

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

B E T W E E N:

THE CATALYST GROUP INC. and
CALLIDUS CAPITAL CORPORATION

Plaintiffs

- and -

WEST FACE CAPITAL INC., GREGORY BOLAND, M5V ADVISORS INC.
c.o.b. ANSON GROUP CANADA, ADMIRALTY ADVISORS LLC, FRIGATE
VENTURES LP, ANSON INVESTMENTS LP, ANSON CAPITAL LP, ANSON
INVESTMENTS MASTER FUND LP, AIMF GP, ANSON CATALYST
MASTER FUND LP, ACF GP, MOEZ KASSAM, ADAM SPEARS, SUNNY
PUI, CLARITYSPRING INC., NATHAN ANDERSON, BRUCE
LANGSTAFF, ROB COPELAND, KEVIN BAUMANN, JEFFREY
MCFARLANE, DARRYL LEVITT, RICHARD MOLYNEUX, GERALD DUHAMEL,
GEORGE WESLEY VOORHEIS, BRUCE LIVESY and JOHN DOES #4-10

Defendants

- and -

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

B E T W E E N:

THE CATALYST GROUP INC. and
CALLIDUS CAPITAL CORPORATION

Plaintiffs

- and -

DOW JONES AND COMPANY, ROB COPELAND, JACQUIE MCNISH and
JEFFREY MCFARLANE

Defendants

**COMPENDIUM OF JEFFREY MCFARLANE
(Anti-SLAPP Motion)**

Date: May 13, 2021

JEFFREY MCFARLANE
588 Royal Sunset Dr.
Durham, NC, 27713, USA
jmcfarlane@triathloncc.com

Defendant

TAB	DOCUMENT	DATE
1	Wall St Journal Article	8/9/2017
2	SEC Exit Letter	5/1/2018
3	Dalton Report	2/25/2019
4	McFarlane Motion Record	12/3/2019
5	Boyer Email	7/24/2013
6	McFarlane Email - No Short	5/18/2016
7	Callidus IPO Prospectus	4/15/2020
8	Callidus Material Change Report	12/23/2014
9	HIG Offer Letter	8/15/2013
10	Catalyst Valuation - Funds III & IV	12/31/2016
11	Dow Jones Production DOW000758 - Summary of concerns	11/3/2016
12	Callidus Loan Statements for XTG	6/2/2014
13	Riley cross-examination	11/17/2020
14	McFarlane Offer to Settle	3/18/2016

Court File No. CV-17-587463-00CL

THE CATALYST CAPITAL GROUP INC. et al

- and -

WEST FACE CAPITAL INC. et al

Plaintiffs

Defendants

**SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**
Proceeding commenced at Toronto

COMPENDIUM

JEFFREY MCFARLANE
588 Royal Sunset Dr.
Durham, NC, 27713, USA
jmcfarlane@triathloncc.com

Defendant

EXHIBIT #1

DOW JONES, A NEWS CORP COMPANY

DJIA **24024.13** -1.74% ▼S&P 500 **2634.56** -1.34% ▼Nasdaq **7007.35** -1.70% ▼U.S. 10 Yr **-5/32** Yield **2.993%** ▼Crude Oil **67.86** -1.14% ▼

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<https://www.wsj.com/articles/canadian-private-equity-giant-accused-by-whistleblowers-of-fraud-1502307145>

MARKETS

Canadian Private-Equity Giant Catalyst Accused of Fraud by Whistleblowers

Authorities looking into complaints that Catalyst inflated value of assets, deceived borrowers



A unit of the Toronto Police Service has begun its own inquiries into Catalyst. PHOTO: ZUMAPRESS.COM

By *Rob Copeland and Jacquie McNish*

Updated Aug. 9, 2017 9:53 p.m. ET

TORONTO—At least four individuals have filed whistleblower complaints with Canadian securities regulators alleging fraud at a multibillion-dollar investment firm and its publicly traded lending arm, according to people familiar with the matter and documents reviewed by The Wall Street Journal.

Catalyst Capital Group Inc., one of Canada's largest private-equity firms, is accused in the complaints of artificially inflating the value of some of its assets and deceiving borrowers about the terms of loans it made. The complaints have prompted officials at the Ontario Securities Commission, the country's leading securities regulator, to make inquiries and question people familiar with Catalyst, according to the people and documents.

A unit of the Toronto Police Service that specializes in financial crimes has separately begun its own inquiries, a department spokeswoman said.

The inquiries don't necessarily lead to an investigation.

Catalyst is led by Newton "Newt" Glassman, 53 years old, who has described his businesses as the "Goldman Sachs of Canada."

His private-equity firm, which oversees 6 billion Canadian dollars (\$4.8 billion) for international clients, is one of the country's more aggressive investors, industry executives say. Catalyst mostly invests in high-interest loans to financially distressed firms such as casino game makers or biopharmaceutical companies, and sometimes takes control of the businesses if the loans aren't paid.

Company officials declined to comment before publication for this article.

In a statement following digital publication, company officials said they know of no legitimate basis for any whistleblower complaint. The companies said they believe the whistleblowers are

filing “deliberately misleading” reports with the OSC.

“Callidus believes that it is the actions of those individuals that warrants investigation,” the statement said. Callidus Capital Corp. is the lending arm of Catalyst.

Fund Raise

Canadian private-equity firm Catalyst Capital has been one of the most frequent fundraisers globally over the past decade.

Fund	Year	Amount raised
Catalyst I	2002	\$186 million
Catalyst II	2008	\$635 million
Catalyst III	2011	\$1 billion
Catalyst IV	2013	\$1 billion
Catalyst V	2015	\$1.5 billion

Sources: filings, investor documents

THE WALL STREET JOURNAL.

Under a program begun last year, Ontario regulators accept whistleblower submissions from any individual with original information about an alleged violation of securities law. Regulators dismiss many complaints without any inquiries, according to people familiar with the process. Those reports that merit a review are sent to the program’s inquiries

team, which conducts interviews and other research before deciding whether to open a formal investigation, the people said.

Some but not all of the filers of the Catalyst whistleblower complaints have worked at companies that borrowed money from Mr. Glassman’s firms, and later had their businesses seized, said people familiar with the matter. Some are involved in litigation with Catalyst, the people said. Some of the complaints involve a series of loans to a small technology distributor, while others focus on other investments and the firm’s accounting.

Each of the complainants may receive up to C\$5 million under the OSC whistleblower program if their allegations prove true.

Neither Mr. Glassman nor his companies have been accused by authorities of any wrongdoing.

Mr. Glassman is also chief executive of Callidus, the alternative lender listed on the Toronto Stock Exchange. Callidus’s lending practices are also a subject of the whistleblower complaints, according to the people and documents.

Catalyst funds own a majority of Callidus’s public shares and some senior executives work concurrently at both firms.

Callidus shares dropped 19% Wednesday afternoon to C\$12.06 after the Journal reported on the whistleblower inquiries. The stock fell 21% on the day overall and is down 35% this year.

Catalyst is ranked among the top fundraisers for investments in distressed debt over the past decade, with more than \$4 billion of new money collected, according to researcher Preqin. Catalyst is considering raising another such fund as soon as this fall, said people familiar with the matter.

Existing investors include the endowments of Harvard University, McGill University and wealthy clients of Morgan Stanley, according to people familiar with the matter.

A trained lawyer, Mr. Glassman founded Catalyst in 2002 after working at private-equity giant Cerberus Capital. He earned a reputation for lending when others wouldn’t, such as to companies on the brink of bankruptcy, a strategy that consistently led to double-digit annual returns.

Catalyst this spring was awarded “Global Private Equity Turnaround Firm Of The Year” from the Global M&A Network, a trade group, for recent investments in companies like troubled film studio Relativity Media LLC.

Well-known in Canadian business circles, Mr. Glassman is protective of his own privacy. He has at times forbidden friends and journalists from taking his photograph.

His companies sometimes file multiple lawsuits against borrowers believed to have violated the terms of their loans.

One of those borrowers is Jeff McFarlane. Mr. McFarlane is the former chief executive of computer distributor Xchange Technology Group, known as XTG. He said his company began borrowing from Callidus in late 2012 after the lender purchased its \$11.6 million loan from a U.S. bank.

Within a year, Xchange was in insolvency proceedings. Callidus purchased the company for about \$34 million, according to court documents.

When Callidus went public in 2014, Catalyst, its majority shareholder, agreed to cover future losses on loans including Xchange.

In September 2015, Callidus recorded the Xchange investment as an asset for sale at C\$66.9 million in a quarterly earnings report.

Then in March 2016, Catalyst transferred C\$101 million to Callidus for Xchange, "an amount equal to the total outstanding principal plus accrued and unpaid interest," filings show.

In December 2016, Catalyst told its investors that the Xchange stake was only worth a fraction of what it had paid that March, triggering losses on two of its funds, according to one of the whistleblower complaints and documents reviewed by the Journal.

Mr. McFarlane confirmed he filed one of the whistleblower complaints. His complaint, and one other, alleges that Catalyst funds overpaid Callidus to acquire the Xchange investment, and delayed and underreported potential losses. "I have serious concerns about the integrity of Callidus's accounting around XTG," Mr. McFarlane said.

Last month, the Court of Appeal for Ontario found Mr. McFarlane responsible for a personal guarantee on Xchange's debts that was far less than Callidus was seeking in a civil suit.

Regarding Xchange, Catalyst said in Wednesday's statement that "the accounting treatment and disclosure were entirely appropriate and there is no basis for allegations to the contrary."

Mr. Glassman's companies have also sued or counter sued government agencies and former employees for damages in relation to alleged business breaches and misconduct.

Callidus in February sued a former employee and alleged he was responsible for "artificially inflating" the financial performance of some of its investments, including Xchange. The employee responded in a court filing denying that, and said Callidus made the claim to deflect attention from "multiple complaints and regulatory investigations." Litigation is ongoing.

As part of its quarterly earnings, Callidus in May disclosed that its accounting practices were under review from the OSC. Mr. Glassman told analysts at that time that the review was "nothing extraordinary." He added, "If there was a significant issue with the Commission, I'm fairly certain the Commission would force us to disclose it."

Write to Rob Copeland at rob.copeland@wsj.com and Jacquie McNish at Jacquie.McNish@wsj.com

Appeared in the August 10, 2017, print edition as 'Top Buyout Firm Scrutinized on Loans.'

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EXHIBIT #2



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
OFFICE OF COMPLIANCE INSPECTIONS AND EXAMINATIONS
100 F STREET, NE
WASHINGTON, DC 20549-7041B

May 11, 2018

SENT VIA SECURE E-MAIL

Newton Glassman
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Steven Rostowsky
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The Catalyst Capital Group Inc.
181 Bay Street, Suite 4700
Bay Wellington Tower, Brookfield Place
Toronto, Canada M5J2T3

Re: Examination of:

The Catalyst Capital Group Inc. ("the Adviser")
SEC File No. 802-73114

Dear Mr. Glassman and Mr. Rostowsky:

The staff conducted an examination of the Adviser, which evaluated compliance with certain provisions of the federal securities laws or other applicable rules and regulations (together, "federal securities laws"). The examination identified the deficiencies that are described in Exhibit A and which the staff discussed during an exit interview on May 9, 2018.

The staff is bringing these findings to your attention for immediate corrective action, without regard to any other action(s) that may result from the examination. The findings are based on the staff's examination and are not findings or conclusions of, or binding on, the U.S. Securities and Exchange Commission ("the SEC" or "the Commission") or any of its divisions or offices. You should not conclude that any of the firm's activities not discussed in Exhibit A are in full compliance with the federal securities laws. Nor should you conclude that Exhibit A sets forth an exhaustive list of the ways in which the firm's activities do not comply with the federal securities laws. Neither the staff's findings or its communications during the course of the examination nor any remedial actions undertaken in response to such findings or communications foreclose the Commission from taking any action, including but not limited to an enforcement action, with respect to the firm.

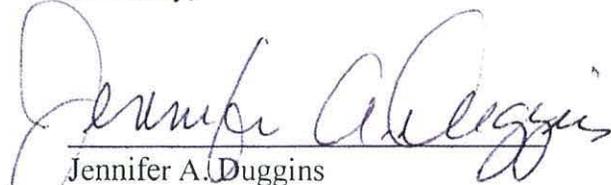
The descriptions of the federal securities laws and related interpretations in Exhibit A may be paraphrased or abbreviated. Please visit our website at <http://www.sec.gov/divisions.shtml> for

complete information related to these regulatory requirements.

Please respond in writing to each of the matters described in Exhibit A by June 11, 2018, describing any steps you have taken or intend to take with respect to each finding identified.

You should respond directly to me using your already established secure email account at: dugginsj@sec.gov. Thank you for your cooperation. If you have any questions, please contact me at (202) 551-5661 or Stephen M. Latin at (617) 573-8808.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jennifer A. Duggins".

Jennifer A. Duggins
Assistant Director and Co-Head
OCIE - Private Funds Unit

Attachment: Exhibit A

Exhibit A
The Catalyst Capital Group Inc.
SEC File No. 802-73114

The examination staff (“staff”) identified the following deficiencies during the examination:

I. Section 206 of the Investment Advisers Act of 1940 and Rule 206(4)-8(a)

Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 (“Advisers Act”) prohibit an investment adviser from employing a device, scheme or artifice to defraud any client or prospective client, or otherwise engaging in a transaction, practice or course of business which operates as a fraud or deceit upon any client or prospective client. Additionally, Rule 206(4)-8(a) prohibits investment advisers to pooled investment vehicles from (1) making untrue statements of material facts or omitting to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading statements to investors or prospective investors in those pools or (2) otherwise engaging in any act, practice, or course of business that is fraudulent with respect to those investors or prospective investors.

Based on the staff’s review, it appears that various statements by and practices of the Adviser may constitute violations of Sections 206(1), 206(2) and Rule 206(4)-8(a), details of which are provided in the succeeding paragraphs.

As background, the Adviser serves as the manager to six pooled investment vehicles with collective net assets of approximately \$3.3 billion.¹ The six pooled investment vehicles (collectively, “the Funds”) are Catalyst Fund Limited Partnership II, Catalyst Fund II Parallel Limited Partnership (with Catalyst Fund Limited Partnership II, “Fund II”), Catalyst Fund Limited Partnership III (“Fund III”), Catalyst Fund Limited Partnership IV, Catalyst Fund IV Parallel Limited Partnership (with Catalyst Fund Limited Partnership IV, “Fund IV”), and Catalyst Fund Limited Partnership V (“Fund V”). Each of the Funds is structured as a Canadian Limited Partnership. The Adviser has been retained by the Funds to provide certain investment management and advisory services.

