these factors as well as other uncertainties, potential events, and industry- and Corporation-specific factors that may impact the Corporation's future results.

## **Employees**

As at December 31, 2016, the Corporation and its subsidiaries employed approximately 243 employees, all of whom are employed by Street Capital Bank.

## **Litigation**

The Corporation, from time to time, is involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Corporation is not aware of any pending or threatened proceedings that would have, or during 2016 could have had, a material adverse effect on the consolidated financial condition or future results of the Corporation.

## **Supervision and Regulation**

As of February 1, 2017 the Corporation's operating subsidiary, Street Capital Bank of Canada, became a federally regulated Schedule I Bank. As such the Bank is supervised by OSFI and its activities are governed by the *Bank Act*, which prohibits the Bank from engaging in or carrying on any business other than the business of banking, except as specifically permitted.

OSFI is required to examine the affairs and business of each institution governed by the *Bank Act* to ensure compliance therewith and to ensure that each bank is in sound financial condition. OSFI is responsible to the Minister of Finance and its examination reports are submitted to the Minister.

The Bank is also subject to regulation by the CDIC which insures certain deposits held at the member institutions, and by the Financial Consumer Agency of Canada ("**FCAC**"). The FCAC is responsible for enforcing the Financial Consumer Agency of Canada Act, and the consumer-related provisions of the federal statutes that govern financial institutions, which includes the *Bank Act* and its regulations.

The Corporation is also subject to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* which applies to all federally regulated financial institutions in Canada and sets out the expectations and obligations on financial institutions related to detecting and deterring money laundering and the financing of terrorist activities.

## **SECURITIES OF THE CORPORATION**

### **Capital Structure**

The authorized capital stock of the Corporation consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

#### *Common Shares*

The Corporation is authorized to issue an unlimited number of common shares. As of December 31, 2016, the Corporation had 121,531,794 common shares issued and outstanding. Holders of common shares are entitled to one vote per share at meetings of shareholders of the Corporation, to receive dividends if and when declared by the Board of Directors, subject to the prior rights of holders of any preferred shares and any other shares ranking in priority to the common shares and to receive the remaining property and assets of the Corporation upon its dissolution or winding-up, subject to the rights of shares having priority over the common shares.

#### *Preferred Shares*

The Corporation is authorized to issue an unlimited number of preferred shares, issuable in series, 12,000,000 preferred shares, series A and an unlimited number of preferred shares, series B, none of which are outstanding at December 31, 2016. If issued, each series of preferred shares shall consist of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the Board of Directors prior to the issuance thereof. In addition to any voting rights the holders of series A shares may have under applicable law, on all matters submitted to a vote of holders of common shares, a holder of series A shares will be entitled to the number of votes equal to the number of common shares into which the series A shares are convertible on the record date for such vote. In addition to any voting rights the holders of series B shares may have under applicable law, on all matters submitted to a vote of holders of common shares, a holder of series B shares will be entitled to one vote per series B share. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the preferred shares are entitled to preference over the common shares.

### **Market for Securities**

The Corporation's common shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "SCB".

The Corporation's common share trading price and volume for 2016 on a monthly basis on the Toronto Stock Exchange, in Canadian dollars, was as follows:

<b>Month</b>	<b>High \$</b>	<b>Low \$</b>	<b>Trading Volume (shares)</b>
January	1.42	1.09	213,245
February	1.35	1.10	218,134
March	1.40	1.12	1,365,042
April	1.42	1.19	661,479
May	1.40	1.18	1,141,105
June	1.31	1.18	461,701
July	1.50	1.23	745,314
August	1.66	1.37	990,016
September	1.85	1.56	1,216,720
October	1.82	1.31	1,733,857
November	1.81	1.38	1,218,199
December	2.44	1.64	1,991,138

## **Dividends**

There is no restriction on the Corporation's ability to declare dividends, except as described below. The declaration and payment of dividends is decided by the Board of Directors from time to time based upon and subject to the Corporation's earnings, financial requirements and other conditions prevailing at the time. The Corporation's wholly owned subsidiary, Street Capital Bank, has regulatory capital requirements stipulated by OSFI that must be met before dividends can be declared and paid. Its ability to pay dividends is also constrained by certain financial covenants associated with its credit facilities.

