**Velocity Trade Capital Ltd.**

<u>Best Execution and Order Handling Policy</u>

October 2019

**Velocity's Best Execution Obligation**

IIROC Dealer Member Rule 3300 (Rule 3300) - Best Execution of Client Orders, came into effect in January 2018. Rule 3300 consolidates under a single rule, the prior UMIR Rule 5.1 on Best Execution and the Dealer Member rule on Fair Pricing of OTC Securities.

Best execution is the requirement to take all reasonable steps to obtain the best possible results when executing our client's orders.

Factors considered when determining best execution are:

- Price;
- Speed of execution;
- Certainty of execution; and
- The overall cost of the transaction, when costs are passed onto the client.

Velocity policies and procedures consider the above factors when: 1. considering the Firm's routing strategies for client orders; 2. considering fair pricing of opening orders; 3. considering execution when not all marketplaces are open; 4. how order and trade information from all appropriate marketplaces, including unprotected marketplaces and foreign exchanges, are taken into account when considering execution of client orders; and 5. factors and cost when executing client orders on both unprotected marketplaces and foreign marketplaces.

Velocity traders will also consider the following factors when executing a client order:

- The size of the order;
- The direction of the market for the security;
- The depth of the posted market;
- The last sale price and the prices and volume of previous trades; and
- The general liquidity of the security.

**Hours of Operation**

Velocity generally operates and executes orders between the hours of 9:30 am and 4:00 pm ET. Velocity does this because it believes executing an order during the time when the principal marketplaces are open will give the client the fairest price and greatest liquidity. However, Velocity, at the client's request will be available to execute orders before 9:30 am, but generally will do so for securities exclusively listed on a marketplace that opens before 9:30 am. Orders normally received prior to 9:30 am will be booked to either the TSX or TSX-Venture exchange to participate in their opening pricing auction. Likewise, Velocity

will, at a client's request execute orders in the after-hours trading session, but this is not considered a normal practice. For more details on client order type, please see Types of Orders at the end of this policy.

**Client Instructions**

Velocity will always consider client instructions when executing an order. Most client orders are executed by algorithm trading which typically include VWAP, TWAP, and participation orders. However, client instructions cannot override the Firm's requirement to comply with the Order Protection Rule as outlined in National Instrument 23-101, which prohibits the trade through of better priced bids or offers. The Firm will also not allow a client order to cross or lock a marketplace by placing an executable order on a marketplace when it could be executed immediately on another marketplace. The Firm will also not enter or execute a client order that violates any other market conduct rule or securities law.

**Practices Not Allowed under Dealer Member Rule 3300**

Velocity will not undertake the following practices:

- Sending client orders in bulk to a foreign marketplace, if those securities are also listed on a Canadian marketplace;
- The Firm does not buy or sell OTC securities for its own account, all OTC trading, which is subject to restrictions is done on an agency basis;
- The Firm will not purchase or sell securities to a client as agent at an unfair or unreasonable commission.

**Intermediaries**

Most of Velocity's institutional client orders are executed through Virtu Financial algorithms (formerly ITG Securities). These orders are subject to Virtu's Smart Order Router ("SOR") which can direct orders to all protected and all unprotected Canadian marketplaces available to Canadian investment dealers. Velocity has many years of experience with Virtu's trading system and has confidence that Virtu provides a very robust Best Execution system. Velocity has obtained and will obtain annually a certificate of Best Execution from Virtu Financial. For more details about Virtu Financials' Best Execution Policy, please go to [https://www.virtu.com/uploads/documents/virtu-itg-canada-corp--best-execution-and-order-handling-disclosure-03062019.pdf](https://www.virtu.com/uploads/documents/virtu-itg-canada-corp--best-execution-and-order-handling-disclosure-03062019.pdf).

Velocity is not a member of any foreign exchange, so all trades on foreign exchanges are executed by other brokers (in Australia they are executed by a Velocity affiliate). For US and global trading Velocity uses Virtu Financial, SocGen (London), Instinet (New York), Clearpool (US trading only) and Citadel (US trading only). All these brokers are regulated and have their own best execution requirements under their own regulatory bodies. Velocity has obtained and will annually obtain Best Execution Certificates from each of these brokers. Copies of these brokers best execution policy can be found at the following website:

**Instinet LLC** - [https://www.instinet.com/statement-order-routing-and-execution-practices](https://www.instinet.com/statement-order-routing-and-execution-practices)

**Clearpool Group** - https://clearpoolgroup.com/solutions/venue-analysis/

**Citadel Securities LLC** - https://www.citadelsecurities.com/disclosures/mifid-ii-rts27-bestex-report/

**Societe Generale** - https://www.societegenerale.co.uk/en/legal-information/

## Over-the Counter Security Trading

Velocity generally does not participate in OTC trading, however from time to time, and at a client's request the Firm may initiate US PINK Sheet or Bulletin Board trades. The Firm will only trade in these securities in accordance with its carrying broker, Fidelity Clearing Canada ULC requirements, which requires only conducting liquidation sales in securities with minimum market capitalization, and price. The Firm will not initiate a new position in any of these OTC securities for a client. Trades are conducted by US dealers, who are subject to their own Best Execution requirements. The Firm will only charge a reasonable commission to cover its US trading costs and its own usual profit margin.