A. Undisclosed Conflicts Relating to Callidus Capital Corporation (“Callidus”)

The examination revealed numerous contractual relationships and business practices which appear to raise conflicts of interest that were not adequately disclosed to investors in the Funds.² The Adviser’s failure to adequately disclose such contractual relationships and business practices, along with the related conflicts, may constitute violations of Rule 206(4)-8(a), as described below.

¹ All amounts are denominated in United States Dollars unless otherwise indicated.

² Under its authority pursuant to Section 204(a) of the Advisers Act, the staff has requested records of the Adviser, including certain email of the Adviser’s Managing Partner. After discussion with the Adviser’s personnel and in an effort to reduce the burden of production, the staff agreed to amend its original request for email by excluding emails sent to or received from certain email domains. The Adviser appears to have instead produced a sample of emails using keywords, such that a portion (but not all) of the requested email records was produced. Accordingly, it appears that the Adviser has not fully responded to the staff’s request for records. The Adviser should produce, as soon as practicable, any additional records that are responsive to the staff’s request Items 148 and 149, absent a valid assertion of privilege.

Exhibit A
The Catalyst Capital Group Inc.
SEC File No. 802-73114

Callidus is a Canadian domiciled company. Its founder and Chief Executive Officer (“CEO”) since January 1, 2013, Newton Glassman, is also the Managing Partner of the Adviser. It was organized to provide asset-based loans and lending services to companies based in Canada and the United States. The Adviser and its affiliates (including four of the six Funds) owned 71.1% of the outstanding shares of Callidus as of December 31, 2017. Since Fund II initially acquired stock in 2006, the Funds and the Adviser have also entered into various other financial arrangements with Callidus.

The financial arrangements that the Funds entered into with Callidus have included loans to Callidus, guarantees of loans that Callidus has made to its borrowers, participation agreements, asset purchases and service agreements. For example, as of December 31, 2017 Fund III and Fund IV have provided bridge loans to Callidus in the amount of approximately \$210 million. Fund III and Fund IV also purchased a portfolio company, Xchange Technology Group (“XTG”), from Callidus for approximately \$73 million, which equaled the total amount of principal and interest outstanding on a loan that had been extended by Callidus to XTG. Additionally, certain of these transactions have required subsequent amendments and clarifications, as described below.

Although since the inception of the Funds the Adviser included disclosures to investors regarding the potential for transactions between related parties, these disclosures appear to be inadequate. Specifically, these disclosures do not describe the extent of the potential conflicts, and they do not disclose that the Adviser would adopt a practice of resolving some conflicts in favor of Callidus. It appears that there are at least three categories of conflicts that arise in connection with the Funds’ transactions with Callidus, as follows:

1. ***Conflicts between the various Funds relating to their different participation in the Callidus capital structure and the different economic incentives that each fund has in relation to these investments*** - The Funds invest in different parts of the capital structure of Callidus and, sometimes, in the same parts of the capital structure but in different proportions. The potential conflicts that may arise in connection with cross-fund investments in the same issuer are further complicated by the fact that the Funds invest in and divest from Callidus at different times. For example, Fund II has been able to realize a significantly larger profit on its investments in Callidus than Fund III or Fund IV. Specifically, based on its 2017 audited financial statements, Fund II has realized gains of approximately \$106 million on its investment in the common shares of Callidus. This compares with no realized gains for Fund III and Fund IV. In fact, Fund IV has unrealized losses of approximately \$54 million on its investment, whereas Fund II and Fund III both have unrealized gains. The valuation of the common shares appears to be significantly impacted by the Funds’ capital activity in Callidus. For example, Fund II’s interest benefitted from both the equity and debt financing provided by the subsequent Funds’ investments, and as a result, Fund II exited its investments at a substantial profit.
2. ***Conflicts between the Adviser and the Funds as a result of the Callidus transactions*** – The various transactions with Callidus create potential conflicts of interest between the Adviser and the Funds. For example, its 2017 audited financial statements indicate that

Exhibit A
The Catalyst Capital Group Inc.
SEC File No. 802-73114

Fund II has realized approximately \$106 million in profits from its investment in the common shares of Callidus ahead of any future sales by Fund III and Fund IV. The realization crystallizes these profits for purposes of determining the amount of incentive compensation that Catalyst Fund General Partner II Inc. and Catalyst Fund II Parallel General Partner Inc., each affiliates of the Adviser, are due from Fund II. Additionally, the Funds' investments in Callidus and the subsequent initial public offering ("IPO") of Callidus in April 2014 would create a more permanent pool of capital that the Adviser and its affiliates, including the CEO and other officers of Callidus, could continue to manage after the Funds are liquidated, assuming that Callidus remains a going concern and the Funds are able to liquidate their respective interests. That is, affiliates of the Adviser can continue to make investment decisions with respect to the capital of Callidus even after all of the Funds have liquidated their positions. As a result, the Adviser appears to have had an incentive to, first, direct the Funds to make investments into Callidus, and then, to direct successor Funds to also make investments in the same company.

3. ***Conflicts between Callidus and the Funds*** - Although the Funds have significant investments in Callidus, which may mitigate the conflicts to some degree, there are still conflicts that remain between the Funds on the one hand and Callidus on the other. These conflicts are further exacerbated by the fact that the Funds own different proportional investments in the capital structure of Callidus, as described above. In fact, in Callidus' third quarter 2015 earnings investor presentation, Callidus acknowledged the existence of conflicts when it stated "[b]ecause Callidus is so essential to Catalyst's strategy, conflicts resolved in favour of the public investor."

In this regard, the examination identified several instances where it appears that there were conflicts resolved in favor of Callidus, potentially to the detriment of some of the Funds. For example, in February 2015, the Adviser and its affiliates, including Callidus and the general partners of Fund III and Fund IV, entered into a letter agreement that "clarifies" the terms of the guarantees. This "clarification" resulted in Fund III and Fund IV guaranteeing principal advances made to borrowers, even after the IPO.³ The clarification also created a priority of payments for cash flows from underlying borrowers. Pursuant to this priority of payments, cash received from the borrower would be used to pay accrued interest to Callidus first, which reduced Callidus' credit risk exposure, while increasing the credit risk exposure of Fund III and Fund IV to these companies. That is, after the "clarification," the Funds bore all of the credit risk, including the additional risk that resulted from extending additional principal to these borrowers, but the Funds did not receive the benefit of additional interest charged on larger principal balances because the interest payments were made to Callidus. Accordingly, for certain guaranteed loans, Callidus would be incentivized to keep the debt outstanding, increasing principal balances to increase its own income from guaranteed loans, even at potentially below-market lending terms.⁴

³ Based on the staff's review of the letter agreement, it appears that the changes made to the guarantees through the letter agreement appear to be material changes rather than a clarification.

⁴ The staff discusses disclosures to investors about the guarantees in greater detail below.

Exhibit A
The Catalyst Capital Group Inc.
SEC File No. 802-73114

It appears that the Adviser failed to adequately disclose to investors the extent and nature of the conflicts described above. In some instances, the transactions or agreements were disclosed to investors, but only after their occurrence, and generally without disclosing the conflicts that were associated with the agreements or transactions. The staff did not identify any disclosures to Fund investors relating to conflicts being resolved in favor of the public investors of Callidus, whether at the time they invested or subsequently.

The Adviser's failure to disclose conflicts associated with transactions between the Funds and Callidus to investors may constitute a violation of Rule 206(4)-8. Additionally, the adoption of a practice of resolving conflicts of interest in favor of affiliated parties to the potential detriment of the Adviser's clients may constitute a violation of Section 206(1) and Section 206(2) of the Advisers Act.

In response to this letter, the Adviser should describe any steps that it intends to take to address the issues described above, including identifying any related, pre-existing disclosures made to investors.

B. Conflict Consent Requirements

Based on the staff's review, it appears that the Adviser or its affiliates failed to comply with the requirements of the limited partnership agreements ("LPAs" or "LPA," as applicable) of Fund III and Fund IV with respect to conflicts of interest. The Adviser's failure to satisfy the conflict consent requirements of the Fund III and Fund IV LPAs may constitute a violation of Rule 206(4)-8. Additionally, it appears the Adviser directed the Funds to invest in Callidus without disclosing or mitigating the conflicts associated with such investment. This conduct may constitute a violation of Section 206(1) and Section 206(2), as described below.

Section 18.1(b) of the Fund III Second Amended and Restated Limited Partnership Agreement dated June 22, 2010 ("Fund III LPA") includes the following provision:

Transactions with Related Entities. The Partnership shall not enter into any transaction with the General Partner, the Manager, a Portfolio Company or any of their respective Affiliates unless such transactions have been approved by the Advisory Panel, are in the ordinary course of business and are on terms and conditions no less favourable to the Partnership than those that could be obtained from an unaffiliated third party [emphasis added].

Similarly, section 18.1(b) of the Fund IV Limited Partnership Agreement dated June 25, 2012 ("Fund IV LPA") contains a similar provision, as follows:

Transactions with Related Entities. The Partnership shall not enter into any transaction with the General Partner, the Manager, a Portfolio Company or any of their respective Affiliates unless there has first been consultation with the Advisory Panel, such transaction is in the ordinary course of business and such transaction is on terms and

Exhibit A
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conditions no less favourable to the Partnership than those that could be obtained from an unaffiliated third party [emphasis added].

The staff's review found that there have been several transactions between Callidus and the Funds that were not brought to the Advisory Panel for approval or consultation. Among these transactions were the Funds' acquisition of XTG from Callidus, the extension and increases of the bridge loans from the Funds to Callidus, and the "clarification" of the guarantee provisions, as discussed above.

It also does not appear that these transactions were carried out in a manner that would ensure that the terms were "*no less favourable to the Partnership than those that could be obtained from an unaffiliated third party.*" The staff requested information related to how conflicts are resolved between the Adviser and Callidus, including the operation of a provision in the Debenture Repayment Agreement dated as of April 23, 2014 (the "Debenture Repayment Agreement"). Specifically, section 7.2(c) of the agreement states:

The Credit Committee, when approving or renewing a loan, or enforcing its rights under Section 7.2(a), will act in the best interest of the Corporation and in the event of a conflict of interest between the Corporation and a Catalyst Fund, such conflict will be reviewed and determined by an independent committee.

The staff requested confirmation of whether an "independent committee" reviewed the clarification of the guarantee provisions or the purchase of XTG by the Funds. In response, the Adviser stated that where there is any potential for conflict of interest with the Adviser, the independent directors of Callidus made the decisions. Based on this response, it appears that there was not a party representing the interests of the Funds in these transactions. Without a party representing the interests of the Funds, it seems that there could be no reasonable assurance that the terms of the transactions were on terms that were "*no less favourable to the Partnership than those that could be obtained from an unaffiliated third party.*"

Given that the transactions between Callidus and the Funds involve affiliates of the Adviser and may not be on terms as advantageous as those that could have been received from a third party, it appears that the Adviser failed to comply with the Fund III and Fund IV LPA requirements to bring such transactions to the Advisory Panel.

Section 18.1(c) of the Fund III and Fund IV LPAs also requires that all other material conflicts of interest (not otherwise provided for in the LPA) involving the Adviser's principals and the Funds be brought to the Advisory Panel. In this regard, given the amount of capital that has been invested in Callidus by multiple funds, the financial interest that the Adviser's principals have in the various Funds, and the principals' direct interest in Callidus, it appears that the Adviser would also have been required to bring the various Callidus transactions to the Advisory Panel.

The Adviser's failure to satisfy the Fund III and Fund IV LPA conflict consent requirements may constitute a violation of Section 206(1) and 206(2). Similarly, the Adviser's misstatements with regard to the manner in which certain conflicts would be resolved may violate Rule 206(4)-8.

Additionally, the Adviser's recommendation to invest in affiliated entities without disclosure of the conflicts with such investments may constitute a violation of Section 206(1) and Section 206(2).

In response to this letter, the Adviser should describe any steps that it intends to take to address the issues described above, including identifying any related, pre-existing disclosures made to investors.

C. Misleading Statements Regarding Portfolio Company Guarantees

The examination found that the Adviser's statements made to investors in the Funds relating to the operation of certain guarantees extended by the Funds and liabilities associated with them appear misleading. Such statements may constitute a violation of Rule 206(4)-8, as described below.

In connection with the Callidus IPO, the Funds entered into guarantees relating to the loans in which they had historically participated through a debenture commitment agreement. The provisions of the guarantees were initially provided for in the Debenture Repayment Agreement and were subsequently amended pursuant to a letter agreement dated February 16, 2015. Subsequent to the IPO, the Adviser included the following description of the guarantees in the notes to the 2014 Fund III audited financial statements:

*Prior to Callidus' Initial Public Offering (the "Offering"), the Fund directly or indirectly invested \$203,701,357 in Callidus managed loans. In connection with the Offering, the Fund exchanged these loan participations for shares in the Offering (at the Offering price) and at the time of the Offering, the Fund provided a guarantee with respect to possible losses of principal on those loan participations. **The purpose of these guarantees was to ensure that there is no inappropriate transfer of credit risk from the Fund to public shareholders while simultaneously ensuring the Fund had no increase in credit risk on the same loans as compared to prior to the Offering.** Accordingly, the guarantee applies: (i) in perpetuity for loans on Callidus' "watch list" at the time of the Offering, or (ii) all other loans outstanding at the time of the Offering, until their renewal (usually one year) in the ordinary course. The guarantee does not apply to any other amounts, such as advances to pay interest or fees [emphasis added].*

The estimated maximum obligation under the guarantees is \$4,079,105. As at December 31, 2014, no provision has been recorded with respect to guarantees, because as at that time management believed a full recovery on the amounts in question would occur.

This description of the Guarantees may be misleading because the guarantees did not in fact ensure that Fund III did not have an increase in credit risk on the same loans as compared to prior to the IPO. For example, as of December 31, 2014, Callidus had loaned approximately

Exhibit A

The Catalyst Capital Group Inc.
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C\$70 million to XTG.⁵ By December 31, 2015, that amount had grown to approximately C\$101 million. Despite the Adviser's representation that the guarantees would not result in an increase in the credit risk of the Funds, Fund III and Fund IV were collectively required to pay the entire C\$101 million, C\$31 million more than at December 31, 2014.

The statement in the second paragraph of the excerpt above regarding the estimated maximum obligation also appears misleading. Specifically, it appears that this amount did not represent a maximum amount but rather the amount of the current loan loss reserves that Callidus had booked against the guaranteed loans at that time. The Fund III and Fund IV 2014 audited financial statements stated that the "estimated maximum obligation under the guarantees", when aggregated, total approximately \$11.4 million. This amount appears to have significantly understated the maximum total guarantee. According to their 2017 audited financial statements, Fund III and Fund IV have collectively paid approximately \$59.5 million pursuant to the guarantees (excluding the amounts paid under the guarantee for XTG). Including XTG, Fund III and Fund IV have collectively paid approximately \$129.5 million, \$118 million more than was represented as the "estimated maximum obligation under the guarantees" in 2014.