There were no dividends declared or paid in 2015 or 2016. A special dividend-in-kind was declared on March 20, 2014 and paid on April 30, 2014, to the Corporation's shareholders of record as at April 1, 2014, in the amount of approximately 0.2084 shares of Heritage Global Inc. for each Street Capital Group Inc. share owned on the record date. The dividend comprised all 20,644,481 shares of Heritage Global Inc. owned by the Corporation.

## Securities Subject to Contractual Restriction on Transfer

Designation of class	Number of securities that are subject to a contractual restriction on transfer	Percentage of class
Common Shares	20,000,000 (1)	16.5%

Note:

- (1) Pursuant to a share purchase agreement dated May 13, 2015 which can be found on SEDAR at [www.sedar.com](http://www.sedar.com) (the "**Share Purchase Agreement**"), subject to certain exceptions as set out in the Share Purchase Agreement, the shares listed above are held by members of the Corporation's management, and may only be transferred or sold as follows: (i) 25% of the shares may be transferred on or after June 1, 2017; (ii) 50% of the shares may be transferred on or after June 1, 2018; and (iii) 100% of the shares may be transferred on or after June 1, 2019.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set forth under "*Securities Subject to Contractual Restriction on Transfer*", to the best of management's knowledge, there are no proposed transactions, nor have there been any transactions within the last three fiscal years, which in either case have materially affected or will materially affect the Corporation in which any of the Corporation's officers or directors or their affiliates had or has any material interest, direct or indirect.

## TRANSFER AGENT & REGISTRAR

The transfer agent and registrar for the Corporation's common shares is Computershare Investor Services Inc., located in Toronto, Ontario, Canada.

## DIRECTORS AND OFFICERS

All directors' terms of office will expire at the next annual meeting of shareholders unless re-elected. The information regarding the Corporation's directors, including principal occupation or employment at present and within the past five years is as follows:

**Allan Silber**, Ontario, Canada – Chairman of the Board; former President and Chief Executive Officer of the Corporation until June 17, 2015; Director of the Corporation since August 2, 1979.

**W. Ed Gettings**, Ontario, Canada – Director and Chief Executive Officer of the Corporation since June 18, 2015; Chief Executive Officer of Street Capital Bank since May 30, 2007.

**Paul Vessey**, Ontario, Canada – Director of the Corporation since June 21, 2011; recently retired as TD Bank Group's Executive Vice President, US Product Management, Personal and Commercial Banking. Prior to TD, he was Chief Operating Officer of Visa USA Inc. He also served in senior executive positions at CIBC as well as at American Express Canada. Chair of the Governance, Conduct, Review and Compensation Committee (the "**GCRC Committee**") and member of the Audit Committee.

**Morris Perlis**, Ontario, Canada – Director of the Corporation since June 18, 2015; former Executive Vice Chairman of the Corporation. Member of the GCRC Committee.

**Ronald Appleby**, Ontario, Canada – Director of the Corporation since June 19, 2007; employed as a partner of Robins Appleby LLP since 1973. Member of the Audit Committee and GCRC Committee.

**Lea Ray**, Ontario, Canada – Director of the Corporation since June 18, 2015; Chartered Professional Accountant and former executive, Vice President Corporate Finance, of Warner Bros. Entertainment Canada Inc. Chair of the Audit Committee and member of the Enterprise Risk Management Committee of Street Capital Bank.

**Ron Lalonde**, Ontario, Canada – Director of the Corporation since June 18, 2015; former Senior Executive Vice President, Technology and Operations at CIBC. Chair of the Enterprise Risk Management Committee of Street Capital Bank.

**Tom Bermingham**, Ontario, Canada – Director of the Corporation since June 18, 2015; Chartered Professional Accountant; formerly Vice President Finance and Treasurer, Bank of Montreal; formerly Chief Risk Officer, Continental Bank of Canada; Consultant. Member of the Enterprise Risk Management Committee of Street Capital Bank.

Information regarding the Corporation's executive officers who are not directors, including their principal occupation or employment at present and within the past five years is as follows:

**Lazaro DaRocha**, Ontario, Canada President of the Corporation since June 18, 2015; President of Street Capital Bank; formerly the Chief Finance and Risk Officer of Street Capital Bank.

**Marissa Lauder**, Ontario, Canada – Chief Financial Officer of the Corporation and Street Capital Bank since June, 15, 2015; previously was Senior Vice President, Risk Management at Home Capital Group and Senior Vice President, Finance at Home Capital Group.

**Adam Levy**, Ontario, Canada – Executive Vice President and Chief Compliance Officer of the Corporation; and Executive Vice President and Chief Compliance Officer of Street Capital Bank since March 1, 2012, formerly the Senior Vice President Business Development and Corporate Counsel for the Corporation.

