Court File No. CV-15-530726

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)

BETWEEN:

THE CATALYST CAPITAL GROUP INC. and
CALLIDUS CAPITAL CORPORATION

Plaintiffs

and

VERITAS INVESTMENT RESEARCH CORPORATION and
WEST FACE CAPITAL INC.

Defendants

STATEMENT OF DEFENCE OF VERITAS INVESTMENT RESEARCH CORPORATION

1. The Defendant, Veritas Investment Research Corporation ("Veritas"), admits the allegations contained in paragraph 6 of the Statement of Claim.

2. Except as otherwise expressly admitted herein, Veritas denies each and every other allegation contained in the Statement of Claim, and puts the Plaintiffs to the strict proof thereof.

THE PARTIES

3. Veritas is Canada's leading independent equity research company, with headquarters in Toronto. Veritas provides knowledge and advice to its clients to assist them with investment decisions.

4. Veritas is not an investment dealer nor does it accept compensation from the companies it chooses to research. It does not sell securities and has no underwriting operations. It is therefore

able to provide conflict-free research. Veritas' success depends on its reputation for providing reliable and accurate analysis to its clients.

5. The Defendant, West Face Capital Inc. ("West Face"), is an investment management firm. As part of its business, West Face monitors and researches potential investments for the funds that it manages, including potential investments in publicly-traded entities like the Plaintiff, Callidus Capital Corporation. At no time has West Face ever been a client of Veritas.

6. The Plaintiff, The Catalyst Capital Group Inc. ("Catalyst"), is a private equity investment fund manager specializing in control and/or influence investments in distressed and undervalued Canadian companies. Newton Glassman is the Founder, Chief Executive Officer and an owner of Catalyst.

7. The Plaintiff, Callidus Capital Corporation ("Callidus"), is a publicly traded specialty debt lender that is majority owned by Catalyst. Mr. Glassman is also the Executive Chairman and Chief Executive Officer of Callidus.

8. Callidus provides financing to distressed, and typically private, companies that are unable to obtain adequate financing from the capital markets or through conventional lending institutions. Callidus became a publicly traded company in April 2014 following an initial public offering ("IPO"). Prior to its IPO, Callidus had been wholly-owned by funds managed by Catalyst. Since its IPO, Catalyst's funds have continued to own a majority of Callidus' outstanding common shares.

THE EQUITY RESEARCH INDUSTRY

9. The role of equity research is to assist investors by communicating information and analysis regarding publicly traded securities. The equity research industry serves the public interest by filling information gaps to help investors assess whether underlying risks and/or opportunities are accurately reflected in a company's valuation.

DECEMBER 17, 2014 MEETING WITH WEST FACE

10. On December 17, 2014, representatives of Veritas met with representatives of West Face for approximately an hour and a half. They discussed a number of topics, including a variety of publicly-traded companies, one of which was Callidus. With respect to Callidus, West Face told Veritas that it had concerns with some of the loans in Callidus' loan book.

11. West Face provided Veritas with information regarding Callidus' loans, as well as some links to public websites regarding bankruptcy and/or insolvency proceedings relating to some of Callidus' loans. West Face did not provide Veritas with any report on Callidus. Veritas did not enter into any agreement with West Face to defame the Plaintiffs. It did not conspire with West Face for any purpose.

THE VERITAS REPORT

12. In addition to the information it received from West Face, Veritas conducted its own research and identified various risks and concerns related to Callidus' business.

13. On April 16, 2015, Veritas published an investment research report with respect to Callidus (the "Veritas Report").

14. The analysis and opinions contained in the Veritas Report were based on Veritas' interpretation of available information and applicable accounting standards.

15. Veritas did not conspire with West Face or any other party. Veritas published the Veritas Report separately and independently of West Face. Veritas did not share its research or opinion on Callidus with West Face prior to the publication of the Veritas Report.

16. Veritas denies that it had any intention to harm the Plaintiffs. Veritas' research into Callidus was conducted in good faith based on available information and with the sole intention of providing information and analysis to its clients for the purpose of assisting them with their independent investment decisions.

VERITAS DID NOT DEFAME CALLIDUS OR CATALYST

17. Veritas denies that the statements complained of in paragraph 28 of the Statement of Claim are defamatory.

THE STATEMENTS COMPLAINED OF ARE SUBSTANTIALLY TRUE

18. In any event, the statements complained of in paragraph 28 of the Statement of Claim are substantially true.

(a) "Eight of the loans Callidus originated since 2012 are in restructuring"

19. Veritas concluded that Callidus provided loans to a number of businesses that were in some sort of financial distress. It identified eight loans since 2012 that were made to companies in restructuring or litigation:

(a) Xchange Technology Group LLC;

(b) Arthon Industries Inc.;

(c) Leader Energy Services;

(d) Esco Marine;

(e) Deepak International;

(f) Harvey Industries LLC;

(g) Groupe Arsenault Inc.; and

(h) Gray Aqua Group.

(b) "Callidus' loan book contained approximately $235 million in loan commitments that have undisclosed strong indicators of material impairment"

20. On or around April 16, 2015, Callidus' loan book contained millions of dollars of loan commitments that had undisclosed strong indicators of material impairment. The full details of Callidus' loan book are known to the Plaintiffs.