Furthermore, the description of the guarantees in the financial statements does not describe the inherent conflict associated with the mechanics of the guarantees, as implemented. Specifically, the description of the guarantees does not identify Callidus' incentive to extend loans that were on the watch list, increasing their balances. Callidus received all interest on the increased balances, but the loans were guaranteed in perpetuity by the Funds. It also does not appear that the Adviser adequately disclosed this conflict elsewhere.

In this regard, the Adviser's statements relating to the operation of the guarantees and liabilities associated with them appear misleading. As a result, such statements may constitute a violation of Rule 206(4)-8.

In response to this letter, the Adviser should describe any steps that it intends to take to address the issues described above, including identifying any related, pre-existing disclosures made to investors.

D. Failure to Comply with LPA Concentration Limits

Based on the staff's review, it appears that Fund III and Fund IV have breached the concentration limit provisions in their respective LPAs. The Adviser's failure to invest in a manner that is consistent with these concentration limits may constitute a violation of Rule 206(4)-8. Additionally, the Adviser's recommendation to make additional investments in operating entities despite already being in breach of the concentration limits in relation to those operating entities may constitute a violation of Section 206(1) and Section 206(2). The staff's findings regarding these issues are described in more detail below.

⁵ The staff requested loan balances as of the date of the Callidus IPO, as this was the date that the Funds would have become the guarantor of the loans. The Adviser indicated that it did not have these records because they were records of Callidus. It is unclear to the staff how the Adviser, as a fiduciary, could enter its clients into a guarantee arrangement without knowing the amount that it was guaranteeing.

Exhibit A
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The Funds each have a concentration limit which restricts the amount of capital that may be invested in a single operating entity and restricts the amount that may be invested in each Fund's five largest positions. Specifically, section 4.3(c) of the Fund III and Fund IV LPAs imposes a concentration limit of 20% for investments in a single operating company and 60% for the aggregate amount invested in the respective partnership's five largest positions. Based on the staff's review, it appears that the Adviser has breached both limits in both funds.

The Fund III concentration limit is written as follows:

Concentration Limit. The Partnership shall not invest more than 20% (measured at the time of its investment) of the sum of (i) its net assets, plus (ii) the aggregate amount of its Unfunded Commitments, in any one operating entity within a specified line of business, and the aggregate amount invested in its five largest positions shall not exceed 60% of its net assets plus Unfunded Commitments at the time of investment (such 20% and 60% limitations being herein collectively called the "Concentration Limit").

The Fund III 2017 audited financial statements show approximately \$243 million measured at cost invested in equity and bridge loan investments a single operating entity, Callidus, and approximately \$864 million invested in the five largest positions. The staff's understanding is that the concentration limit requires the total amount invested in a single issuer (or the total amount invested in the top five issuers, as applicable) to be divided by the net asset value of the fund plus any unfunded commitments. Fund III does not have any remaining unfunded commitments.

As a result, the relevant calculation to arrive at the percentage of net assets that Fund III has invested in Callidus would be \$243 million divided by \$1.03 billion, or 23.6%, 3.6 percent over the limit. Similarly, the relevant calculation to arrive at the percentage of net assets that Fund III has invested in its five largest operating entities would be \$864 million divided by net assets of \$1.03 billion, or 83.9%, 23.9 percent over the limit.⁶ It also appears that Fund III may have further exceeded both tests based on the subsequent events disclosed in the 2017 audited financial statements. Specifically, the notes disclose that Fund III advanced an additional \$14.6 million to Callidus, which would increase the respective concentration percentages to 25.0% and 85.3%, respectively.

The Fund IV concentration limit is written as follows:

⁶ The staff has looked at aggregate investments in the operating entities that are currently in the portfolio for purposes of assessing the largest five issuer concentration limit. Based on the financial statements, it appears that this would understate the amount invested in the five largest investments because there are investments which have been realized that would otherwise be among the five largest investments. The staff used this calculation due to limits on information regarding when certain investments were made and realized. Given that the Funds appear to have exceeded the limit by a substantial amount, even under the staff's methodology (which may understate the percentage), the staff believes that these calculations are sufficient to understand the breaches at this time.

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Concentration Limit. The Partnership shall not invest more than 20% (measured at the time of its investment) of the sum of (i) its net assets, plus (ii) the aggregate amount of its Unfunded Commitments, in any one operating entity within a specified line of business, and the aggregate amount invested in its five largest positions shall not exceed 60% of its net assets plus Unfunded Commitments at the time of investment (such 20% and 60% limitations being herein collectively called the "Concentration Limit"); for greater certainty, the amount of any bridge loan made to an entity and the amount of any obligations of that entity that are guaranteed or otherwise financially supported by the Partnership are included in determining whether the Partnership is in compliance with the Concentration Limit.

The Fund IV 2017 audited financial statements show approximately \$327 million measured at cost invested in Callidus and approximately \$563 million invested in the three current investments in the portfolio. Net assets of Fund IV are shown as \$505 million, and it appears that the Fund was fully invested.

Based on these amounts, the relevant calculation to arrive at the percentage of net assets that Fund IV has invested in Callidus would be \$327 million divided by \$505 million, or 64.8%, 44.8 percent over the limit. Similarly, the relevant calculation to arrive at the percentage of net assets that Fund IV has invested in its five (here, three) largest operating entities would be \$563 million divided by \$505 million, or 111.5%, 51.5 percent over the limit.⁷ In correspondence with the staff, the Adviser reflected its calculation of the single operating company test as of June 30, 2017. In its calculation, the Adviser used \$812 million as the denominator. Utilizing the higher denominator, the staff notes percentages that still exceed the 20% and 60% concentration limits by 20.3 percent and 9.3 percent, respectively. Similar to Fund III, it appears that Fund IV has further breached the concentration limits by investing additional capital in Callidus subsequent to year end. According to its 2017 financial statements, Fund IV has invested an additional \$30.1 million in Callidus.

The Adviser's failure to invest in a manner that is consistent with the concentration limits of Fund III and Fund IV as defined in their respective LPAs may constitute a violation of Rule 206(4)-8. Additionally, the Adviser's recommendation to further invest in operating entities despite already being in breach of the related concentration limits may constitute a violation of Section 206(1) and Section 206(2).

In response to this letter, the Adviser should describe any steps that it intends to take to address the issues described above, including identifying any related, pre-existing disclosures made to investors or proposed waivers provided to the limited partners that address the issues described above.⁸

⁷ The percentage is greater than 100% because the cost basis of these investments is greater than the current net asset value plus outstanding commitments.

⁸ In communication with the staff, the Adviser's Chief Compliance Officer stated that no waivers of the concentration limits had been sought.

E. Misleading Statements to Investors Regarding Portfolio Company Performance

The examination identified certain statements and claims regarding the performance of one of Fund II's portfolio companies that may be misleading. Specifically, the Adviser's statements regarding the performance of Therapure Biopharma Inc. ("Therapure") and feedback from investors on the prospective IPO of Therapure appear to be misleading or omit material facts necessary to make such statements not misleading. Such statements and omissions may constitute a violation of Rule 206(4)-8, as described in more detail below.

As background, the Adviser includes the following description of the Therapure business in its quarterly letters:

Therapure Biopharma Inc. is a Canadian-based biopharmaceutical company committed to the development, manufacture, purification, and packaging of rare and complex biotherapeutics. Therapure operates under two businesses: (i) Contract Development and Manufacturing ("CDMO" or "Services"); and, (ii) Proprietary Products (a pipeline of plasma-derived therapeutic proteins and innovative biopharmaceuticals) ("Proprietary Products").

Fund II initially made an investment in Therapure (formerly Hemosol Corp.) in 2006. The Fund II 2017 Second Quarter Investor Letter notes total current capital invested was \$151 million, and the current value of investments reflected in Fund II financial statements as of June 30, 2017, was \$662 million, or 58.5% of the reflected current value of all investments.⁹ Fund II 2016 audited financial statements as of December 31, 2016 note that the Fund had received \$83,057 in dividend, fee, and interest income related to this investment and did not have any realized gains.¹⁰

The staff's review identified two areas where it appears that the Adviser made misleading statements about Therapure to investors: 1) The performance of the business, both generally and as it relates to its individual CDMO and Proprietary Products businesses, and 2) Feedback from potential IPO investors.

1) Performance of Therapure and its CDMO and Proprietary Products Businesses

The Adviser has consistently told its investors in quarterly letters and annual meeting materials that "[t]he business is performing above expectations," and the adviser has generally not disclosed to investors any material operational challenges during the period for either the CDMO business or the Proprietary Products business. However, the staff's examination has revealed

⁹ The staff notes that there is a discrepancy between the original cost of the investment as reflected in the Fund II audited financial statements relative to the records provided to the staff regarding current investments in response to the staff's request Item 12. The audited financial statements reflect an original cost of \$129 million as compared to the \$151 million reflected in Item 12 under the title "Total Investment Amount (Capital Invested)."

¹⁰ The Adviser's response to Item 12 indicates that Fund II realized approximately \$22 million as of August 31, 2017.

that there were events and operational issues that may have required disclosure to investors in light of the Adviser's regular statements regarding the business "performing above expectations." In fact, by several measures outlined below, it appears that the business was not performing above expectations. The operational issues that were not disclosed to the Fund's investors related to both the CDMO business and the Proprietary Products business.

Apparently Misleading Statements Regarding Performance of the CDMO Business

The Adviser's statements throughout 2016 and 2017 regarding the CDMO business indicate that the general investment thesis for the CDMO business was to increase production utilization through new contracts and increase revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA"). For example, in the Fund II 2016 Third Quarter Investor Letter, the Adviser included the following statement:

"The Company continues to pursue new contracts in order to achieve full production utilization and has a valuable business development pipeline representing in excess of \$135MM in revenue over the next 12-18 months. The Company continues to grow at an accelerated pace and to date Therapure delivered on its 2015 budgeted revenue increases and experienced EBITDA growth."

The Adviser included similar statements to this one in each of the following two investor quarterly updates, particularly with reference to EBITDA growth. But the Adviser did not disclose that the company failed to meet targeted revenue or EBITDA, and it did not disclose issues with respect to specific customer contracts. The staff's review found that the company was failing to meet targeted revenue and EBITDA, and it was encountering certain customer specific contract issues that appear material to the CDMO business. For example, the staff's review identified a Therapure document titled "TBI 15 Performance vs Plan," which appeared in Catalyst's communications in an email from Therapure dated March 7, 2016, showing 2015 performance. The document shows that CDMO total revenue was 23% below management's forecasted revenue, and CDMO EBITDA (before research and development) was 69% below management's forecast. However, the Adviser made no disclosure to investors regarding the revenue and earnings shortfalls during this period. In fact, it appears inconsistent with the Adviser's statement that Therapure delivered its budgeted revenue increases.

Similarly, in 2016, the CDMO business continued to miss revenue and earnings projections. Based on revenue projections communicated by Therapure management to Catalyst,¹¹ the CDMO business was expected to generate C\$78 million in revenue. The actual revenue generated by Therapure, as reported in its 2016 audited financial statements, was only C\$62.6 million, 20% below forecasted revenues. Similarly, a presentation titled 2016 Board Presentation - December 2016 and appearing in the Adviser's email correspondence with Therapure dated January 6, 2017, shows 2016 Therapure EBITDA before research and development of C\$7.2 million, or 56% below management's forecast in the previously noted

¹¹ This revenue forecast appeared in a document titled 2016 Update Presentation dated February 5, 2016.

Exhibit A
The Catalyst Capital Group Inc.
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document dated February 5, 2016.¹² Despite Therapure's failure to meet revenue and EBITDA projections, the Adviser stated in its third quarter 2016 investor letter that "(t)he business is performing above expectations and all monetization paths are advancing."

Finally, it appears that in describing the sale of the CDMO business the Adviser has not disclosed to Fund investors that two conditions precedent for closing the sale as per an Asset Purchase Agreement had not been met. In particular, after over six months, the Adviser's written response to the staff's inquiry surrounding the sale indicates that the transaction still has not received regulatory approval from Investment Canada, and it has not received the required consent from one of the CDMO customers. With regard to the CDMO customer who had withheld consent, the Adviser had also not disclosed that, in June 2017, a US affiliate of that customer alleged a breach of contract by Therapure and demanded \$31.2 million for contractual costs to date and costs for materials made to date.¹³

On May 1, 2018, a joint venture between 3SBio Inc. and CPE Funds terminated its agreement to buy the CDMO business from Therapure. On the same date, a 3SBio Inc. press release noted that "...[a]s certain condition(s) precedent under the Asset Purchase Agreement were not satisfied or waived on or before the Long-stop Date of 30 April 2018, and the Buyer and the Seller have not agreed to a further extension of time, the Asset Purchase Agreement has lapsed and the Buyer has served a notice to the Seller in writing to terminate the Asset Purchase Agreement..."¹⁴

Apparently Misleading Statements Regarding Performance of the Proprietary Products Business

There were also issues that were arising with respect to the Proprietary Products component of the company that apparently were not communicated to investors. For example, the previously noted February 5, 2016 Therapure presentation included a section titled "Milestones & Objectives Summary – Plasma Proteins Program 2016." The first slide of that section is titled "Summary of Strategic Plan" and includes the following bullets:

¹² The staff notes that in a PWC valuation report dated March 27, 2017, the following sentence was included: "We note that unaudited results for 2016 indicate that revenue was CAD\$83.1 million versus forecasted 2016 revenue of CAD \$78.0 million." However, this may be misleading because this statement does not appear to account for the fact that there appears to be approximately CAD\$18 million in intercompany revenues relating to the Product's business included in the CAD\$83.1 million in revenues referenced. These amounts appear to not have been included in 2016 budgeted revenues. Also, these amounts were not included in the consolidated results as they appear in Therapure's 2016 audited financials, as they do not represent third party sales.

¹³ A document dated August 1, 2017 indicates that the dispute may have been subsequently resolved with Therapure agreeing to take certain steps and covering certain costs to remediate the issues identified in the demand letter. These costs included the cost of hiring a compliance consultant and the cost of certain materials and manufacturing supporting the compliance work plan.

¹⁴ 3S Bio Inc. announced in the same press release that it had entered into an exclusivity agreement with Therapure, CPE Fund II, CPE Fund IIA, Catalyst Fund General Partner II Inc., and Catalyst Fund Limited Partnership II in order to explore alternative business opportunities and arrangements with respect to the CDMO business. The exclusivity agreement has a one month initial term, which may be extended by mutual agreement.