**Gary Taylor**, Ontario, Canada – Senior Vice President and Chief Risk Officer of Street Capital Bank since June 18, 2015; formerly the Vice President, Risk Management of Street Capital Bank since June 2013 and prior the Vice President, Asset Management for the Corporation.

**Alfonso Casciato**, Ontario, Canada – Senior Vice President, Sales of Street Capital Bank since May 1, 2015, formerly the Vice President - Credit Operations of Street Capital Bank.

**Martin Frenette**, Ontario, Canada – Senior Vice President, Treasury for Street Capital Bank since October 21, 2013; previously was responsible for management of key capital market functions at Bank of America Merrill Lynch.

**Stephen Kissuk**, Ontario, Canada - Vice President, Mortgage Credit of Street Capital Bank since June 15, 2015; previously was Sr. Credit Manager overseeing Western Canada Operations of Street Capital Bank.

**Janne Farias**, Ontario, Canada – Vice President and Chief Internal Auditor of Street Capital Bank since May 4, 2015; previously was Assistant Vice President, Home Trust Company. Home Capital Group; and Director of Internal Audit and ERM for AGF Management Limited.

**Michael Dressler**, Ontario, Canada – Vice President, Strategy and Operations of Street Capital Financial since April 1, 2016; previously Vice President, Finance of Street Capital Bank.

**Sonia Aggelakis**, Ontario, Canada – Vice President, Human Resources of Street Capital Bank since July 11, 2016; previously was Director, Human Resources with Louis Berger since 2014, and prior to that was a Director, Human Resources with Aon Risk Solutions since 2012.

As of December 31, 2016, the directors and executive officers of the Corporation, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 34,855,376 common shares, representing approximately 28.7% of the outstanding common shares of the Corporation.

### **INTERESTS OF EXPERTS**

Ernst & Young LLP, Chartered Accountants, are the auditors of the Corporation and prepared an independent auditor's report dated March 7, 2017 in respect of the Corporation's consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of operations and comprehensive income, changes in equity and cash flows for the years then ended. Ernst & Young LLP has advised that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

### **AUDIT COMMITTEE INFORMATION**

The current members of the Audit Committee are Lea Ray (Chair), Ronald Appleby and Paul Vessey. The Corporation has determined that each member of the Audit Committee is independent and all are financially literate. Ms. Ray is a Chartered Professional Accountant and is a member of the Institute of Corporate Directors. Mr. Appleby has been a partner of Robins Appleby LLP since 1973, specialising in taxation and estate planning. Mr. Vessey is a retired senior executive in the financial services industry.

#### **Audit Committee Mandate**

A copy of the Corporation's Audit Committee Mandate is attached as Exhibit A.

## External Audit Fees

The following table sets forth external auditor service fees by category for the years ended December 31, 2016 and 2015 (\$000s):

	<u>2016</u>	<u>2015</u>
	\$	\$
Audit fees	<b>295</b>	300
Audit – related fees	<b>9</b>	36
Tax fees	-	-
All other fees	<b>4</b>	9
	<u><b>308</b></u>	<u>346</u>

Audit-related fees include a review for specified audit procedures related to Street Capital Bank's securitization activities. Tax fees include services rendered for tax advice and planning. All other fees relate to Canadian Public Accountability Board fees and services rendered in connection with Street Capital Bank's bank license application.

## ADDITIONAL INFORMATION

Additional financial information is provided in the Corporation's financial statements and MD&A for its most recently completed fiscal year. A copy of such documents may be obtained from the Secretary of the Corporation, upon written request. They may also be accessed via the Corporation's website at [www.streetcapitalgroup.ca](http://www.streetcapitalgroup.ca). In addition, such documents and additional filings made by the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

As well, additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, is contained in the Corporation's information circular for its June 15, 2016 annual and special shareholders' meeting and will be contained in the information circular which will be filed in connection with its annual meeting scheduled for June 7, 2017.

## Audit Committee Mandate

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### Purpose

To establish the authority, role and accountability of the Audit Committee (the “Audit Committee”) of Street Capital Group Inc. (“Street Capital”) and of Street Capital Bank of Canada (“Street Capital Bank”), and its affiliated entities (collectively referred to as the “Company”).