21. Based on available information, Veritas identified various indicators of impairment for certain of Callidus' loans. In the Veritas Report, Veritas confirmed that it was unable to quantify the potential for loan losses as it was not able to fully value the underlying collateral for the loans, based on the information available to it. The Veritas Report identified eight loans that Veritas viewed to be most at risk, which totaled $235 million.

22. Without limiting the generality of the foregoing, the following specific loans of concern had strong indicators of material impairment, none of which had been disclosed by Callidus at that time. They also undermine Callidus' claims to having exceptional lending capabilities.

(1) Callidus' Outstanding Loan to Xchange Technology Group LLC Had Undisclosed Strong Indicators of Material Impairment

23. Callidus advanced a one year loan of $22 million to Xchange Technology in October 2012. In February and May 2013, before maturity of the loan, Xchange Technology ran two separate capital raising processes with KPMG and Canaccord Genuity in an attempt to refinance the Callidus loan. Both processes failed. Of the 56 parties contacted in the Canaccord process, only one party proceeded to the due diligence stage, and that party passed on the opportunity shortly thereafter. Subsequently, the company's founder offered to purchase the company for total consideration of $17 million ($5 million less than Callidus's original loan), which Callidus rejected. This amount would not have permitted Xchange Technology to repay 100% of the principal amount due to Callidus, let alone accrued interest.

24. In October 2013, Callidus commenced a receivership application appointing Duff & Phelps as receiver and approving a "stalking horse" sales process for the sale of substantially all of the Xchange Technology's business and assets. Callidus would have incurred a substantial shortfall on its advances had Xchange Technology's business and assets been liquidated.

25. Duff & Phelps carried out the sales process. Of 88 prospective purchasers identified by Duff & Phelps, only three executed a confidentiality agreement and gained access to the data room, and no offers were submitted by any of these prospective purchasers.

26. Callidus served as the stalking horse and submitted a credit bid for Xchange Technology in November 2013. The purchase price to be paid was to be the amount of the Callidus debt less $3 million, plus priority payables. At the time, Callidus was owed approximately $38 million, and Xchange Technology was not generating sufficient cash flow to service its obligations to Callidus.

Moreover, Callidus had continued to provide advances to the company over the preceding several months.

27. Around the same time period, Triangle Capital, the second lien creditor of Xchange Technology whose debt was subordinate to Callidus, wrote down its investment of $6.4 million to $0.

28. In short, at the time the Veritas Report was prepared, Callidus was owed more than $38 million on its loan to Xchange Technology, and the best non-Callidus bid that Duff & Phelps had received for the entire company had been $17 million (which Callidus had rejected).

29. Collectively, the information set out above amounted to a strong indicator of material impairment at the time the Veritas Report was prepared. Yet at that time, Callidus had not disclosed any material impairment on this loan.

30. After more than a year, the sale of Xchange Technology to Callidus finally closed in or around January 2015. Callidus held the asset for sale from that time on, and, to the best of Veritas' knowledge, the company continued to incur millions of dollars in losses in Callidus' hands. By September 30, 2015, Callidus' financial statements listed the assets held for sale with a value of $66.9 million. In a judgment in Ontario dated May 31, 2016, Justice Newbould held that the basis for the $66.9 million figure in Callidus's financial statements was "not at all clear".

31. In any event, Callidus' interim financial statements for the first quarter of 2016 indicate that Callidus called on the Catalyst guarantee. Funds managed by Catalyst purchased Xchange Technology from Callidus for $101.3 million, which Callidus indicated was the "total outstanding principal plus accrued and unpaid interest". Callidus primarily used the proceeds from the

guarantee to repay a portion of the balance outstanding to Catalyst from Callidus under a subordinated bridge facility. No funds were recovered from an independent third party.

(2) Callidus' Outstanding Loan to Arthon Industries Inc. Had Undisclosed Strong Indicators of Material Impairment

32. Arthon Industries Inc. had a number of affiliated entities, of which the four main operating companies within the group were: (1) Arthon Contractors; (2) Arthon Equipment; (3) Coalmont Energy; and (4) Sandhill Materials. Callidus had advanced approximately $52 million to the Arthon Group, which had filed for CCAA protection in late 2013 with Alvarez & Marsal as Monitor.

33. Arthon Contractors was the active construction arm of the group. Coalmont Energy had the rights to operate a coal mine in British Columbia (the "Coalmont Mine"), and Sandhill Materials held title to a major deposit of natural aggregate materials (primarily gravel and sand) in the process of development, also in B.C.

34. In 2013, Arthon experienced a number of difficulties. Among others, there was a spill of filtercake slurry material from the Coalmont Mine, which halted operation of the mine.

35. As part of its CCAA process, Arthon unsuccessfully tried to sell both the Coalmont Mine and approximately 100 pieces of heavy equipment that had been rendered redundant as a result of the inactivity of the mine. In April 2014, in the face of declining coal prices, Arthon revised the focus of its immediate restructuring efforts away from a sale of all or part of the Coalmont Mine. Instead, the company turned its attention to: (i) preserving the Coalmont Mine for potential operation or sale at a later date; (ii) continuing to sell the redundant equipment; and (iii) pursuing a refinancing and/or sale of all or part of Sandhill Materials.