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- **Bring to Market Intravenous Immunoglobulin (IVIG) in 2018**
- Competitive product in - line with higher - tiered products (for US/CA market)
- Single Phase III trial approach – supported by FDA guidance document and meeting with regulators
- **Bring to Market Albumin in 2018**
- Competitive product (for US/CA market)
- Seek approval based on product specifications under Code of Federal Regulations
- Provide sufficient non - clinical data at meeting with regulators to support no clinical trial approach
- **Bring to Market Alpha - 1 Antitrypsin (AAT) in 2020**
- Competitive product (for US market)
- Provide sufficient non - clinical data at meeting with regulators to support single bioequivalence trial approach
- **Construct Commercial Facility by 2018**
- Initial build to support commercial IVIG and Albumin with additional footprint for other products
- Add - on facility for AAT to be built in 2019 for 2020 commercial launch
- **Leverage Technology by Developing Pipeline of Follow-on Products**
- Develop business case and programs for additional proteins
- Map additional proteins in manufacturing process to identify easily accessible value streams

It appears that there have been significant delays in Therapure achieving all of these goals. In particular, written responses to the staff’s inquiries indicate that as of November/December 2017, almost 2 years after the above projections, all of the timelines identified above have been delayed between 2 and 3 years. Based on those current projections, IVIG and Albumin are further from being brought to market than they were 2 years ago. Similarly, construction related to expansion of Therapure’s plant that is expected to manufacture IVIG for commercial sale has encountered significant delays and setbacks. The staff understands that the delays in the construction project are primarily the result of an inability to finance the project. It appears that this apparently material fact was also not disclosed to the Fund’s investors.

2) *Feedback from Potential IPO Investors*

The examination has also identified certain statements that appear to be misleading regarding feedback received on the potential IPO. In particular, the Adviser has consistently stated to Fund investors that feedback received regarding Therapure from prospective investors during the IPO marketing process had been positive without disclosing negative feedback received. For example, the Adviser stated in a 2015 annual meeting presentation that “Therapure is performing above expectations and investor feedback during the IPO process about the quality of management and the company was very positive.” The Adviser did not disclose that there was also negative feedback from potential investors regarding certain aspects of the company and the IPO itself. For example, the staff noted that GMP Securities presented a June 2016 slide deck which included a slide titled “IPO Feedback vs. Recent Achievements.” The slide stated that “Therapure has mitigated some of the negative feedback received during the IPO marketing process, but it is unclear whether this will increase investors’ appetite.” The slide also included five negative feedback items received during the process, including “[l]arge execution risk on plasma business - not proven at commercial scale” and “Catalyst post-transaction percentage ownership and liquidity concerns.” Each of these items may have been material to investors. Disclosure of these items may have been necessary to make the Adviser’s statements regarding the feedback received during the IPO process not misleading.

The Adviser’s statements regarding the performance and prospective IPO of Therapure appear to be misleading or omit material facts necessary to make such statements not misleading. Such statements and omissions may constitute a violation of Rule 206(4)-8.

[REDACTED]

I. Delivery of 2017 Audited Financial Statements Inconsistent with LPA and PPM

The examination identified that the Adviser decided not to distribute the Funds' 2017 audited financial statements to the fund limited partners ("LPs") within 90 days of each Fund's fiscal year, as required by the Fund LPAs.¹⁶ The Adviser's decision to adopt practices that are in contravention of representations made by itself and its affiliates without an amendment or consent from investors may constitute a violation of Rule 206(4)-8, as described below.

¹⁶ The audited financial statements were signed on April 2, 2018.

Exhibit A
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In an April 10, 2018, letter (“April Letter”) to Fund LPs, the Adviser stated that due to concerns regarding the leakage of information to the media regarding Fund portfolio company information that is sensitive in relation to certain monetization processes, the Adviser would not be distributing the audited financial statements for all funds across all LPs until “a week or so” before a re-scheduled annual general meeting (“AGM”).¹⁷ The Adviser further noted that it would, however, provide the audited financial statements to any LP specifically requesting the statements, subject to certain conditions being met.

The Adviser’s decision not to distribute the Funds’ 2017 audited financial statements to Catalyst Fund investors within 90 days of December 31, 2017 appears to be inconsistent with the requirements of the Funds’ LPAs and private placement memoranda (“PPMs”). Specifically, Section 13.4, titled Annual Reports, of the Funds’ LPAs states that:

Within 90 days of the end of each Fiscal Year, the General Partner, with the assistance of the Administrative Services Provider, shall send, or cause to be sent, to each Person who was a Limited Partner at the end of such Fiscal Year a report summarizing the status of the activities of the Partnership as at the end of the Fiscal Year, which shall include:

- (a) the audited financial statements of the Partnership for such Fiscal Year, including the balance sheet for the Partnership as of the end of such Fiscal Year as well as statements of income for such Fiscal Year and a statement of source and use of funds, prepared in accordance with GAAP and accompanied by the report of the Auditor thereon; . . .*

The Adviser’s decision not to send the Funds’ 2017 audited financial statements to all of its respective LPs within 90 days of December 31, 2017, is inconsistent with representations made to fund investors in section 13.4 of the respective LPAs. Accordingly, the Adviser’s decision to withhold delivery of the audited financial statements without amending the LPA may constitute a violation of Rule 206(4)-8.

Additionally, the staff noted the following statement in a letter to the Funds’ investors regarding the determination to postpone the annual meeting and also postpone delivery of the audited financial statements:

Upon advice of both counsel to the Funds as well as unanimous direction from all Limited Partner Advisory Committee Members, it is believed the following is the best way to ensure the monetizations proceed and are maximized while seeking to mitigate the risk of possible damage from continued leaks: . . .

It appears that the statement that these actions were taken upon “unanimous direction from all Limited Partner Advisory Committee Members” is misleading. Specifically, in written correspondence with the staff, the Adviser was only able to confirm that a subset of the Advisory Committee participated in the call at which this issue was discussed.

¹⁷ The Adviser stated in its April Letter that it expected to hold the AGM in late May or early June of 2018.

Exhibit A
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In response to this letter, the Adviser should describe any corrective actions it intends to take regarding this matter, including whether it intends to seek LP consents or formally amend the LPA. To the extent that the Adviser does not intend to amend the LPA or seek LP consent, the staff requests that the Adviser describe in response to this letter its authority to withhold the audited financial statements of the Funds without seeking consent of the LPs or an amendment of the LPA.

[REDACTED]

II. Rule 21F-17(a) under the Securities Exchange Act of 1934 - Whistleblower Regulations

A. Language Inconsistent with the Commission’s Whistleblower Regulations

Rule 21F-17(a) under the Securities Exchange Act of 1934 prohibits any person from taking any action to impede an individual from communicating directly with the Commission staff about a possible securities law violation.

The staff found that the confidentiality language in the Adviser’s Employment Agreement and Employee Handbook appears to be inconsistent with Rule 21F-17(a)¹⁸. For example, a template produced to the staff with the Adviser’s Employment Agreement language states:

You also agree that you shall not, at any time during the term of your employment with us or thereafter reveal, divulge or make known to any person, other than to [the Adviser] and our duly authorized employees or representatives or use for your own or any other's benefit, any Confidential Information, which during or as a result of your employment with us, has become known to you.

In addition, the Adviser’s Employee Handbook, last revised October, 2017, includes a Confidentiality Policy which states, among other things, that:

All Catalyst employees are required to keep confidential any Company information which has not been made public and to ensure it is not revealed to any outside source.

¹⁸ The confidentiality language in the Employment Agreement template is also referred to in a template of the Adviser’s Mutual Release, which appears to be signed by the Adviser’s personnel upon termination.

Exhibit A
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You understand that, in your capacity as an employee, you will acquire information about certain matters and things which are confidential to the Company ("Confidential Information") . . .

At all times during and subsequent to the employee's employment with the Company, the employee will not disclose Confidential Information to any person without first obtaining the Company's consent, and the employee will take all reasonable precautions to prevent inadvertent disclosure of any confidential information.

The language in these documents may impede existing and future employees from communicating with the SEC and, accordingly, may be inconsistent with Rule 21F-17(a).

In response to this letter, the Adviser should describe any corrective actions it intends to take regarding this matter, including and any steps it will take to ensure that the Adviser's current and former employees are apprised of any such changes.

EXHIBIT #3

DRAFT
Confidential
Attorney Client Privilege

Callidus Capital Corporation

Strategic Review & Remediation Plan

February 25, 2019



Agenda

I. Executive Summary

II. Current State of the Business?

III. How Did CBL Get Here?

IV. Where does CBL want to be?

V. Preliminary Remediation Plan Recommendation

Executive Summary

- The Company, the Shareholders and the team have all been through a challenging three years. CBL needs to focus on **Stabilizing** the platform, **Monetizing** non-core assets and **Simplifying** the business model back to a true Asset Based Lender
- **Stabilize the Platform**
 - CBL is in **CRISIS** and is no longer viable as a public company without a significant recapitalization of its balance sheet and a complete rotation of its portfolio from unprofitable, non-cash generating assets to stable to cash paying asset based loans
 - CBL requires significant annual funding just to maintain it's own current operations and to fund its Operating Subsidiaries and Watchlist Loans.
 - Virtually all sources of liquidity are fully depleted
 - The Braslyn Privatization process may be the only viable option for CBL to remain a going concern
 - An immediate Remediation Plan is necessary to return to a profitable business and will require significant changes to CBL's Governance, Credit Committee Approval Process, Loan Loss Provision/Valuation Approval Process, and Strategic Planning
- **Monetize Non-core Assets**
 - CBL has 15 of 17 non-core portfolio companies and should monetize assets as quickly as possible
 - In 2018, CBL funded \$82 million to these companies to protect net carrying values
- **Simplify the Business Model**
 - Corrective initiatives will take up to two years to fully implement for CBL to reposition, rotate and rebuild CBL's portfolio
 - Restart, Rebrand and Relaunch the platform and focus exclusively as an Asset Based Lender
 - Access near term funding to support current operations of CBL and money-losing subsidiaries as CBL transitions back to a lender from Distressed Private Equity
 - Access Growth capital in order to originate and rebuild build a cash paying Asset Based Loan portfolio that will generate enough positive income to fund on-going operations
 - Build a stable, diversified portfolio in order to raise less expensive debt capital to provide for a > 10% ROIC net off losses

Agenda

I. Executive Summary

II. Current State of the Business

III. How Did CBL Get Here?

IV. Where does CBL want to be?

V. Preliminary Remediation Plan Recommendation

Current State of the Business

- Callidus has transformed over the past five years from an Asset Based Lender to a Distressed Private Equity business with **59% of Investments** being valued on an Enterprise Value approach rather than hard asset coverage
- **Cash Flow Concerns**
 - CBL generated over \$312 million in net losses over the last three years
 - 2018 generated **\$8.7 million of cash interest** from its portfolio, yet had over **\$118 million** in cash outflows to fund CBL Operations and existing portfolio cash deficits
 - \$28 million spent to fund CBL operations; \$82 million to fund losses at Operating Subsidiaries and watchlist loans; \$8 million in interest payments
 - As of February 24, 2019, CBL has only **\$32 million cash** remaining on its Balance Sheet of which approximately \$5 million is restricted cash
 - CBL currently has three signed Term Sheets for new deals but lacks the capital to close any of these deals
 - No further access to Fund V participation or further Guarantee Advance or any other funding sources
 - CBL borrowed **\$135 million** from Catalyst under the Subordinated Debt Bridge, Catalyst Guarantee Advance and hold backs to Catalyst Fund V participations
 - Projected liquidity for 2019 is estimated at negative \$30 million and will end the year with \$0 cash on hand
- **Valuation Concerns**
 - Callidus Book Equity has fallen **76%** from the IPO and its Market Capitalization has also fallen **91%** from its peak in August 2015.
 - As of December 31, 2018, CBL will have a remaining **Book Value of only \$50 million** and that will continue to decline in 2019 and trend negative quickly as Operating Losses continue and the Subordinated Debt Bridge Loan continues to accrete an additional **\$40 million** in 2019
 - As of Q3 2018, there was only \$110 million (~\$2/share) of remaining BV. As of December 31, 2018, Book Value is estimated at approximately \$50 million or ~\$1 per share

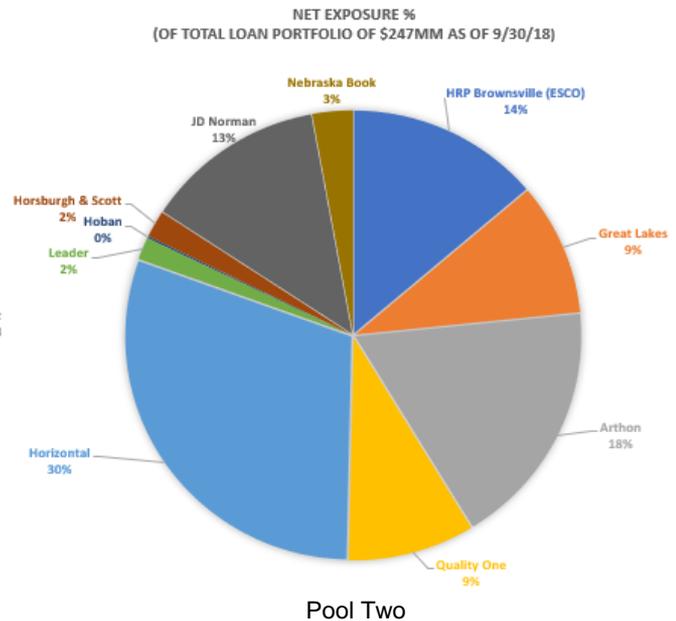
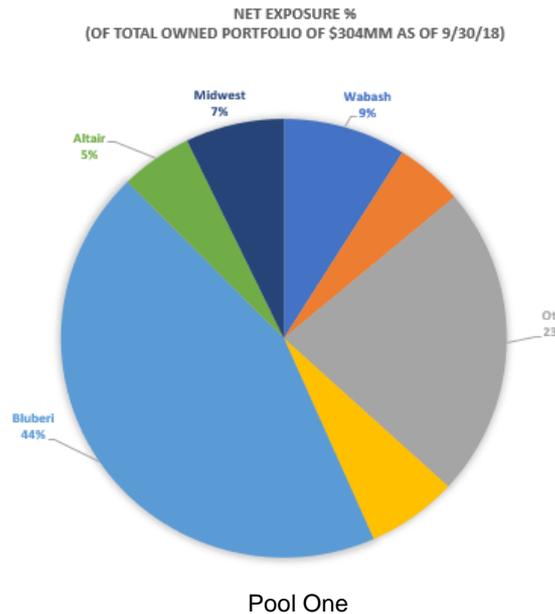
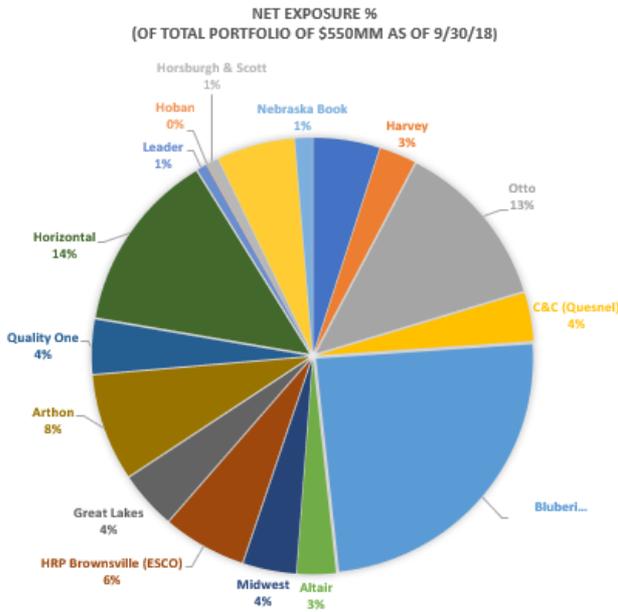
Current State of the Business