The Audit Committee has overall responsibility for performing the duties for Street Capital Group as set out in the *Business Corporations Act* (Ontario) (the “OBCA”). The Audit Committee has overall responsibility for performing the duties for Street Capital Bank as set out in the *Bank Act* (the “Act”).

The Audit Committee will assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities in relation to:

- The integrity of the Company’s financial statements and financial reporting process
- The integrity of the Company’s systems of internal accounting and financial controls
- The internal and external auditing, including the qualifications and independence of the outside auditor and the performance of the Company’s internal audit services function
- legal and regulatory compliance
- Fraud risk management
- Whistleblowing procedures
- Other Audit Committee functions set forth in this mandate

### Membership and Organization

#### **Membership**

The composition and organization of the Audit Committee, including the number, qualifications and remuneration of committee members, the number of meetings, Canadian residency requirements, quorum requirements, meeting procedures and notices of meetings as are established by applicable legislation and the by-laws of the Company.

The Audit Committee will consist of at least three independent directors appointed by the Board. The Board may at any time remove or replace any member of the Audit Committee at its discretion. A member of the Audit Committee ceases to be a member upon either his/her resignation or removal from the Audit Committee or upon ceasing to be a director of the Board.

The Board will appoint a member of the Audit Committee as its Chair annually. The Audit Committee will appoint one of its members as Secretary.

Members of the Audit Committee will be financially literate and will have relevant financial industry and risk management expertise to enable them to fully understand the risks undertaken by Street Capital. At least one member of the Committee will have financial and accounting expertise consistent with criteria established by the Board. In making such determination of expertise, the Board will review the individual’s executive, professional,

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educational, or regulatory experience in financial, auditing, accounting, or banking matters.

### **Independence**

“Independence” is a core principle of the Company’s governance policies and procedures. In the context of its governance policies and procedures, with a small Board and management structure, the Company understands “demonstrable independence” as a quality that is demonstrated through practices and behaviours, and not necessarily defined by employment relationships or affiliations. Where independence requirements are defined by statute or rule, such as in respect of Board composition, the statutory requirement is observed.

### **Meetings, Attendance and Preparation**

The Audit Committee will meet no less than four times during each financial year. A quorum of the Audit Committee shall consist of a majority of the Directors, and a majority of Directors participating in any meeting shall be resident Canadians. Members of the Audit Committee are expected to attend meetings of the committee and to review related meeting materials in advance.

### **Responsibilities and Duties**

#### **Financial Reports**

The Audit Committee is responsible for reviewing the integrity of Street Capital’s financial statements and disclosures. In this regard, the Audit Committee will:

1. review the quarterly unaudited and annual audited financial statements of Street Capital, the external auditor’s report thereon (in the case of audited reports) and the related management’s discussion and analysis of Street Capital’s financial condition and operations, to determine whether they fairly reflect, in all material respects and in accordance with Canadian generally accepted accounting principles, the financial condition, operations and cash flows of Street Capital
2. review the quarterly unaudited and annual audited financial statements of Street Capital Bank, the external auditor’s report thereon (in the case of audited reports) to determine whether they fairly reflect, in all material respects and in accordance with Canadian generally accepted accounting principles, the accounting and disclosure requirements of from the Office of the Superintendent of Financial Institutions (“OSFI”), the financial condition, operations and cash flows of Street Capital Bank
3. upon completion of the review in item (1) and (2) above, recommend for Board approval the interim unaudited and annual consolidated audited financial statements of Street Capital and Street Capital Bank
4. review critical accounting and other significant estimates and judgments underlying the financial statements as presented by management
5. meet periodically with management, with the Chief Internal Auditor and the external auditor in separate executive sessions to review the financial statements and have such other direct and independent interaction with such persons from time to time as the members of the Audit Committee deem appropriate
6. review any audit report and the external auditor’s report
7. review such investments and transactions that could adversely affect the well-being of the Company as the auditor or auditors or any officer of the Company may bring to the attention of the Audit Committee

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8. review management's report on the effectiveness of internal control over financial reporting
9. oversee the credit risk provisioning program by reviewing and monitoring the reports generated and actions taken and/or recommended by the Chief Financial Officer
10. report on the financial performance against plan, and the Company's performance against key performance indicators to the Board on a quarterly basis
11. keep abreast of recent developments in financial reporting and regulatory actions
12. engage independent counsel or other advisors, as necessary, and set the compensation for any advisors
13. examine and consider such other matters related to the above duties as directed by the Board or as the Audit Committee, in its discretion, determine to be desirable