36. By the end of October 2014, the equipment sales process had resulted in total net proceeds of only $6 million, on sales of 28 pieces of equipment. The company advised that it would no longer focus on sales of equipment. Total amounts due to Callidus at that time were approximately $44.6 million, although a further advance of $10 million to Sandhill Materials was being negotiated by Callidus.

37. In summary, in the fall of 2014, Callidus had approximately $45 million due from the Arthon Group (with another $10 million advance being negotiated), yet the group's only assets of material value were two non-operating projects: the Coalmont Mine and Sandhill Materials. As set out above, the sales process for the Coalmont Mine had failed and coal prices were falling, and Sandhill Materials required additional capital to develop. By January 2015, Arthon's debt to Callidus totalled $53.8 million.

38. Collectively, the information set out above amounted to a strong indicator of material impairment at the time the Veritas Report was prepared. Yet at that time, Callidus had not disclosed any material impairment on this loan.

(3) Callidus' Outstanding Loan to Leader Energy Services Had Undisclosed Strong Indicators of Material Impairment

39. Leader Energy Services provides well completion services in the Canadian energy sector.

40. On or about March 5, 2013, Callidus entered into a credit facility with Leader Energy. The credit facility included a demand revolving facility of up to $4 million, and a one-year demand non-revolving loan of up to $12 million.

41. On or about October 31, 2013, Callidus approved an additional $1 million demand non-revolving single advance loan repayable by January 31, 2014. At the same time, Callidus extended the pre-existing facilities for an additional six months, to September 6, 2014.

42. In March 2014, Callidus increased the size of Leader Energy's demand revolving facility from $4 million to $5 million.

43. By the end of August 2014, Leader Energy was in dire straits. It was actively selling assets, and was being sued for $7 million following its default on a lease of a vacant facility in Alberta. Moreover, it was "over advanced" on its demand revolving facility by approximately $0.90 million.

44. Around the same time, Callidus and Leader Energy agreed to combine its pre-existing $1 million and $12 million facilities into a demand non-revolving single advance term loan. At that time, the aggregate outstanding balance was $11.4 million, due September 6, 2014.

45. By September 30, 2014, Callidus was owed approximately $14.4 million, Leader was still over-advanced on its revolving facility, and the loan was past its maturity date. Shortly thereafter, on February 19, 2015, Leader Energy filed a notice of intention to make a proposal to its creditors pursuant to the BIA.

46. Collectively, this information amounted to a strong indicator of material impairment at or about the time the Veritas Report was prepared. Yet at that time, Callidus had not disclosed any material impairment on this loan.

47. Since that time, Leader Energy failed to make a satisfactory proposal within the Court-ordered stay period, and was deemed bankrupt on August 20, 2015. MNP Ltd. was

appointed as the company's bankruptcy trustee. In September 2015, MNP was appointed as the "agent" of all of Leader Energy's assets, property and undertakings pursuant to a general security agreement with Callidus (although the company's operations were shut down prior to that point, and all of the employees had been terminated). As of September 2015, Leader Energy's outstanding obligation to Callidus was $12,720,269.27.

<u>(4) Callidus' Outstanding Loan to Esco Marine Had Undisclosed Strong Indicators of Material Impairment</u>

48. Esco Marine is a marine yard based in Brownsville, Texas. It specializes in recycling metals and properly disposing of obsolete maritime vessels.

49. Callidus and Esco entered into a loan agreement on June 30, 2014, pursuant to which Callidus agreed to lend up to $34 million. The loan took the form of a borrowing base facility in conjunction with several other facilities. Esco Marine was in severe financial distress at that time, and a "Blocked Account" was set up, into which Esco was obligated to deposit all funds from all sources. All funds deposited into the Blocked Account would be the property of Callidus.

50. In November 2014, Esco Marine resorted to diverting funds away from the Blocked Account in order to pay amounts due to critical vendors and employees. Callidus alleged that this act constituted theft, and on or about January 5, 2015, Callidus filed a temporary restraining order and preliminary injunction against Esco Marine in order to protect its collateral because Esco Marine was in default, in extreme financial distress, and incapable of paying a money judgment. Three months later, in March 2015, Callidus sought the appointment of a receiver, claiming that "Esco has reached the point of financial disintegration".

51. At the time the Veritas Report was prepared, the net book value of Esco Marine's assets was less than its total liabilities.

52. Collectively, this information amounted to a strong indicator of material impairment. Yet at the time the Veritas Report was prepared, Callidus had not disclosed any material impairment on this loan.

(5) Callidus' Loan to Deepak International Had Strong Undisclosed Indicators of Material Impairment

53. On January 7, 2013, the Government of the North West Territories ("GNWT") granted Deepak International "Approved NWT Diamond Manufacturer" status. This enabled Deepak to purchase a portion of the territory's rough diamond production. At the same time, Deepak was in the process of acquiring two GNWT-owned buildings in Yellowknife and the lease of related airport lands as the site of its diamond manufacturing operations.