## Conflicts of Interest

Velocity is directly connected to the following marketplaces (see below) in Canada. Velocity does not have any ownership interest in any exchange or marketplace. Velocity may receive payment from various Canadian marketplaces for giving or taking liquidity, but fees are not a significant factor in determining where Velocity directs an order. Likewise, when sending an order to US marketplaces, Velocity does not currently receive any payment from the executing broker for directing the order to them.

Velocity is a member or participant of the following marketplaces:

| Marketplace | OPR status |
| --- | --- |
| CSE | Protected |
| Nasdaq CXC | Protected |
| Nasdaq CX2 | Protected |
| Omega ATS | Protected |
| TSX | Protected |
| TSX-Venture | Protected |
| Aequitas Lit-Book | Protected for Adquitas listed securities only |
| Lynx ATS | Unprotected |
| Aequitas NEO book | Unprotected |
| TSX Alpha | Unprotected |
| MatchNow | Unprotected |

Nasdaq CXS                          Unprotected

Velocity is not connected to Liquidnet because it has poor liquidity and in the Firm's estimation does not offer its clients a viable marketplace for trading. In the last four quarters, Liqudnet has executed less than 0.25% of value, volume and number of transactions executed on any Canadian marketplace. If this were to significantly change over a one-year period, Velocity would consider connecting to the marketplace.

**Best Execution Technology**

Velocity uses several different order execution systems. All of these systems use SOR. A SOR reviews all of the marketplaces in Canada and sprays an order to all marketplaces with the best bid or offer displayed. This is done to prevent marketplace participants from pulling an order once a bid or offer is filled on another marketplace.  Once a bid or offer is filled at that price, the SOR will spray the order to all the marketplace with the next best bid or offer until the order limit is hit or the order is filled. When the available quotes exceed the order volume, the order will be sent to a marketplace with a higher standing in the Firm's SOR rating table.

SOR rating tables are determined on the following criteria:

- The likelihood of available liquidity based on historical volume, value and transaction volume;
- Hit rate;
- Each marketplace's status under the Order Protection Rule (whether protected or not protected);
- Speed of execution, including whether a marketplace employs a speed bump;
- Certainty of execution;
- Reliability of Quotes; and
- Overall cost of the transaction.

If the client's order is not filled in full, the order will be booked on the principal marketplace, which for most stocks is the TSX or TSX-Venture Exchange. Orders in CSE and Aequitas exclusively listed securities will be posted to these exchanges.

Velocity generally does not switch the booking of a client order during the trading day. The only time this is done is when a booked marketplace declares self help. The client order will then be cancelled on that marketplace and moved to the next highest ranked marketplace that is available for trading.

Velocity directly executes on all Canadian marketplaces, except Liquidnet. Velocity will consider adding new marketplaces when those marketplaces are available for trading.

Unless the order is fully executed on one marketplace, client trade confirmations will generally indicate "Average Price – Details on Request". If the client wishes to know the specific marketplaces that their order was executed on, they can contact their Registered Representative who can provide a detailed fill report on a next day basis.

**Best Execution Training**

All Velocity sales and trading staff will receive best execution training at least annually. Traders may receive more in-depth training than Sales personnel as they deal directly with order execution. Any newly hired salesperson or trader will receive best execution training within one month of starting at Velocity.

**Internal Testing**

The Firm will conduct a periodic sample of client orders to determine if they received best execution. This will include the following:

- A sampling of unfilled Day and GTC orders;
- Execution rates of dark pools;
- Opening orders should be sampled to determine whether a fair price was achieved;
- Effectiveness of SOR settings;
- Marketplace liquidity analysis should also be conducted.

The Firm has access to Liquid Metrics, which is a program that allows both the Firm, and on request, its clients to review the execution performance for each order.

The results of this testing will be brought up at the Best Execution Committee meeting and will be filed together with the Committee's minutes for seven years.

**Best Execution Policies & Procedures Review**

The Firm's best execution policies and procedures will be reviewed by the Best Execution Committee at least annually or whenever there is a significant change in the Firm's trading environment, such as a new marketplace, the closing of an existing marketplace, or a significant change in a marketplace's functionality. The Firm will also review Canadian marketplaces volume, value and transaction tables, hit reports, any new regulations or rules, results of best execution testing, and comments from clients and Firm traders on their ability to execute on a specific marketplace. The Firm will also conduct a review whenever there is a significant change in the Firm's trading technology.