- **Imminent Portfolio Concerns**

- Bluberi is a significant asset that is presently unstable
 - Licensing remains a significant problem
 - 2018 Bonuses and 2019 plan remain unapproved by CBL Credit Committee given the Unanimous Approval requirement
 - If Management leaves the company, value will quickly deteriorate
 - CBL performed a wide search for a new CEO in 2018 and was unsuccessful attracting a CEO due to concerns over a budget that was determined to be too aggressive
- JD Norman is the latest threat to CBL and Catalyst, as it is a \$95 million (\$US) loan to a company that has encountered significant challenges which led to the need for additional capital immediately or possibly face bankruptcy

Current State of the Business

- As of Q3 2018, CBL managed \$550 million of net exposure (net of Fund V Participations), yet manages two distinctive pools of assets
 - Pool One: ~\$330 million in six owned distressed/stressed subsidiaries requiring a Distressed Private Equity skill set
 - Pool Two: ~\$250 million in 10 loans of which six effectively are/will be managed as wholly owned subsidiaries (i.e., HRP Brownsville, Great Lakes, Arthon, Horizontal, Leader and JDNorman (new))



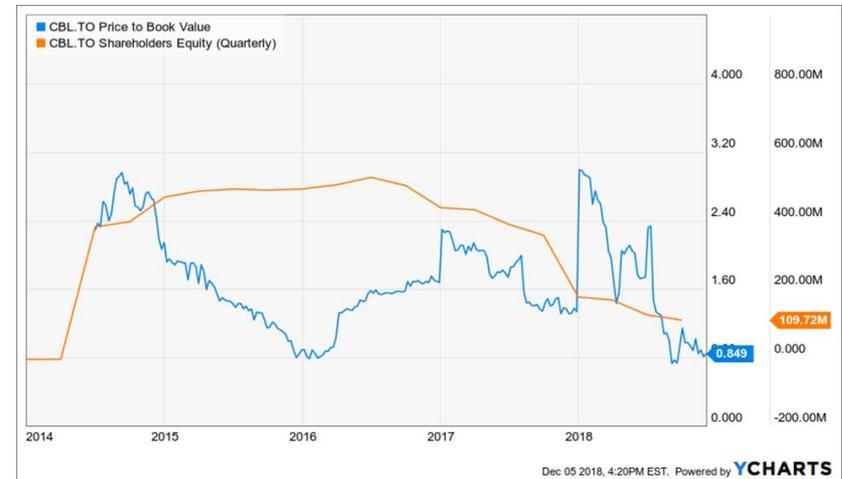
Conclusion

- CBL does not have the requisite skill set, resources or capital to properly manage owned subsidiary assets

Footnote: All figure net of Fund V Participations

CBL Stock/Market Cap Decline Driven by Weakening Loan Portfolio Performance and a Series of Dilutive Corporate Activities

- CBL currently trades at \$1.70 per share or \$97 million in market capitalization
- CBL trades at a .89x Book Value and .85x Braslyn's \$2 per share Privatization Offer based on September 30, 2018 balance sheet
- Performance of the stock has led to significant losses to shareholders and little confidence in the company



Agenda

- I. Executive Summary

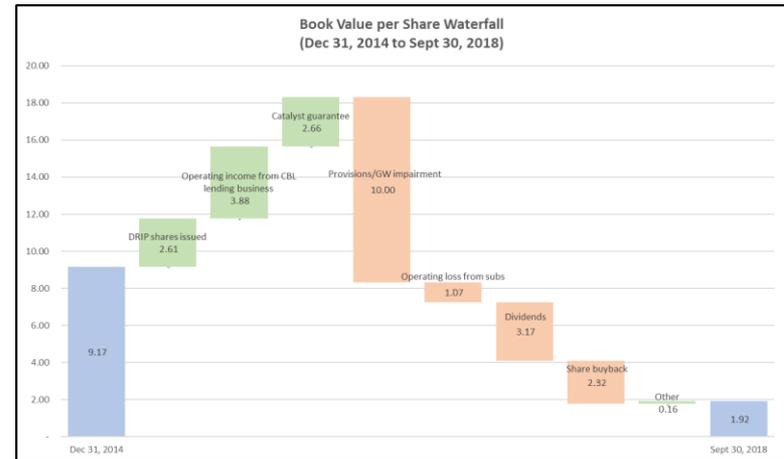
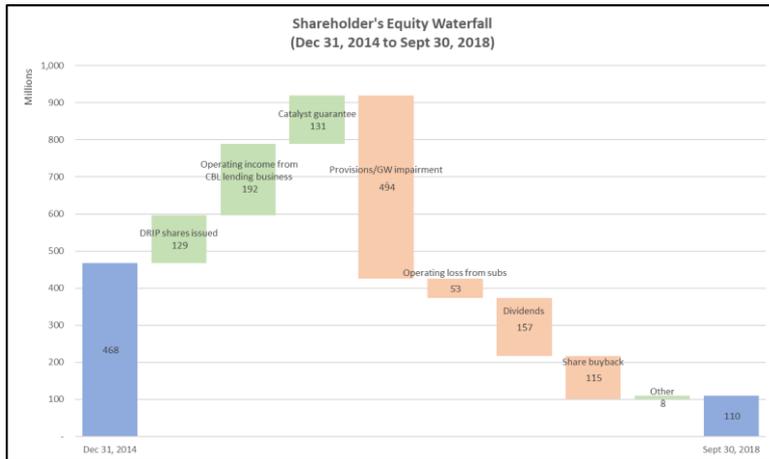
- II. Where is CBL Today?

- III. How Did CBL Get Here?**

- IV. Where does CBL want to be?

- V. Preliminary Remediation Plan Recommendation

How did CBL Get Here?



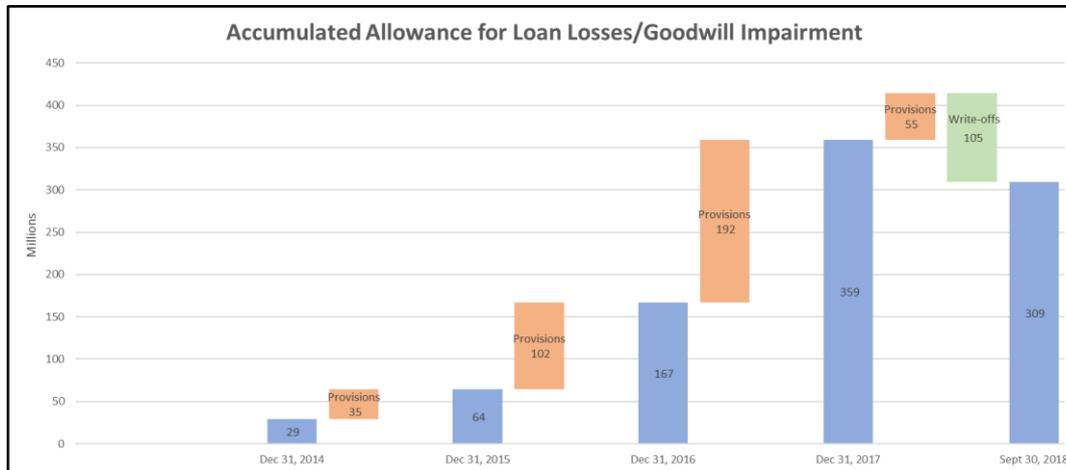
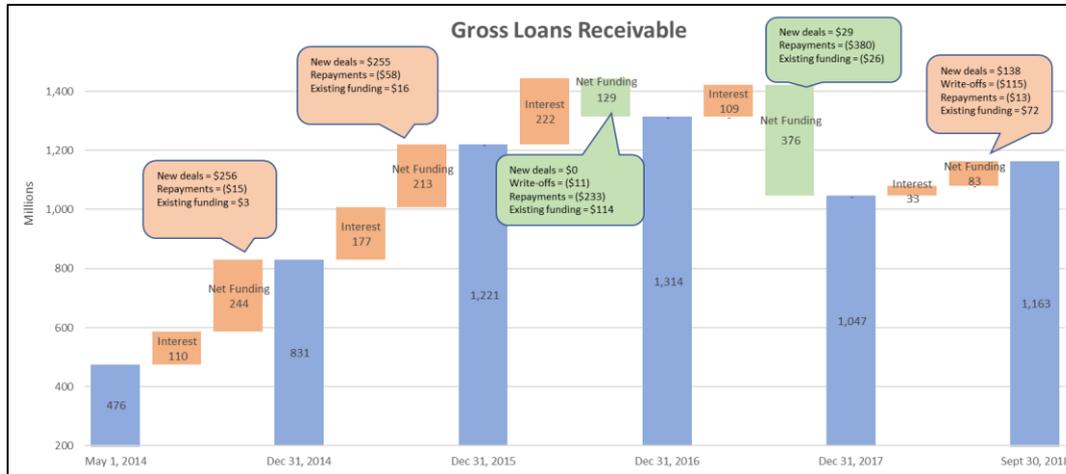
Key Facts

- CBL has lost over **77%** of Book Equity Value since the IPO in 2014
- CBL has also lost **91%** of Market Capitalization from \$1.139 Billion (Aug 25, 2015; 2.87x BV) to \$96.45 million (Feb 15, 2019; .88x BV)
- Loan Loss Provisions accounted for over \$494 million as of September 30, 2018
- High Gross Loan Yields produced extremely low Net Yields after Loan Losses
- Operating Company Subsidiaries have been and continue to be a drain on book value and liquidity for CBL

Conclusions

- Aggressive Enterprise Value valuations, “doubling down” on investments, and high Fees and PIK interest coupons drove unachievable realizations
- Unsuccessful Corporate Actions including a Dilutive Share Repurchase and Dividend Program cost \$272 million of book value and liquidity
- We expect further increase in LLPs for Q4 of approximately ~ \$66 million

How did CBL Get Here?



CBL Debt Summary 2014-2018

CALLIDUS CAPITAL CORPORATION Cost of Debt Summary

(\$MMs)	Dec-18	Dec-17	Dec-16	Dec-15	Dec-14
Debt					
Non-revolving term loan (Mar 31, 2019) ⁽¹⁾	\$ 38	\$ 50	\$ 50	\$ 50	\$ 50
Revolving credit facility ⁽²⁾	-	-	100	303	213
Bridge facility (Apr 30, 2019) ⁽³⁾	407	313	335	309	116
Collateralized loan obligation (Dec 7, 2021)	84	86	101	-	-
Fund V Over advance	53	-	-	-	-
Guarantee Over advance	33	-	-	-	-
Non-revolving term loan amortization facility	11	-	-	-	-
Other Payables (XTG cash, participation income, other)	6	-	-	-	-
Total (Inc. non-interest bearing amounts outstanding)	\$ 632	\$ 449	\$ 587	\$ 663	\$ 379
Total (Exc. non-interest bearing amounts outstanding)	\$ 529	\$ 449	\$ 587	\$ 663	\$ 379
Cost of debt⁽⁴⁾					
Non-revolving term loan (Mar 31, 2019) ⁽¹⁾	8.7%	8.7%	8.7%	8.7%	8.7%
Revolving credit facility (Jan 15, 2019) ⁽²⁾	-	-	8.8%	5.0%	5.5%
Bridge facility (Apr 30, 2019) ⁽³⁾	9.5%	12.1%	9.6%	9.8%	14.4%
Collateralized loan obligation (Dec 7, 2021) ⁽⁵⁾	5.6%	5.7%	5.4%	-	-
Fund V Over advance	-	-	-	-	-
Guarantee Over advance	-	-	-	-	-
Non-revolving term loan amortization facility	-	-	-	-	-
Other Payables (XTG cash, participation income, other)	-	-	-	-	-
Cost of Debt (Inc. non-interest bearing)	7.3%	10.5%	8.7%	7.5%	8.7%
Cost of Debt (Exc. non-interest bearing)	8.8%	10.5%	8.7%	7.5%	8.7%

(1) Matures the earlier of: (i) March 31, 2019, and (ii) completion of privatization transaction

(2) Revolving credit facility terminated in FY17 as 'nil' loan balance outstanding at end of revolving period

(3) Matures the earlier of: (i) April 30, 2019, and (ii) day following repayment of senior debt in full

(4) Weighted average cost of debt for the three month periods ended Dec 31, 2014 through Sept 30, 2018; assumes cost of debt for Dec 31, 2018 is consistent with Sept 30, 2018