54. On April 21, 2014, Callidus and Deepak signed a term sheet providing for a loan of up to $20.5 million. Callidus provided financing on the basis that Deepak International owned $18 million in automated diamond cutting machinery held in storage containers near the Yellowknife airport. However these storage containers contained only worthless materials.

55. On February 17, 2015, Callidus disclosed that it was owed $2.6 million by Deepak and that "no cash flow is expected .... until construction of a facility is completed".

56. At the time the Veritas Report was prepared, construction of the facilities had not completed, and the company was not producing cash flow. At that time, the company had no operations.

57. Collectively, this information amounted to a strong indicator of material impairment of the loan. Yet at the time the Veritas Report was prepared, Callidus had not disclosed any material impairment on this loan. In fact, Callidus subsequently commenced a lawsuit against the company and its principals for $5.9 million.

(6) Callidus' Loan to Harvey Industries LLC Had Strong Undisclosed Indicators of Material Impairment

58. Harvey Industries is an aluminum casting, machining, assembly, testing and producer in the automotive industry. It operates one plant, in Wabash, Indiana.

59. In November 2012, the company's financial condition was deteriorating. Beginning on November 7, 2012, Callidus extended several commercial loans to Harvey Industries in the aggregate principal amount of US$41.5 million. The purpose of these loans was to refinance the company's existing debt and to provide working capital.

60. Harvey Industries' financial condition continued to deteriorate. Commencing in December 2013, Callidus executed a series of forbearance agreements extending the maturity date of the Callidus loans to December 31, 2014 and providing other financial accommodations to the company.

61. Nevertheless, Harvey Industries defaulted on the loans at the end of December 2014. At that time, Harvey Industries owed Callidus approximately US$39 million in principal under the loan documents, not including additional deferred fees, interest, costs, and other charges. Despite the company's default, Callidus continued to make advances to Harvey Industries in order to protect its secured interests in the company.

62. On February 18, 2015, Callidus commenced legal proceedings against Harvey Industries for, among other things, the appointment of a receiver. A receiver was appointed on or around March 20, 2015.

63. During the course of the receivership, the receiver estimated the value of Harvey Industries' assets to be in the range of approximately US$4.9 million to US$9.1 million. Following a marketing and sales process, the receiver held an auction for all of the company's assets on June 10, 2015. After several rounds of bidding between Callidus and one other party, Callidus made the highest bid - a credit bid of US$25.2 million.

64. Collectively, this information amounted to a strong indicator of material impairment at the time the Veritas Report was prepared. Yet at that time, Callidus had not disclosed any material impairment on this loan.

(7) Callidus' Loan to Groupe Arsenault Inc. Had Strong Undisclosed Indicators of Material Impairment

65. On December 11, 2012, Callidus extended a series of demand loans to Groupe Arsenault Inc. and related companies. During the winter of 2013-2014, Groupe Arsenault began to experience liquidity problems.

66. On August 12, 2014, Groupe Arsenault filed a notice of intention to make a proposal to its creditors under the BIA and for the appointment of an interim receiver. In December 2014, Callidus consented to the company's delay in putting forward a proposal to its creditors. However, the company failed to put forward a proposal satisfactory to Callidus, and in February 2015 Callidus successfully moved for the appointment of a receiver over all of Groupe Arsenault's assets. As of March 4, 2015, Callidus was owed over $5 million in principal and interest.

67. Collectively, this information amounted to a strong indicator of material impairment at the time the Veritas Report was prepared (many months after Groupe Arsenault had filed its notice of intention to make a proposal). Yet at that time, Callidus had not disclosed any material impairment on this loan.

(8) Callidus' Loan to Grey Aqua Had Strong Undisclosed Indicators of Material Impairment

68. Callidus appears likely to suffer loan losses with respect to its loan to the Gray Aqua group of companies, which was outstanding at the time the Veritas Report was prepared, and which Veritas subsequently matched to the loan identified as "Company R" in Callidus' IPO Prospectus.

69. The Gray Aqua group of companies is a salmon fish farming business operating in the Maritimes. In 2013, the Gray Aqua business experienced financial difficulties ostensibly attributable to an infection experienced at some of its salmon farming sites and a related order by the Canadian Food Inspection Agency to "depopulate" its inventory at those sites. As a result of these financial challenges, Gray Aqua's then secured lender, HSBC, demanded immediate repayment of the amounts due to it from Gray Aqua. In December 2013, Callidus acquired $10.8 million in debt owing to HSBC by the Gray Aqua companies, apparently at a discount. At the same time, Callidus entered into a credit agreement with the Gray Aqua companies, pursuant to which it provided various demand credit facilities totaling up to a maximum of $43.5 million. The debts were originally due by September 15, 2014, but were subsequently extended to January 31, 2016.

70. Gray Aqua experienced a sea lice infestation in certain of its sites in early July 2015, which resulted in elevated mortality rates and reduced biomass growth rates within the inventory. The "harvest" from Gray Aqua's Indian Tea Point site had been anticipated to be the first successful

harvest post-Callidus financing. Whereas the borrower had anticipated generating $16 to $19 million in sales revenues from the Indian Tea Point harvest, as a result of the sea lice infestation and other operational issues, the total harvest revenue from Indian Tea Point only generated approximately $3.5 million. As a result of the Indian Tea Point crop failure, there was a borrowing base default with respect to one of the Callidus credit facilities beginning in August 2015 in the amount of $12.2 million.