**External Auditor**

The Audit Committee will be responsible for overseeing the work of the external auditor, which will report directly to the Audit Committee. In this regard, the Audit Committee will:

1. recommend the appointment, reappointment, removal and remuneration of the Company's external auditor, subject to approval of the Board and shareholders
2. review and agree to the scope and terms of the external auditor's engagement and approve the engagement letter prior to it being signed
3. at least annually, report to the Board on the effectiveness of the external auditor, which review will evaluate the external auditor's qualifications, performance, fees and independence, including a review and evaluation of the lead audit partner
4. obtain from the external auditor a formal written declaration of all relationships between the external auditor and the Company, which will include confirmation that the external auditor is independent within the meaning of the Rules of Professional Conduct/Code of Ethics of the provincial institute or order of chartered accountants to which the external auditor belongs; if necessary, a governance framework will be implemented to address any concerns raised by interested persons or parties about the independence of the external auditor
5. review the annual audit plan for an appropriate, risk-based approach that addresses major areas of concern to the Company, and discuss with the external auditor any material changes to the scope of the plan
6. establish criteria for the types of non-audit services that the external auditor may provide and pre-approve any retainer relating to such non-audit services
7. at least annually, obtain and review a report by the external auditor describing its internal quality-control procedures and any material issues raised by its most recent internal quality-control review, peer review or by any inquiry or investigation by governmental or professional authorities within the preceding three years respecting one or more independent audits carried on by the external auditor and any steps taken to deal with any of these issues
8. receive all material correspondence between the external auditor and management relating to audit findings and understands any concerns and responsibilities by the external auditor for generally accepted auditing standards
9. review with the external auditor the quality of the financial statements, as appropriate, to be satisfied that the financial statements represent fairly the financial position, operations and cash flow of Street

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Capital and Street Capital Bank and extent to which accounting practices being used are conservative and appropriate

10. discuss with Senior Management and the external auditor the results of the audit, the annual and quarterly financial statements and related documents, the audit report and any related concerns the external auditor may have. This should include, but is not limited to:
  - Key areas of risk for material misstatement of the financial statements, including critical accounting estimates or areas of measurement uncertainty
  - Areas of significant auditor judgment, including accounting policies, accounting estimates and financial statement disclosures
  - Whether the external auditor considers estimates/models to be “aggressive” or “conservative” within an acceptable range and, specifically, where there are options, the rationale for the final valuation decision and if the option is consistent with industry practice, significant or unusual transactions (e.g. restatements)
  - Difficult or contentious matters noted during the audit or other audit matters that would typically be discussed with an engagement quality control reviewer
  - Changes in the audit scope or strategy
  - Internal control deficiencies identified during the course of the audit
  - Areas of financial statement disclosures that could be improved
  - The role of other audit firms (e.g. with respect to the audit of any Street Capital subsidiaries)
11. hold regular in camera meetings with the external auditor and the Chief Internal Auditor to understand all relevant issues, including issues that may have arisen between the external auditor and management
12. resolve any disputes between the external auditor and management
13. oversee the usage of audit services
14. review the Basel Committee on Banking Supervision guidance on external audits and ensure Street Capital’s practices meet this guidance to ensure quality audits<sup>1</sup>
15. discuss systemic audit quality issues raised in Canadian Public Accountability Board (“CPAB”) public reports with external auditors and to enquire whether the audit file of Street Capital has been selected by the CPAB and whether there have been any significant inspection findings specific to Street Capital’s audit
16. review guidance resources issued by Chartered Professional Accountants of Canada (“CPA Canada”) and utilize this guidance and tools as part of the overall assessment of the external auditor.<sup>2</sup>

**Internal Audit Function**

The Audit Committee will be responsible for monitoring internal audits and reviewing the Company’s internal controls over financial reporting and to validate that auditing resources are acquired economically and used efficiently. In this regard, the Audit Committee will:

1. confirm the appointment and replacement of the Chief Internal Auditor

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<sup>1</sup> BCBS *External audits of banks* (April 2014) and *Core Principles for Effective Banking Supervision* (September 2012).

<sup>2</sup> CPA Canada, CPAB and the Institute of Corporate Directors have collaborated to publish guidance and tools for audit committees in January 2014: *Oversight of the External Auditor*; *Annual Assessment of the External Auditor*; and *Periodic Comprehensive Review of the External Auditor*.