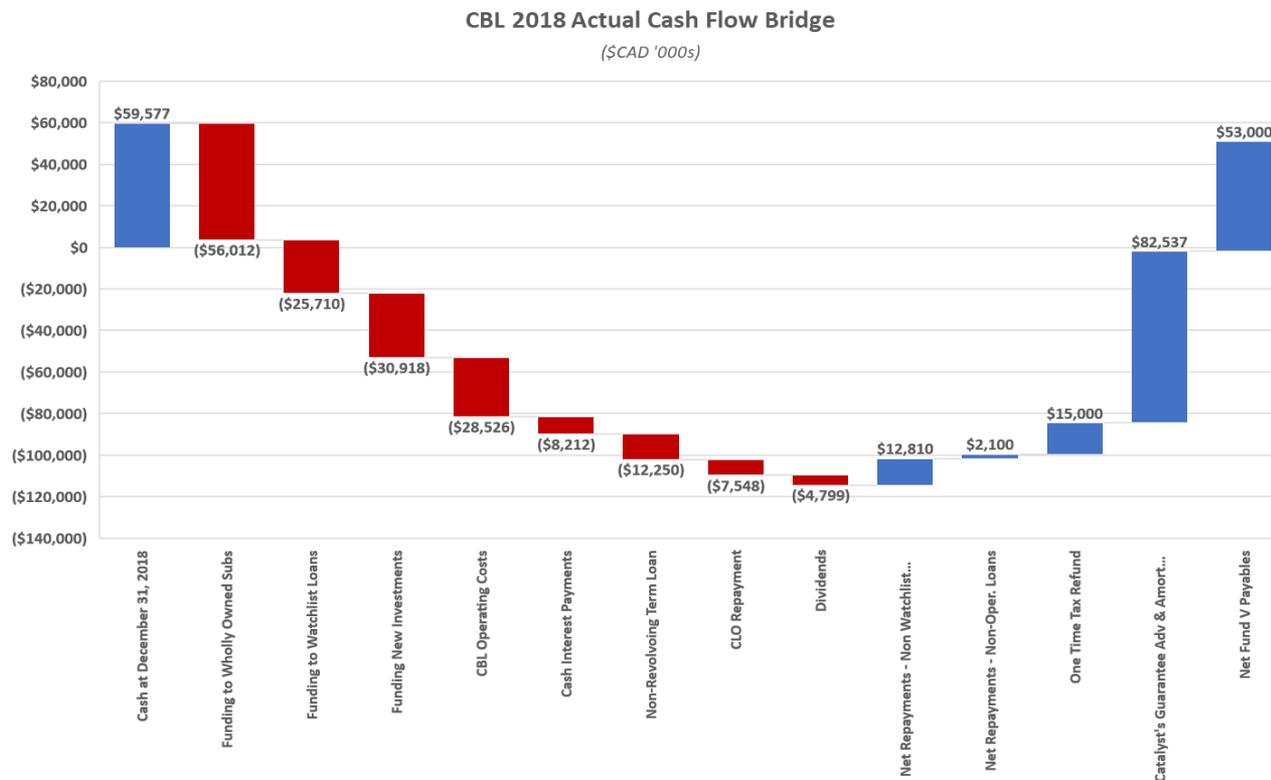
(5) Loan currently in amortization period; revolving period ended Dec, 2018

- Debt liabilities increased significantly in 2018
- Due to poor performance, access to third party debt funding has virtually vanished for CBL
- Since CBL has not produced positive cash flow for several years, it has relied on unnatural sources of liquidity from Catalyst

Conclusions

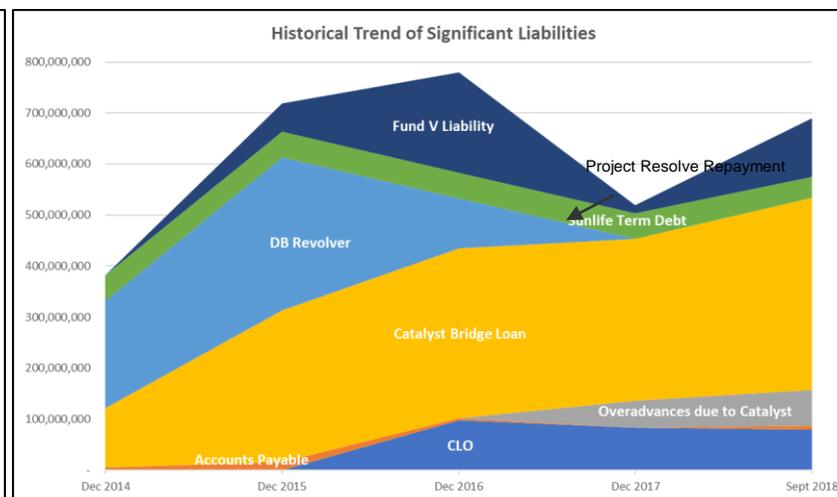
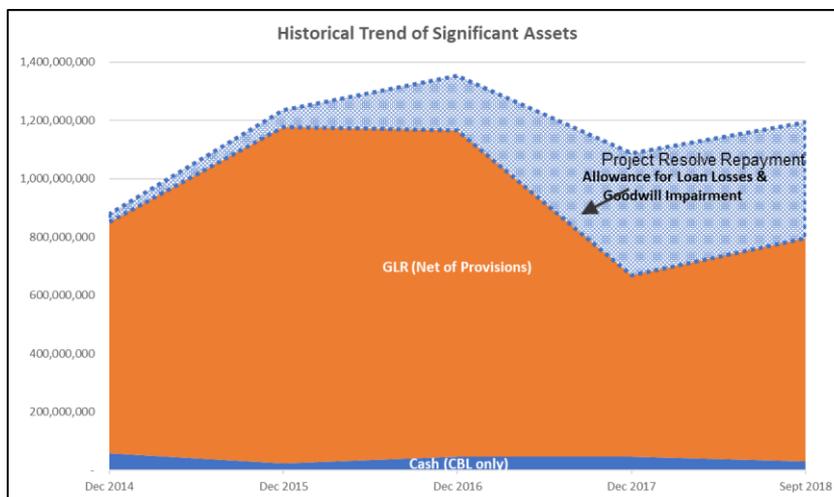
- CBL grew too aggressively post-IPO growing Gross Loans Receivable by 176% in 2 ½ years
- Loan Loss Provisions began to surface in 2015 and have continued through 2018
- High Unsustainable Gross Loan Yields produced extremely low Net Yields after Loan Losses
- New deal Origination was virtually halted in 2016 and capital was used to repurchase stock (above book value) and pay Dividends
- Catalyst became the only source of capital due to poor performance

CBL's 2018 ACTUAL Cash Flow Bridge



- For 2018, cash flow from Operations was **Negative \$118 million**
 - \$28 million of CBL Operating Costs plus
 - **\$82 to fund Existing Portfolio to cover losses, working capital and capex - \$56 million to Wholly Owned Subs + \$26 million to Watchlist Loans while the Net Carrying Value declined \$60 million over the year**
 - \$8mm of Interest Cost
- \$15 million Tax Refund is non-recurring
- Only \$31 million of New Investments in 2018
- Received \$136 million in funds from Catalyst from \$83 million in Guarantee Advances and \$53 million in Fund V Participation hold-hold backs
- Without Fund V Participation hold-backs cash would be \$0

....Driven by Weak Performance in CBL's Lending Business



Conclusions

- Beginning in 2016 Loan Loss Provisions began to accelerate and have continued to expand
- Except for \$62 million remaining on the CLO, the current portfolio is unfinanceable due to performance issues and lack of sufficient diversification
- Along with the Catalyst Subordinated Debt Bridge, Over-advances from Guarantees and Participation Interest payables have been used as a source of funding
- The Subordinated Debt Bridge will accrete another \$40 million in 2019

Performance at CBL's Owned Subsidiaries & Watchlist loans continue to drag on Book Value and Liquidity

Callidus Capital Corporation Subsidiaries & Material Loans

\$MM CAD	FX rate = 1.2545 December 31, 2017			FX rate = 1.3637 December 31, 2018			Avg rate = 1.2961				Δ in Net Carrying Value	
	GLR	LLP	Net Carrying Value	GLR	LLP	FX	Net Carrying Value	Δ in GLR	Δ in GLR (due to FX)	Δ in GLR (due to net loss)		Δ in GLR (due to actual funding)
Bluberi	128.6	75.0	203.6	135.4	-	-	135.4	6.8	-	(1.9)	8.7	(68.2)
Harvey	34.2	(11.2)	23.1	39.3	(8.9)	-	30.3	5.0	3.1	-	1.9	7.2
Wabash	35.6	(8.9)	26.6	37.4	(23.9)	-	13.5	1.8	3.5	(9.2)	7.5	(13.1)
Otto	80.9	10.2	91.1	95.0	26.7	-	121.6	14.1	7.9	(10.2)	16.4	30.6
C&C Value Add	-	-	-	-	-	-	-	-	-	-	-	-
C&C Quesnel	47.4	(21.9)	25.5	47.4	(21.9)	-	25.5	(0.0)	-	-	(0.0)	(0.0)
Midwest	21.7	(5.8)	15.9	26.6	(7.9)	-	18.7	4.9	2.3	(5.8)	8.3	2.8
Alken/Altair	29.1	(13.2)	15.9	28.8	(15.5)	-	13.2	(0.3)	-	(2.0)	1.7	(2.7)
Horizontal	185.2	(131.9)	53.3	223.6	(165.3)	-	58.3	38.4	17.2	-	21.1	5.0
Leader	31.7	-	31.7	42.4	(38.2)	-	4.2	10.7	3.2	-	7.5	(27.5)
Arthon	64.6	(19.8)	44.8	56.4	(27.2)	-	29.1	(8.2)	-	-	(8.2)	(15.6)
Great lakes	44.9	(15.5)	29.4	50.0	(34.7)	-	15.4	5.1	4.0	-	1.2	(14.0)
HRP ESCO (Oldco)	24.0	(21.6)	2.5	26.5	(26.5)	-	-	2.4	2.1	-	0.3	(2.5)
ESCO Opco	-	-	-	11.7	-	-	11.7	11.7	0.6	-	11.1	11.7
HRP Financial Instrument	46.9	(22.5)	-	51.9	(25.0)	-	26.8	5.0	4.1	-	0.8	26.8
Delta	774.9	(187.1)	563.3	872.1	(368.5)	-	503.7	97.3	48.0	(29.1)	78.4	(59.6)

Of the \$97 million change in GLR, \$48 million was due to FX and the remaining \$44 million change is due to \$78 million of net funding of which operating losses reduced values by \$29 million.

Conclusions

- Operating performance at CBL Subsidiaries and Watchlist Loans continue to deteriorate resulting in a **net write down of \$60 million despite over \$80 million in cash funding** throughout the year
- It is apparent that in an effort to keep loan loss provisions lower, the 5 year Discounted Cash Flow model was used. As a result, these companies needed cash to fund losses, capex and working capital, otherwise these companies would be forced to liquidate which would produce a very significant write down to Net Carrying Values
- These fundings were approved by CBL Credit Committee

CBL's Liquidity Projections for 2019

For the three month period ended (S'MMMs)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Total
Opening cash balance ⁽¹⁾	28	34	(2)	(2)	2	28
Liquidity (Needs):						
A. Funding proceeds (use) - existing portfolio ⁽²⁾	(1)	(47)	34	2	43	30
B. Debt service and principal repayment obligations						
(i) Debt service ⁽³⁾	(7)	(3)	(3)	(3)	(3)	(19)
(ii) Principal repayment obligations ⁽⁴⁾	(56)	(418)	-	-	(19)	(493)
C. Capital markets programs ⁽⁵⁾						-
D. Payments related to foreign currency contracts ⁽⁶⁾	-	-	-	-	-	-
E. Ongoing operating costs ⁽⁷⁾	(6)	(6)	(6)	(6)	(6)	(30)
Total	(70)	(474)	24	(7)	14	(512)
Liquidity Sources:						
F. Realize (fully or partially) on guarantee amounts ⁽⁸⁾		-				-
G. Undrawn / extension of maturing credit facilities ⁽⁹⁾		418				418
H. Catalyst Fund V - loan participation interests ⁽¹⁰⁾	(16)	21	(25)	8	(15)	(26)
I. Sale / recap of wholly owned subsidiaries ⁽¹¹⁾	92	(1)	-	2	-	93
J. Syndication of loans ⁽¹²⁾						-
K. Privatization transaction funding ⁽¹³⁾						-
Total	76	438	(25)	11	(15)	486
Ending cash balance	34	(2)	(2)	2	2	2
Realize on guarantee amounts - remaining	59	59	59	59	59	59
Availability - \$15.5MM liquidity support letter	4	4	4	4	4	4
less: undrawn borrower commitments ⁽¹⁴⁾	-	(10)	(6)	(9)	-	-
less: amounts owing to Catalyst Funds ⁽¹⁵⁾	(41)	(41)	(41)	(41)	(41)	(41)
less: minimum cash ⁽¹⁶⁾	(20)	(20)	(20)	(20)	(20)	(20)
less: contingency [NTD: to be determined]						
Cash and guarantee amounts	36	(10)	(6)	(5)	4	4

Conclusions

- Organic Liquidity is very tight and historic sources of additional liquidity are now very limited (i.e., guarantee over advance, Fund V Interest Participations Deferrals, and Sub Debt Bridge)
- CBL must do a much better job projecting liquidity
- Owned Subsidiaries funding requirements including Capex, W/C and Operating Losses remains significant and challenging to meet. However, reducing fundings will have a direct and immediate negative impact on Valuations of owned Subsidiaries

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- II. Where is CBL Today?