71. Furthermore, the Gray Aqua companies did not repay the loans at maturity in January 2016, following which the New Brunswick Court appointed a receiver in April 2016, on application by Callidus. As of late April 2016, the Gray Aqua companies owed Callidus (as a secured creditor) $56.3 million, representing over 95% of all secured and unsecured creditor claims. The Business Development Bank of Canada ("BOC") was also a secured creditor of the Gray companies in respect of at least $1.8 million, and possibly up to $3.3 million. A subsequent agreement between Callidus and BOC was finalized on June 13, 2016 by which BOC assigned to Callidus the security and agreements held by BOC in respect of Gray Aqua.

72. However, notwithstanding that the sea lice infestation was made known to Callidus in August 2015, Callidus only reported a pre-tax loan loss provision of $22.7 million in its 2015 annual financial statements (i.e., in Q4 2015), and not in its Q3 2015 interim financial results when Callidus discovered the infestation, delaying the disclosure of the Gray Aqua provision to late March 2016, when the 2015 full year financial results were released. Additionally, in March 2016, Callidus was informed by the borrower that approximately 380,000 smolt in the hatchery facility had to be destroyed due to an outbreak of bacterial kidney disease, further negatively impacting collateral values.

73. The loan loss provision of $22.7 million proved to be inadequate. In its financial results for Q2 2016, released August 11, 2016, Callidus made a further $12 million provision for loan losses related to Gray Aqua, and indicated that total loan loss provision on the Gray Aqua loan had grown to $37.4 million.

(9) Additional Outstanding Loans with Undisclosed Strong Indicators of Material Impairment

a) Callidus' Outstanding Loan to North American Tungsten Had Undisclosed Strong Indicators of Material Impairment

74. North American Tungsten engaged in tungsten mining. At or about the time the Veritas Report was prepared, its primary assets were the Cantung mine in the Northwest Territories and the undeveloped Mactung mineral property in Yukon.

75. Callidus loaned North American Tungsten $11 million in May 2014. However, by December 2014, the loan had grown to $13.3 million and the company required additional funding from Callidus. While Callidus' then $13.3 million loan to North American Tungsten was secured, the security was over all assets of the company excluding the Mactung property, certain accounts receivable, and all mining and mineral leases, claims and tenures. The mine also faces significant reclamation liabilities related to anticipated closure costs of the mine.

76. Collectively, this information amounted to a strong indicator of material impairment at or about the time the Veritas Report was prepared. Yet at that time, Callidus had not disclosed any material impairment on this loan.

77. North American Tungsten filed for CCAA protection in the summer of 2015. In the context of those proceedings, Callidus' Vice President Craig Boyer gave sworn affidavit evidence that by November 2015, North American Tungsten owed Callidus approximately $16.5 million (including

principal, accrued interest, and fees), and that the "quantum of recovery on the equipment and machinery is speculative at this time".

b) Callidus' Loan to Alken Basin Drilling Ltd. Had Strong Undisclosed Indicators of Material Impairment

78. On March 31, 2014, Callidus granted $28.5 million in credit facilities to Alken Basin Drilling, an Alberta-based drilling services company. By December 1, 2014, Alken was in financial trouble. On that date, Alken employed Range Corporate Advisors to assist it in managing and improving its liquidity, turning around its financial and operating performance, and repaying Callidus.

79. Furthermore, and also in or around December 2014, Callidus retained Hilco Valuation Services to provide a forced liquidation value appraisal report in recognition of the potential that Callidus's loan to Alken might be impaired, and that Callidus would be forced to call on its security. The Hilco appraisal (dated December 23, 2014) revealed to Callidus that it would most likely suffer a significant shortfall in recovering its loan advances to Alken.

80. Collectively, this information amounted to a strong indication of material impairment at the time the Veritas Report was prepared. Yet at that time, Callidus had not disclosed any material impairment on the loan. Callidus has subsequently sued Alken for recovery of its loans and a receiver has been appointed over Alken's assets.

c) Callidus' Loan to Bluberi Gaming Had Strong Undisclosed Indicators of Material Impairment

81. Bluberi Gaming Technologies Inc. is a Canadian company that specializes in the development, sale and deployment of casino games. It is based out of Drummondville, Quebec.

82. On August 31, 2012, Callidus agreed to provide Bluberi certain credit facilities up to an amount of $24 million. Callidus provided Bluberi this loan on the basis of a business plan that projected the deployment of 3,300 gaming machines by May 2013. Ultimately only 324 machines were deployed by December 2013, roughly 10% of the original planned deployment. The same business plan forecasted Bluberi's EBITDA to reach $25.5 million by December 2013. Bluberi's actual performance on its audited 2013 financial statements reflected EBITDA of negative $2.6 million.

83. Despite the disappointing results, Callidus continued to lend money to Bluberi. In April 2013, Callidus agreed to increase the indebtedness available under the credit facilities to approximately $30 million. On or about June 19, 2014, Callidus agreed to further increase indebtedness available under the credit facilities up to an aggregate amount of approximately $54 million.