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2. review the annual performance appraisal of the Chief Internal Auditor
3. review and discuss with the Company's Chief Internal Auditor the responsibilities and overall scope of the internal audit department, including approval of the annual audit plan, as well as other factors that may impact the effectiveness and timeliness of audit reviews
4. review and discuss with the Chief Internal Auditor the results of significant audit reviews, including company-wide audits where the scope includes Street Capital or the reviews otherwise contain findings that are significant to Street Capital's compliance program or internal controls, and reports by management regarding their action plans to implement Internal Audit's recommendations
5. review and discuss with the Chief Internal Auditor the department's reporting structures that optimize auditors' independence, experience and qualifications of senior audit staff on an annual basis
6. review and discuss with the Chief Internal Auditor the department's own quality control procedures and any external review of the internal auditing function which has been conducted for compliance with the Institute of Internal Auditors' International Standards for Professional Practice of Internal Auditing
7. review and discuss with the Chief Internal Auditor the operation of the Company's' Whistleblower Code as well as complaints relating to Street Capital made under that policy
8. review and evaluate the coordination of the audit effort between internal and external audit to assure completion of coverage, reduction of redundancies, and the effective use of audit resources

### **Internal Controls**

In overseeing the Company's internal control procedures and management's reporting obligations in respect thereof, the Audit Committee will:

1. require management to implement and maintain appropriate internal control policies, including but not limited to internal control over financial reporting and disclosure, and review, on a regular and ongoing basis, these internal control policies
2. at least annually, obtain and review a report from management with respect to internal control policies and processes, including any material issues relating to those policies and processes
3. at least annually, review management's assessment of the adequacy of internal controls at material outsourcers
4. monitor remediation action plans for significant control issues

### **Legal and Regulatory Compliance**

The Audit Committee will:

1. review with the President an annual report on all material litigation matters that affect the Company's financial statements
2. confirm the appointment and the replacement of the Chief Compliance Officer
3. review the Legislative Compliance Framework annually
4. review with the Chief Compliance Officer the adequacy of the Company's policies and processes for compliance with legal and regulatory requirements
5. review with the Chief Compliance Officer all regulatory reports and their disposition

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### **Anti-Money Laundering and Anti-Terrorist Financing**

The Audit Committee will:

1. confirm the appointment and the replacement of the Chief Anti Money Laundering Officer
2. approve the Anti Money Laundering and Anti-Terrorist Policy
3. review with the Chief Anti Money Laundering Officer the adequacy of the Company's policies and processes for compliance with the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and all related regulations
4. review with the Chief Anti Money Laundering Officer all regulatory and internal audit reports and their disposition with respect to Anti Money Laundering and Anti-Terrorist matters.
5. report to the full Board in accordance with its mandate with respect to Anti Money Laundering and Anti-Terrorist matters.

### **Whistleblowing Procedures**

The Audit Committee will review and approve the procedures for the receipt, retention and treatment of complaints received by the Company from employees or others, confidentially and anonymously, as outlined in the Company's Whistleblower Code.

### **Fraud Risk Management**

The Audit Committee will:

1. Establish procedures relating to fraud
2. Review fraud reports and initiating, conducting and/or assigning investigations as required
3. Approve steps and actions in response to systemic fraud issues identified in relation to material identified breaches
4. Request internal and/or external assistance from specialists, as required
5. Review and monitor fraud investigations and make decisions on action plans
6. Report to the full Board in accordance with its mandate

### **Reports**

The Audit Committee will report the proceedings of each meeting and all recommendations made by the Audit Committee at such meeting at the next meeting of the Board following the meeting of the Audit Committee. In urgent matters, where time is of the essence, the Audit Committee's report should be communicated to the directors by the close of the following business day.

The Audit Committee will keep all other committees of the Board apprised of all matters relevant to the mandate of each such committees of the Board.

### **Annual Review and Assessment**

The Audit Committee will conduct an annual review on the effectiveness of the external auditor and self-assessment of the performance of the Audit Committee and each of its members and the adequacy of this

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mandate and will make recommendations to the Board after consulting with Senior Management, internal and external auditors, if appropriate, on changes necessary to improve its overall effectiveness.

The following activities should take place as part of the annual assessment process:

1. question the Board about its satisfaction with the Audit Committee's performance
2. perform a benchmark comparison of the Audit Committee's activities to leading practices
3. compare the Audit Committee's activities to the mandate and any other objectives set by the Board
4. assess the Audit Committee's work against its objectives and plans and present its findings to the Board

### **Mandate Review**

This mandate will be reviewed and approved by the Board at least annually.