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- IV. Where does CBL want to be?**

- V. Preliminary Remediation Plan Recommendation

Qualities of a Successful Credit Manager

	Callidus' Grade
Strong Leadership & Vision	To Be Discussed
Experienced & Committed People	To Be Discussed
Secure, Positive, Collaborative Corporate Culture	To Be Discussed
Proven Performance Track Record	To Be Discussed
Dynamic Proprietary Originations Platform	To Be Discussed
Repeatable, Scalable, Objective & Responsive Investment Process	To Be Discussed
Consensus Driven Decision Making & Shared Accountability	To Be Discussed
Independent, Objective Valuation/LLP Process with Proven "Back Tested" Results	To Be Discussed
Access to Low Cost Debt Capital	To Be Discussed
Sound Governance, Oversight, Hygiene & Compliance – (e.g., Avoid Conflict of Interest)	To Be Discussed
Proven Risk Management System and Consistently Applied Protocols	To Be Discussed
High Percentage of Income from Recurring Cash Pay Interest Income	To Be Discussed
Strong External Relationships, Brand & Reputation	To Be Discussed
Effective Financial & Operations Infrastructure and Rigorous Control Environment	To Be Discussed
Alignment of Interests/Compensation to Investor Performance	To Be Discussed

What is Valued by the Market of the Investment Manager

- CBL is an Internally Managed commercial finance company
- Publicly traded credit managers trade on a combination as a multiple of NAV (i.e., Book Value) and ROE or Available capital left for distribution
- The Global Private Debt Market is among the fastest growing segments of Alternative Asset Investing
- The closest comparable companies to CBL are Business Development Companies in the US that trade on BV and an expected risk adjusted Dividend or ROE (8-12%)
- “Healthy” Internally Managed BDCs trade at a premium to BV given the market’s positive view of the Management Team’s track record, profitability, access and cost of capital
- Externally Managed BDC’s are valued in and around BV since the portfolio of loans can be repaid by the borrower
- Less healthy BDCs trade at a significant discount to Book Value because the market has lost confidence in the portfolio and expect more losses and a lower BV over time
- There have been several recent acquisitions and/or offers made to acquire portfolio and/or the manager
- Manager Values for healthy managers assume a 50% contribution margin on fees earned and apply a 4-5 multiple
- Given lack of profitability at CBL, it is more likely that the CBL Servicer/Manager platform would be valued on an Replacement Cost Approach of the Infrastructure, the perceived quality of the team and existing relationships versus a greenfield approach

Agenda

I. Executive Summary

II. Where is CBL Today?

III. How Did CBL Get Here?

IV. Where do CBL want to be?

V. Preliminary Remediation Plan Recommendation

CBL Preliminary Remediation Plan Recommendation

	Action Item
STEP 1	Complete Privatization or Balance Sheet Recapitalization ASAP
STEP 2	Revamp Governance Oversight & Credit Committee Approval Process
STEP 3	Monetize Wholly Owned Subs as soon as practicable
STEP 4	Work out of ALL Watchlist Loans ASAP
STEP 5	Secure short term funding to maintain operations
STEP 6	Externalize CBL Management Company and manage legacy and New Investments separately
STEP 7	Secure growth capital
STEP 8	Rationalize expenses and right size team, G&A, legal, Accounting, rent and other public company expenses
STEP 9	Restart, Rebrand and Relaunch
STEP 10	Build a of ~20 healthy loans to securitize and reduce cost of capital and generate a 10-12% ROIC

Preliminary CBL Expense Rationalization Plan

Preliminary Conclusions

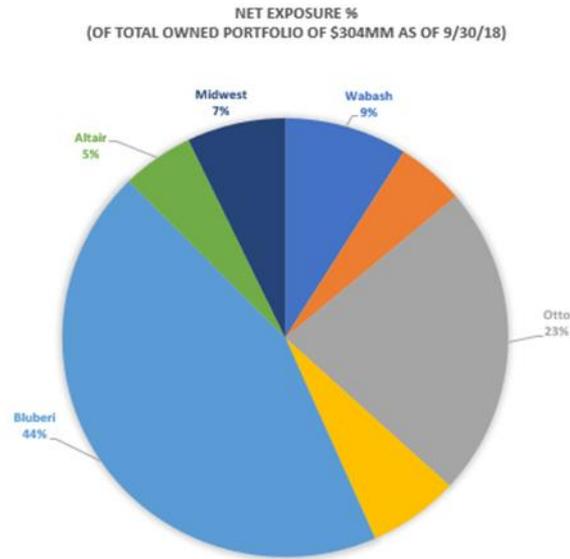
- CBL has a bloated infrastructure for an Asset Based Lending business. However, given that CBL is managing both Distressed Private Equity and Loans as a public company under IFRS rules, it had been necessary to retain most of the staff to date
- There are several areas that can be addressed quickly as a private company that can reduce operating expenses immediately
- However, it depends how much access to growth capital to rebuild the portfolio that will determine the ultimate headcount and salary
- Compensation systems need to be addressed to more closely align incentives to performance

Callidus Capital

Preliminary Expense Rationalization Plan (\$000)

	<u>2018E</u>
CBL Lending Business Operating Expenses	\$25,000
Salaries	\$13,856
G&A	\$3,533
Legal & Professional Fees	\$4,387
Audit	\$1,702
Other (Legal, Audit, Ops, etc.)	\$1,522
	<u>\$25,000</u>
Adjustments	
Public Company Costs	
Director Fees	(\$803)
Legal & Professional Fees	(\$2,000)
Audit & Accounting Fees	(\$1,000)
General & Administrative Expense	(\$889)
Insurance	(\$59)
	<u>(\$4,752)</u>
Salaries Reductions	(\$3,000)
Other G&A Reductions	(\$500)
	<u>(\$3,500)</u>
Total Adjustments	<u>(\$8,252)</u>
Pro Forma Operating Costs	\$16,748

...Performance at CBL's Owned Subsidiaries continues to drag on Book Value and Liquidity



Summary of Subsidiary Operating Income (Losses) Callidus Capital Corporation For the Period Ended December 31, 2018 In CAD\$ millions

	Net Income (Loss) Excluding CBL Interest	
	Q4-2018	YTD-2018
Otto	(1.9)	(10.2)
Wabash	(2.3)	(9.2)
Midwest	(2.0)	(5.4)
Altair	(0.6)	(1.5)
Bluberi	(1.2)	(1.9)
C&C	(5.8)	4.4
Total for subs	(13.8)	(23.8)

Primary Conclusions

- All owned subsidiaries have been both unprofitable and cash flow negative
- In 2018, CBL funded over \$55 million into these subsidiaries and yet the enterprise values continued to deteriorate
- In addition, audit costs for CBL have skyrocketed due to consolidation required under IFRS
- All six subsidiaries should be sold in an orderly fashion as soon as is most practical

CBL Portfolio Monetization Plan - Bluberi

Bluberi	
Description	Slot machines development, manufacturing & distribution
Net Carrying Value 12/31/18	\$134 million
CLO Funding	\$18.7 million
Management Plan	Aggressive
Funding Requirements in 2019	\$0
Monetization Plan	Hold until Q3 2019. If management is on track to hit plan, hire Gaming Industry Investment Bank and launch a sale process in Q4 2019 and close sale in Q1 2020. Expected value - \$100-125 million if management achieves 2019 budget. If management misses plan - ~\$75 million
Risks	<ul style="list-style-type: none"> • Management turnover due to non-payment of 2018 earned bonuses • Consistently missed previous budgets • Further Licensing Delays

Bluberi (CAD '000s)	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Total</u>
Revenue	21,396	25,829	46,102	65,083	86,757	113,125	358,292
EBITDA	4,977	9,777	24,130	39,154	57,523	80,421	215,982
Net Income	(7,282)	(1,208)	8,231	15,676	30,745	44,666	90,827
Capex	(8,005)	(6,193)	(15,184)	(19,094)	(22,020)	(24,201)	(94,696)
Changes in W/C	(4,059)	(1,076)	(5,377)	(5,035)	(5,749)	(6,994)	(28,289)
Total repay / (funding)*	(7,087)	2,509	3,569	15,025	29,754	49,226	92,996

CBL Portfolio Monetization Plan - Otto

Otto	
Description	Manufacturer of plastic injection molded waste containers
Net Carrying Value 12/31/18	\$ million
CLO Funding	\$18.75 million
Management Plan	Legacy Business – Moderate Carts as a Service – Venture Risk
Funding Requirements in 2019	\$3 million
Monetization Plan	Market company as soon as possible. Hire investment bank in Q1. Two strategics interested (IPL and Akon Investment) and are interested in strategically located manufacturing locations. Expected Range \$30-\$40 million.
Risks	<ul style="list-style-type: none"> Warranty issue with Waste Management – TBD Contract renewal with Waste Management Otto/Callidus credit profile cause for concern by key suppliers

Otto (USD '000s)	2018	2019	2020	2021	2022	2023	Total
Revenue	101,370	104,479	124,041	128,914	128,779		587,583
EBITDA	(13,833)	4,442	17,767	19,903	19,827		48,106
Net Income	(21,946)	(6,389)	4,713	6,356	6,479		(10,787)
Capex	(5,163)	(10,248)	(12,289)	(5,474)	(5,082)		(38,256)
Changes in W/C	(4,673)	2,860	(3,003)	(1,547)	119		(6,244)
Total repay / (funding)*	(23,669)	(2,945)	2,475	12,882	14,864	-	3,606

Legacy and Caas combined
Forecast is only 4 years out (ie. till FYE 2022)

CBL Portfolio Monetization Plan - Wabash

Wabash	
Description	Green sand casting manufacturing
Net Carrying Value 12/31/18	\$ 18.1million (US\$)
CLO Funding	\$0
Management Plan	Requires winning new lager contracts
Funding Requirements in 2019	\$5.1 million
Monetization Plan	Hold until Q4 2019. If management on track, hire Investment Bank to determine if there is demand for the company's or its plant assets. Would likely only include strategics interested in Wabash's capacity versus financial buyers at this point given negative EBITDA. Expected value of \$15-18 million if company on plan or \$8-10 million.
Risks	<ul style="list-style-type: none"> • Tesla volumes uncertainty • Requires \$5.1 million on new capex in 2019

Wabash (USD '000s)	2018	2019	2020	2021	2022	2023	Total
Revenue	6,312	16,504	30,299	40,761	48,587	53,673	196,137
EBITDA	(5,339)	(1,913)	4,566	8,967	10,274	11,513	28,068
Net Income	(7,946)	(5,391)	748	5,087	6,524	7,939	6,962
Capex	(1,442)	(2,000)	(2,000)	(2,500)	(2,500)	(3,000)	(13,442)
Changes in W/C	(924)	(1,211)	(2,032)	(1,399)	(1,139)	(740)	(7,446)
Total repay / (funding)*	(7,705)	(5,124)	534	5,068	6,634	7,772	7,180

CBL Portfolio Monetization Plan - Midwest

Midwest	
Description	Regional Asphalt Paving
Net Carrying Value 12/31/18	\$ million
CLO Funding	\$14.4 million
Management Plan	Fair, but weather dependent
Funding Requirements in 2019	\$0
Monetization Plan	If company has a strong spring season and can produce a \$3 million of Run Rate EBITDA, then market the asset in 3Q 2019. Estimated 5x EBITDA or \$15 million in proceeds
Risks	<ul style="list-style-type: none"> • Still recovering from Bankruptcy • Small company subject to uncontrollable risks (e.g., weather)

Midwest (USD's)	2018	2019	2020	2021	2022	2023	Total
Revenue	25,988	30,202	34,782	39,082	43,901	49,237	223,192
EBITDA	(2,968)	1,131	2,201	2,984	4,040	4,942	12,330
Net Income	(4,441)	(1,028)	(10)	728	1,706	2,742	(303)
Capex	(4,460)	(1,023)	(1,500)	(1,500)	(1,500)	(1,500)	(11,483)
Changes in W/C	(1,950)	307	(546)	(513)	(574)	(636)	(3,912)
Total repay / (funding)*	(9,377)	415	155	971	1,966	2,806	(3,064)

TCF Bank funded approx \$3mm of the FY'18 CAPEX

CBL Portfolio Monetization Plan – C&C Value Added Lumber

C&C Value Added Lumber	
Description	Manufacturer of Value Added specialty lumber
Net Carrying Value 12/31/18	\$25.5 million
CLO Funding	\$0
Management Plan	Venture Risk to commercialize manufacturing of New Products
Funding Requirements in 2019	\$7-10 million
Monetization Plan	Hold until Q4 2020. If successful in producing and selling new products, seek to sell in first half 2021.
Risks	<ul style="list-style-type: none"> Commercialization of manufacturing delayed Significant Capex required

C&C Value Added	2018	2019	2020	2021	2022	2023	Total
Revenue		40,313	50,755	50,755			141,823
EBITDA		4,961	13,492	13,492			31,944
Net Income		1,998	9,200	8,266			19,464
Capex		(6,745)	(4,575)	(4,365)			(15,685)
Changes in W/C		(5,186)	239	5,861			915
Total repay / (funding)*	-	(6,969)	9,156	14,988	-	-	17,175

Forecasts are only three years out (ie. till FYE 2021)

No 2018 data as value add is a new operation as of Jan 2019

CBL Portfolio Monetization Plan - Altair

Altair/Alken	
Description	Oil Well drilling services
Net Carrying Value 12/31/18	\$ 13.2 million
CLO Funding	\$0
Management Plan	Aggressive
Funding Requirements in 2019	\$0
Monetization Plan	Management currently pursuing new customers within Mining and Oil & Gas industries. If unsuccessful, move to liquidation in Q2 or Q4 (industry auctions). Proceeds estimated at \$2-\$4 million
Risks	<ul style="list-style-type: none"> • Unsuccessful in winning new business in new industries • Industry Risks • Negotiation & Execution of liquidations

Altair	2018	2019	2020	2021	2022	2023	Total
Revenue	3,283	12,196	11,800				27,279
EBITDA	(1,279)	2,156	3,086				3,963
Net Income	(3,144)						(3,144)
Capex		(366)	(354)				(720)
Changes in W/C	(0)	-	-				(0)
Total repay / (funding)*	(1,279)	1,790	2,732				3,243

Forecasts are only two years out (ie. till FYE 2020)

Disclaimer

This presentation has been prepared by Patrick Dalton at the request of the Independent Directors of Callidus Capital Corporation (“Callidus”) in connection with the Consulting Agreement between Callidus and Patrick Dalton dated October 29, 2018. Nothing contained herein (including Mr. Dalton’s views, opinions, or recommendations) constitutes investment, legal, tax or other advice nor is it to be relied on in making any decision. The information in this material is current only as of the date indicated and may be superseded by subsequent events.

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EXHIBIT #4

Court File No. CV-17-587463-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

BETWEEN:

THE CATALYST CAPITAL GROUP INC. and CALLIDUS CAPITAL CORPORATION

Plaintiff(s) / Responding Party

- and -

WEST FACE CAPITAL INC., GREGORY BOLAND, M5V ADVISORS INC. c.o.b. ANSON GROUP CANADA, ADMIRALTY ADVISORS LLC, FRIGATE VENTURES LP, ANSON INVESTMENTS LP, ANSON CaAPITAL LP, ANSON INVESTMENTS MASTER FUND LP, AIMF GP, ANSON CATALYST MASTER FUND LP, ACF GP, MOEZ KASSAM, ADAM SPEARS, SUNNY PURI, CLARITYSPRING INC., NATHAN ANDERSON, BRUCE LANGSTAFF, ROB COPELAND, KEVIN BAUMANN, JEFFREY MCFARLANE, DARRYL LEVITT, RICHARD MOLYNEUX, GERALD DUHAMEL, GEORGE WESLEY VOORHEIS, BRUCE LIVESEY AND JOHN DOES #4-10

Defendant(s) / Moving Party

MOTION RECORD OF THE DEFENDANT, JEFFREY McFARLANE
(MOTION UNDER S. 137.1 OF THE COURTS OF JUSTICE ACT)

November 8, 2019

JEFFREY MCFARLANE
558 Royal Sunset Dr
Durham, NC, 27713, USA
jmcfarlane@triathloncc.com

Self-Represented

To: Service List

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ONTARIO

**SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

B E T W E E N:

THE CATALYST CAPITAL GROUP INC. and CALLIDUS CAPITAL CORPORATION
Plaintiffs

and

WEST FACE CAPITAL INC., GREGORY BOLAND, M5V ADVISORS INC. C.O.B. ANSON
GROUP CANADA, ADMIRALTY ADVISORS LLC., FRIGATE VENTURES LP, ANSON
INVESTMENTS LP, ANSON CAPITAL LP, ANSON INVESTMENTS MASTER FUND LP, AIMF
GP, ANSON CATALYST MAST FUND LP, ACF GP, MOEZ KASSAM, ADAM SPEARS, SUNNY
PURI, CLARITYSPRING INC., NATHAN ANDERSON, BRUCE LANGSTAFF, ROB COPELAND,
KEVIN BAUMANN, JEFFREY MCFARLANE, DARRYL LEVITT, RICHARD MOLYNEUX,
GERALD DUHAMEL, GEORGE WESLEY VOORHEIS, BRUCE LIVESEY and JOHN DOES #4-10
Defendants

NOTICE OF MOTION

The Defendant, Jeffrey McFarlane, will make a Motion to a Judge presiding over the
Commercial List on a date and time to be set by the Court at the court house, 330 University
Avenue, 9th Floor, Toronto, Ontario, M5G 1R7.