84. By the time the Veritas Report was prepared, Bluberi had consistently been overextended on its revolving demand facility, and Callidus had extended credit well beyond Bluberi's borrowing base despite increases to the facility limits. In short, Callidus allowed its facilities to fund the company's losses.

85. Collectively, this information amounted to a strong indicator of material impairment at the time the Veritas Report was prepared. Yet at that time, Callidus had not disclosed any material impairment on this loan.

86. The company subsequently filed for CCAA protection in November 2015. Ernst & Young was appointed as monitor, and Callidus subsequently purchased Bluberi Gaming. The Monitor's

Certificate was issued on or about February 6, 2017. There are reportedly retained claims for damages being advanced against Callidus for a substantial amount.

(c) "Callidus' customers typically have negative cash flow, are in bankruptcy or are severely distressed"

87. The Veritas Report published that "Callidus provides loans to businesses that are typically in some state of financial distress".

88. This statement is true. Callidus' business model is focussed on distressed borrowers. This is why Callidus is able to lend at 20% interest rates. By their nature, these borrowers will often have negative cash flows, and/or be in bankruptcy, and/or be severely distressed.

89. Callidus itself has publicized that it operates in the distressed lending sector and that it is not uncommon for Callidus to deal with borrowers that undergo some form of restructuring. Based on this model, and what Veritas has learned about some of Callidus' loans, it is likely that a number of Callidus' undisclosed loans are also in distress.

90. Mr. Glassman, the Chairman and CEO of Callidus, has himself confirmed that characteristics of Callidus' customers include being distressed. On or about November 4, 2016, during the Q3-16 earnings telephone call, Mr. Glassman stated:

> With the renewed capital markets attention on Callidus, I believe it is useful for people to better understand what we do and how we do it. Callidus is an alternative lender. We have no interest in owning or operating businesses. We are not structured to own or run our borrowers. We extend credit to distressed borrowers in the mid-market space.

91. In addition, Callidus' own IPO prospectus indicates that "typical characteristics" of its borrowers include: unpredictable cash flow, losses, high leverage, fast growth, recent or proposed acquisitions, mergers, leverage buyouts or bankruptcy reorganization.

(d) "Callidus' public disclosure misstates the value of its loan impairment provisions"

92. This statement complained of at paragraph 28 of the Statement of Claim is not contained in the Veritas Report.

93. In any event, Callidus' public disclosure did misstate the value of its loan impairment provisions.

94. Callidus representatives have publicly acknowledged that its public disclosure misstates the value of its loan impairment provisions. On March 31, 2015, during the Q4-14 earnings telephone call, Callidus management confirmed that, at the time of the IPO, Callidus was "over-provisioning". Among other things, Mr. Glassman stated:

> So based on experience today, I would say that the provision rate will accelerate and then decelerate as we get to better understand the effects of the growth on the business. My sense is that we have been very, very conservative. If you remember, at the time of the IPO, we specifically told people that we are over-provisioning in a way that, at the pace of that time, in order to ensure that we understand what's going on.

95. By way of further example, Catalyst funds purchased Xchange Technology from Callidus for $101.3 million, which Callidus had been holding for sale (following its credit bid following a failed sales process). Yet, prior to the acquisition of Xchange Technology by Catalyst, the allowance for impairment associated with this asset was only approximately $13.2 million in Callidus' financial statements.

96. More broadly, since the Callidus IPO in early 2014, a material and growing portion of Callidus' loan assets have been transformed into equity interests in the debtor businesses. These equity interests represent a materially different asset class and risk profile than the debt investments Callidus previously held. At the end of 2013, the "Assets held for sale" line item in

the Callidus balance sheet was $11.4 million. This line item fell to $0 at the end of the third quarter of 2014, following the sale of Sherwood Hockey.

97. As described above, Callidus has repeatedly converted its debt instruments into equity after a sales process failed to produce an independent bid for anything close to the value of Callidus' outstanding loan. Transforming debt investments into equity interests raises concerns about risks of possible unrecognized material loan impairment losses, absent disclosure of the performance of those equity interests and the associated independent valuation work supporting the value stated in Callidus' financial statements. Callidus has not disclosed the detailed performance of those equity interests comprising the "Assets acquired from loans".

(e) "Callidus has misrepresented the quality of its loan book to its investors"

98. This statement complained of at paragraph 28 of the Statement of Claim is not contained in the Veritas Report. The Veritas Report stated that Veritas was "skeptical of the quality of the current loan book" in light of the borrower information collected.

99. In any event, Callidus did misrepresent the quality of its loan book to its investors.

(f) "Callidus' auditors are unable to verify the fair value of loans at any given point in time and are unable to challenge its loan loss provisioning"

100. The Veritas Report did not state that Callidus' auditors are "unable to verify" the fair value of loans. Rather, the Veritas Report stated that auditors will be heavily reliant upon management to accurately represent the fair value of the loans at any given point in time, due to:

(a) the disparate range of industries the company invests in (including mining, technology, airlines, oil and gas, etc);

(b) the wide range of collateral the company accepts;

(c) the specific valuation appraisals required for that collateral; and

(d) the fact that management obtains the appraisals and performs the valuation of the collateral.