The Best Execution Committee is made up of the Head Trader, Head of Sales, and Chief Compliance Officer. The Committee will be responsible for making decisions around the Firm's Best Execution policy, including any changes to the Firm's SOR settings, testing procedures, and, if in the Committee's opinion changes to the SOR ranking or access to an additional marketplace would improve the Firm's Best Execution. The Committee's review will be documented, and any changes to the policy or the Firm's SOR settings will be documented in the meeting's minutes. A copy of the Best Execution Committee minutes will be sent to the Chief Executive Officer within two weeks of the meeting. Best Execution Committee minutes will be filed by the Chief Compliance Officer and kept for seven years.

**Types of Orders Velocity Accepts**

**Day Orders**

A Day Order is an order that is only valid on and for the day it is entered. Unless otherwise arranged, a Day Order will only be executable between the hours of 9:30 am and 4:00 pm, which is the operating hours for the primary marketplaces. If the order is received before 9:30 am it will be routed to the principal marketplace for execution, unless the order is only listed on another exchange, it will not be routed to an alternate exchange or marketplace. If the order is received after 9:30 am it will be routed by Velocity's Smart Order Router ("SOR") to the marketplace with the best bid or offer for execution. If it is not immediately executable, it will be routed to the principal marketplace for booking. For most securities this is either the TSX or the TSX-Venture exchanges. Any unexecuted portion of a Day Order will expire after 4:00 pm, and unless otherwise arranged will not be eligible to trade in the after-hours marketplace. The greater majority of Velocity's orders are Day Orders.

**Limit Orders**

A Limit Order has a specific minimum limit price. These orders may be executed at a better price, but cannot be executed below the specified price for a sell order, or above the specified limit price for a buy order. As with all orders, a Limit Order received prior to 9:30 am will not be executed until after 9:30 am, unless the client requests it. This order, if immediately executable will be routed to the best market by the Firm's SOR. It will then be booked to the principal marketplace for execution of the balance if not immediately executable.

**Good till Cancelled Orders ("GTC Orders")**

GTC Orders are orders that the client wishes to remain open for more than one day. The order may be open until a specific date to a maximum of 30 days or until the client cancels the order.  A GTC order like a Day Order will be routed through Velocity's SOR to the market with the best price for immediate execution. Any un-executed portion will be booked to the securities, principal marketplace. This order will remain at the principal marketplace unless moved by a trader or until cancelled. It is the responsibility of the client to know when a GTC Order is set to expire and contact their trader if they want to pull the order earlier or re-instate the order.

**Market Orders**

A Market Order is an order that is immediately executable at the best price available on any marketplace. The order will generally be immediately executed, unless there is insufficient liquidity in the marketplace to provide the client with a good execution. The Velocity trader will generally be in touch with the client to obtain their input as to the best way to execute the order. A Market Order received prior to 9:30 am will generally be booked to the principal marketplace to be executed at the opening price. If it is received during the trading day, it will be routed by the SOR to the best priced market for execution.

**Special Terms Order**

Special Terms Orders are orders with specific terms that are not immediately executable in a regular marketplace. Typically, a Special Terms Order has a non-standard settlement period. These orders will be posted to the Special Terms Marketplace on either the TSX or TSX-Venture exchange. A Special Terms Order will generally only be good from 9:30 am to 4:00 pm, unless placed as a GTC order.


**Market on Close Order**

A Market on Close Order ("MOC") must trade on the close at the calculated closing price of the primary marketplace. Currently only the TSX and TSX-Venture exchanges offer MOC facilities. Please note that this is an anonymous price facility. The execution price will not be known until after the order has been executed. Limit Orders are allowed, but of course may not be executed if they are away from the closing price.


**Stop Orders**

Stop Orders are orders to buy or sell a security when its price surpasses a particular price, typically to close out either a long or a short position. Client can enter two types of Stop Orders, a Market Stop Order or a Stop Limit Order. A Market Stop Order will turn the order into a market order once the trigger limit price has been touched, and the Stop Limit Order will turn into a limit order once the trigger price has been touched. Not all marketplaces support Stop Orders, currently only the TSX, TSX-Venture and CSE support Stop Orders. Stop Orders will be booked to one of these marketplaces until executable or they expire. Velocity, as a principally institutional dealer does not offer Stop Orders to its clients.


**Conclusion**

Velocity does not have any ownership interest in any marketplace, and it does not conduct client facilitation trading, so obtaining the best execution for client orders is in the best interest of Velocity and its employees. The Firm will always strive to provide the best execution and service to its clients.