101. These factors result in the risk that Callidus' auditors will not be able to challenge management's loan loss provisioning effectively or in a timely manner.

(g) "Catalyst profited from its non-arm's length relationship with Callidus at the expense of Callidus' shareholders by, among other things, selling loans to Callidus at inflated values"

102. This statement complained of at paragraph 28 of the Statement of Claim is not contained in the Veritas Report.

(h) "Catalyst, as a 'new' manager of Callidus, has increased the size of Callidus' loan book by taking on lower quality loans"; and

(i) "Prior to and after the IPO, Catalyst increased the size of Callidus' loan book by taking on lower-quality loans"

103. These statements complained of at paragraph 28 of the Statement of Claim are substantially the same, and both are true.

104. Both before and after its IPO, Callidus' loan book experienced tremendous growth as a result of taking on high-risk, high-yield loans. Indeed, the essence of Callidus' business is to provide financing to companies that are unable to obtain adequate financing from traditional lenders, and Callidus acknowledges that the "perceived risks" of its borrowers are what allow Callidus to charge high interest rates. High-risk loans of this nature are less likely to be repaid and can therefore be fairly described as being of "lower quality".

105. The problems with some of the specific loans identified by Veritas have been described above.

(j) "Callidus claims it can loan $1 billion to distressed borrowers without incurring any loan losses"

106. At the time the Veritas Report was prepared, Callidus had frequently claimed not to have incurred any loan losses, and its portfolio exceeded $1 billion in gross loans receivable on that date or shortly thereafter.

(k) "Callidus is similar to a U.S. Business Development Corporation"

107. Veritas assessed Callidus to be comparable to certain U.S. business development corporations ("BDC"). Identifying comparable publicly-traded issuers is a common approach to valuation in the investment business.

108. A U.S. BDC is a form of public company in the U.S. that provides financing to small and mid-sized businesses. They typically hold a large portfolio of loans and provide their investors with a way to invest in the debts of small to mid-sized businesses. BDCs are investment companies and answer to an independent board of directors. Examples of BDCs include American Capital, Apollo Investment Corporation, and Ares Capital Corporation, among others.

109. Veritas' comparison of Callidus to BDCs does not have a defamatory meaning. BDCs are not "bad" investments. Different investors will be attracted to different kinds of companies, and many investors invest in BDCs, which provide such investors with the possibility of capital appreciation and/or current income (through dividends). Veritas' opinion that Callidus is similar to certain U.S. BDCs is simply that they are comparable - Veritas acknowledges that they are not identical and that there may be differences or dissimilarities.

110. In any event, this statement is true in substance and in fact. Without limiting the generality of the foregoing, Callidus is "similar to" U.S. BDCs in a number of ways, including:

(a) both Callidus and BDCs provide customized financing solutions to small and mid-sized businesses that have difficulty raising capital from traditional sources (like banks);

(b) both Callidus and BDCs lend to a variety of different industries; and

(c) both Callidus and BDCs have portfolio monitoring policies and procedures in place.

FAIR COMMENT

111. To the extent that the Veritas Report contained any statements of fact about the Plaintiffs, the words were true in substance and in fact and in so far as the Veritas Report contained any statements of opinion, such statements were fair comment made in good faith and without malice regarding matters of public interest. The statements contained in the Veritas Report related to matters of public interest and the sound functioning of public markets.

112. Callidus is a public company widely-covered by various analysts, and the quality of its loan book is of significant interest to the Canadian financial community.

113. The statements contained in the Veritas Report were communicated in good faith and with an honest belief in their truth. In the further alternative with respect to the statements complained of in paragraph 28 of the Statement of Claim, the Veritas Report means and was understood to mean:

(a) there are a number of substantial risks that could cause Callidus to miss Street earnings-per-share expectations;

(b) Callidus may experience loan losses in excess of its current 2% target provisions;

(c) if most borrowers repay within two years, Callidus is going to be hard pressed to issue loans fast enough to meet Street expectations. If the majority of borrowers do not repay within two years, it then brings gross yields, collectability and loan losses into question;

(d) to achieve F16 consensus EPS of $2.00, Callidus will have to maintain its rapid growth rate, keep credit quality high and extend durations, while at least maintaining gross yields. Veritas believed meeting expectations will be extraordinarily challenging for Callidus and subject to substantial risk;

(e) Catalyst has guaranteed to cover the losses on certain of Callidus' loans, specifically loans on the Watch List (guaranteed until settled) and Non-Watch List loans (guaranteed until first scheduled credit review). However, Callidus has not identified which borrowers are guaranteed. Of the loan portfolio at December 31, 2014, Callidus maintains that Watch List loans represented 20% ($160M), Non-Watch List loans represented 30% ($250M) and non-guaranteed loans represented 50% ($410M);

(f) Unanticipated loan losses could impact EPS: Rapid growth in lending (particularly high risk distressed lending) is not necessarily a positive, as time-consuming careful due diligence is required. The pace at which Callidus is growing its portfolio could generate unanticipated, unguaranteed, credit losses impacting returns and valuation;

(g) Management has calculated its pro-forma ROE based on gross yields at 20.3%. However, Veritas noted that Callidus Lite is expected to make up

approximately 20% to 25% of the overall loan book ($122M or ~12% of commitments at year end). Recall that Callidus Lite carries gross yields of 12% to 14%, compared to the 20% to 21% for the traditional product. On the most recent earnings call, management stated that Callidus Lite could potentially carry gross yields of 15% to 18%, which is greater than any yield previously stated. Although there may now be some confusion as to the gross yields management believes it can achieve with Callidus Lite, mathematically, Veritas did not understand how Callidus could achieve gross yields of ~20% if Callidus Lite represents any portion of the overall loan mix at all;

(h) Auditors are at a substantial information disadvantage to management: Given the disparate range of industries the company invests in (mining, technology, airlines, oil and gas, etc), the wide range of collateral the company accepts and the specific valuation appraisals required for that collateral, auditors will be heavily reliant upon management to accurately represent the fair value of the loans at any given point in time. Since management obtains the appraisals and performs the valuation of the collateral, there is risk that auditors will not be able to challenge management's loan loss provisioning effectively or in a timely manner.

114. To the extent that the Veritas Report bears the aforesaid meanings, they are substantially true and also constitute fair comment.

QUALIFIED PRIVILEGE

115. Veritas had a duty to distribute the Veritas Report to its clients, who had an interest in law in receiving the Veritas Report on an occasion of qualified privilege.

NO INTENTIONAL INTERFERENCE WITH ECONOMIC RELATIONS

116. Contrary to paragraphs 38 and 39 of the Statement of Claim, Veritas did not intentionally interfere with Callidus' economic relations with its investors.

117. Specifically, Veritas did not "deceive" any of Callidus' shareholders into believing Callidus' share price was overvalued and/or that Callidus was at risk of significant future losses, and Veritas puts the Plaintiffs to the strict proof thereof. As set out above, none of Veritas' research was deceptive or false.

118. The publication of the Veritas Report was not an unlawful act which is actionable by a third party, or would have been if it had caused a loss to that third party. Veritas has not committed or engaged in any unlawful acts that are actionable by a third party, or would have been if it caused a loss to that third party, as alleged in the Statement of Claim or otherwise.

119. Even if the publication of the Veritas Report is found to constitute an unlawful act, which is denied, Veritas did not publish the Veritas Report with the intention of harming the Plaintiffs.

120. In any event, even if Veritas' conduct did induce Callidus' then-existing shareholders to sell their Callidus shares as alleged, such conduct was not otherwise unlawful and Veritas had no intention to harm the Plaintiffs.

121. Veritas specifically denies that any of its conduct, as alleged or otherwise, caused a loss to the Plaintiffs in any actionable respect.

NO CONSPIRACY TO DEFAME

122. Contrary to paragraph 23 of the Statement of Claim, at no time, whether during the December 17 Meeting or at any other time, did Veritas and West Face "conspire" to defame the

Plaintiffs or to interfere with Callidus' economic relations so as to induce a broad sell-off of Callidus' shares or otherwise.

123. Moreover, Veritas' predominant purpose in meeting with West Face was not to injure the Plaintiffs. Its purpose was to target West Face was a prospective client for Veritas.

124. Contrary to the allegations in paragraph 24 of the Statement of Claim, Veritas never "intended to create the impression" that it separately published a "negative" report about Callidus to deceive market participants. Veritas did not act jointly or in concert with West Face. Veritas never intended to, and did not, deceive market participants.

125. Even if the Defendants were acting together, which is denied, they had no unlawful purpose and employed no unlawful means. As described above, the Veritas Report contained only true statements of fact and reasonable fair comments based on those facts.

NO DAMAGES

126. In response to paragraph 37 of the Statement of Claim, Veritas pleads that it is beyond the ability of a Court of law to ascertain the reasons for a drop in Callidus' share price and Veritas denies this constitutes a valid claim in law.

127. In any event, neither Callidus nor Catalyst has suffered harm as a result of Callidus' share price being "lower" for a prolonged period of time.

128. The Plaintiffs' reputations in the financial industry were not lowered as a result of the alleged defamation.

129. Veritas pleads that the Plaintiffs have not suffered any damages whatsoever, and Veritas puts the Plaintiffs to the strict proof thereof. They have mitigated all or most of any damages arising from the actions of the Defendants about which they complain.

130. Veritas further pleads that any damages that the Plaintiffs have suffered are the result of the Plaintiffs' own failure to take reasonable steps to fully mitigate their damages. The Plaintiffs' damages are, in any event, excessive and too remote.

131. Even if the Plaintiffs have suffered any damages, such damages were not caused by Veritas. The Plaintiffs' reputation in the community was already greatly tarnished, as evidenced by the critical findings of Justice F. Newbould in *Catalyst Capital Group Inc. v. Moyse*, 2016 ONSC 5271, and the Veritas Report did not cause any additional harm.

132. Veritas pleads and relies on the provisions of the *Libel and Slander Act*, R.S.O. 1990, c. L.12.

133. The Defendant, Veritas Investment Research Corporation, asks that this action be dismissed with costs.

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-and-

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Court File No. CV-15-530726

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