PROPOSED METHOD OF HEARING: The Motion is to be heard

- in writing under subrule 37.12.1(1) because it is
- in writing as an opposed motion under subrule 37.12.1(4);
- orally.

THE MOTION IS FOR

- (a) An order dismissing the proceeding brought by the Plaintiffs as against the Defendant, Jeffrey McFarlane, in accordance with section 137.1(3) of the *Courts of Justice Act*;
- (b) The cost of this proceeding on a full indemnity basis, in accordance with section 137.1(7) of the *Courts of Justice Act*; and
- (c) Such further and other Relief as to this Honourable Court may seem just.

THE GROUNDS FOR THE MOTION ARE

The Parties

- (a) The Defendant, Jeffrey McFarlane (“McFarlane”) was the former President and CEO of Xchange Technology Group (“XTG”), who as a former borrower of the Plaintiff has insight into the Plaintiff’s business practices and is a self-represented defendant in this action brought by the Plaintiffs.
- (b) The Plaintiffs, The Catalyst Capital Groups Inc. (“**Catalyst**”) and Callidus Capital Corporation (“**Callidus**”) are related corporations controlled by Newton Glassman (“**Glassman**”), that purport to make investments in distressed and undervalued Canadian situations in return for control, including the provision of capital on a bridge basis to companies that cannot access traditional lending sources;
- (c) Catalyst’s principals are Glassman, Gabriel De Alba (“De Alba”) and James Riley (“Riley”) and Rocco DiPucchio (“DiPucchio”). De Alba is a Managing Director and Partner of Catalyst, Riley is a Managing Director and Chief Operating Officer of

Catalyst. DiPuccio (“DiPuccio”) is a lawyer and a Managing Director of Catalyst. Glassman was then the Executive Chairman and CEO of Callidus and is currently the Executive Chair and a Director of Callidus and Chair of the Credit Committee. Riley is Callidus’ Secretary. Both are Directors of Callidus. Riley and Glassman offer management services on behalf of Catalyst to Callidus.

OSC Whistleblower Submission

- (d) As a former borrower of XTG, McFarlane was often perplexed by the questionable tactics used by the Callidus and Newton Glassman against their borrowers. During the time in which XTG was a borrower of Callidus, some of these tactics appeared to be economically irrational, whether it was the deliberate withholding or delay of funds or the unwillingness to negotiate an exit with a prospective buyer who offered to acquire the Callidus loan for well in excess of what Catalyst eventually wrote their position down to.
- (e) It was only after reviewing the Callidus Initial Public Offering (“IPO”) Prospectus that McFarlane became suspicious of Callidus’ accounting practices and how they deviated materially in practice from the stated practices in the IPO Prospectus and from industry standard practices. McFarlane was also suspicious that Callidus did not wish to disclose a material, but unrealized loss on the XTG loan to the markets in advance of its IPO and thereby contradict its own prospectus statements.
- (f) These deviations would include the Plaintiff’s:
 - (i) inconsistent application of the Catalyst Guarantee –the IPO prospectus explicitly stated that the guarantee only covered principle, not interest, but uniquely in the case of XTG, interest was included

- (ii) accruing interest income from a borrower in Receivership with no ability to repay the loan rather than putting it into a non-accrual status
- (iii) policies around Allowance for Loan Losses
- (iv) Fair Value Measurement
- (g) Other obvious concerns included:
 - (i) Callidus' statement involving its Stalking Horse Bid that the XTG receivership would be concluded in about 2 months, when it left XTG in receivership for almost 15 months.
 - (ii) The manufacturing of earnings represented as "Yield Enhancements" by Callidus; now prohibited by the OSC
 - (iii) The inherent conflict of interest between Callidus and Catalyst Funds when facing a substantial loss or write-down
- (h) McFarlane's sources of information included, among other things:
 1. The Callidus Capital Corporation Initial Public Offering prospectus
 2. Bankruptcy, receivership, and court documents;
 3. Callidus' own public financial statements
 4. Multiple court filings relating to the Plaintiffs;
 5. Discussions with other former borrowers that have experienced similar loan misconduct by Callidus and its loan officers;
- (i) As a result of his research, largely of publicly available documents, McFarlane formed the view that Catalyst and Callidus were engaging in an unlawful and fraudulent scheme to inflate the earnings of Callidus – now a publicly traded company, and by implication, inflate the value of the Catalyst funds holding an investment in Callidus. McFarlane was also of the opinion that on occasion, Callidus would artificially inflate the value of its

assets and shift losses to its parent, Catalyst, to the detriment of limited partners in the Catalyst Funds.

- (j) Ultimately McFarlane submitted an OSC Whistleblower Complaint in or around February of 2017 in an attempt to bring to light fraudulent practices by members of the investment industry.

Communication with Journalists

- (k) As interest grew in investigating the Plaintiff's business and accounting practices, McFarlane was often approached by investigative journalists. When McFarlane did agree to speak with journalists it was usually to confirm or point out patterns in publicly available documents or to relay his own experience with Callidus as a Borrower.

The Plaintiffs Commence Multiple Proceedings against McFarlane

- (a) On 7 November 2017, the Plaintiffs commenced this action against McFarlane and others (the "Action"). As against McFarlane and others, the Plaintiffs seek damages for:
 - (i) defamation;
 - (ii) civil conspiracy;
 - (iii) intentional interference with economic relations;
 - (iv) injurious falsehood; and
 - (v) breach of the *Securities Act*;
- (b) The Plaintiffs have commenced this Action at the same time as they have commenced a parallel action for defamation against McFarlane arising from the

same set of facts in Court File No. CV-18-593156-00CL (the “Parallel Action”);

- (c) The same allegations of defamation and conspiracy made against McFarlane in this Action are duplicated in the Parallel Action;
- (d) There is no genuine issue for trial with respect to any of the factual allegations made by the Plaintiffs against McFarlane in this Action or in the Parallel Action;
- (e) The Defendants never responded to a Demand for Particulars served on November 14, 2018

The Proceeding is a SLAPP

- (a) The core allegation in the Action that McFarlane acted in furtherance of a “conspiracy” with and among the Defendants, against the Plaintiffs, simply by filing a regulatory whistleblower complaint and speaking to the press, is vexatious and is baseless and demonstrates the nature and purpose of this action as a SLAPP. This Action is being pursued for the collateral purposes of deflecting from the plaintiffs’ own wrongful and unlawful misconduct and business failures and losses.
- (b) The Parallel Action constitutes and is being pursued as a strategic lawsuit against public participation (a “SLAPP”). The Action arises from an expression made by McFarlane, namely, the opinion included in the Wall Street Journal article and the OSC whistleblower complaint, and is designed primarily to discourage public discourse on matters of public interest, and in particular:
 1. to discourage individuals who make whistleblower complaints to the OSC and other Canadian securities regulators, and;
 2. to discourage individuals from speaking with journalists about their concerns;

- (c) The Action is also designed to reinforce the Plaintiffs' reputation for engaging in aggressive litigation, as a means to discourage individuals or journalists from investigating the Plaintiffs' business and accounting practices;
- (d) The Action does not have substantial merit;
- (e) The harm likely to be or have been suffered by the Plaintiffs as a result of McFarlane's expression is not sufficiently serious that the public interest in permitting the Action to continue outweighs the public interest in protecting the McFarlane's expression;
- (f) Section 137.1 of the Courts of Justice Act, R.S.O. 1x^x990, c. C.43; and
- (g) Such further and other grounds as the lawyers may advise.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the Motion:

- (a) The Affidavit of Jeffrey McFarlane, to be sworn; and
- (b) Such further and other evidence as McFarlane may advise and this Honourable Court may permit.

-8-

October 16, 2019

JEFFREY MCFARLANE
558 Royal Sunset Dr
Durham, NC, 27713, USA
jmcfarlane@triathloncc.com

Self-Represented

TO: SERVICE LIST

THE CATALYST CAPITAL GROUP INC. et al.
Plaintiffs

-and-

WEST FACE CAPITAL INC. et al.
Defendants

Court File No. CV-17-587463-00CL

ONTARIO
SUPERIOR COURT OF
JUSTICE COMMERCIAL
LIST

PROCEEDING
COMMENCED AT
TORONTO

NOTICE OF MOTION

JEFFREY MCFARLANE

Self-Represented

558 Royal Sunset Dr
Durham, NC, 27713, USA

Court File No. CV-17-587463-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

BETWEEN:

THE CATALYST CAPITAL GROUP INC. and CALLIDUS CAPITAL CORPORATION

Plaintiff(s) / Responding Party

- and -

WEST FACE CAPITAL INC., GREGORY BOLAND, M5V ADVISORS INC. c.o.b. ANSON GROUP CANADA, ADMIRALTY ADVISORS LLC, FRIGATE VENTURES LP, ANSON INVESTMENTS LP, ANSON CaAPITAL LP, ANSON INVESTMENTS MASTER FUND LP, AIMF GP, ANSON CATALYST MASTER FUND LP, ACF GP, MOEZ KASSAM, ADAM SPEARS, SUNNY PURI, CLARITYSPRING INC., NATHAN ANDERSON, BRUCE LANGSTAFF, ROB COPELAND, KEVIN BAUMANN, JEFFREY MCFARLANE, DARRYL LEVITT, RICHARD MOLYNEUX, GERALD DUHAMEL, GEORGE WESLEY VOORHEIS, BRUCE LIVESEY AND JOHN DOES #4-10

Defendant(s) / Moving Party

AFFIDAVIT OF JEFFREY McFARLANE

(Sworn December ____. 2019)

I, Jeffrey McFarlane, of Chatham County, in the State of North Carolina, MAKE OATH AND SAY:

1. I am a Defendant in this action brought by the Catalyst Group Inc. (“Catalyst”) and Callidus Capital Corporation (“Callidus”) and therefore have personal knowledge of the matters to which I hereinafter depose. To the extent such knowledge is based on information and belief, I have set out the source of such information, all of which I believe to be true.
2. I swear this affidavit in support of the motion that I have brought seeking that this action be dismissed as against us on the basis that it is a strategic lawsuit against public participation (“SLAPP”).

PARTIES

3. The Catalyst Capital Group Inc. (“Catalyst”) is a corporation that carries on business as an investor in distressed companies. Callidus Capital Limited (“Callidus”) is a related company to Catalyst, both of which are controlled by Newton Glassman (“Glassman”), and which carries on business as a sub-prime lender for distressed companies. Callidus was until November 2019 a publicly traded company on the Toronto Stock Exchange.
4. Catalyst has raised approximately \$6B (Six Billion Dollars) from the public, including pension funds, charitable institutions, family offices, high net worth investors and university endowments.
5. Catalyst’s principals are Newton Glassman (“Glassman”), Gabriel De Alba (“De Alba”), James Riley (“Riley”) and Rocco DiPucchio (“DiPucchio”). De Alba is a Managing Director and Partner of Catalyst, Riley is a Managing Director and Chief Operating Officer of Catalyst. DiPuccio (“DiPuccio”) is a lawyer and a Managing Director of Catalyst. DiPuccio’s former law firm was Lax O’Sullivan, LLP. Riley is Callidus’ Secretary. Both Glassman and Riley are Directors of Callidus. Riley and Glassman offer management services on behalf of Catalyst to Callidus. Rocco Di Puccio (a lawyer, formerly a partner with Lax O’Sullivan, the former lawyers for Callidus before they removed themselves from the record of this action, after the shocking sting on the former Justice Newbold was reported in all the major newspapers in Canada, and now a full time employed lawyer at Callidus and Managing Partner of Catalyst).
6. The Defendant, Jeffrey McFarlane (“McFarlane”) was the former President and CEO of Xchange Technology Group (“XTG”), who as a former borrower of the Plaintiff has insight into the Plaintiff’s business practices and is a self-represented defendant in this action brought by the Plaintiffs.

Background

7. The Plaintiffs Catalyst and Callidus, have instituted this claim against me which is vexatious and abusive and is a SLAPP action.
8. The Plaintiffs have commenced this Action at the same time as they have commenced a parallel action for defamation against McFarlane arising from the same set of facts in Court File No. CV-18-593156-00CL (the “Parallel Action”);

9. The same allegations of defamation and conspiracy made against McFarlane in this Action are duplicated in the Parallel Action;
10. There is no genuine issue for trial with respect to any of the factual allegations made by the Plaintiffs against McFarlane in this Action or in the Parallel Action;

This Proceeding is a SLAPP

11. The Plaintiffs have launched this proceeding against me as a strategic lawsuit against public participation (a “SLAPP”) and as yet another tactic employed by the Plaintiffs to attempt to silence me and other critics and suppress public participation in debate or publication on matters of public interest specifically being misconduct in the operation of a publicly traded company, and its parent entity which is a private equity firm that has raised significant amounts of money from pension funds, university endowments, charities, family offices and high-net-worth families, and breaches of the *Ontario Securities Act*. As a result of this action by the Plaintiffs, other critics may refrain from speaking out for fear of the same retribution.
12. The Parallel Action constitutes and is being pursued as a strategic lawsuit against public participation (a “SLAPP”). The Action arises from an expression made by McFarlane, namely, the opinion included in the Wall Street Journal article and the OSC whistleblower complaint, and is designed primarily to discourage public discourse on matters of public interest, including:
 - (i) attempting to silence a critic of the Plaintiffs in circumstances where such criticism is both true and accurate and of public interest;
 - (ii) the communication with the OSC constituting responsible communication on a matter of public interest, that concerned the potentially fraudulent conduct and practices of members of a prominent private equity fund and a public company which does business globally, and which is majority-owned by a private equity firm that has raised billions of dollars from public pension funds, charitable institutions, university endowments, and high-net-worth individuals. Furthermore, the statements were made after extensive due diligence was

conducted to determine the factual background of the statements and which I reasonably relied on to be true and were true or substantially true and were not motivated by malice.

- (iii) to discourage individuals who make whistleblower complaints to the OSC and other appropriate securities regulators, from speaking with journalists regarding their concerns;
- (iv) to exhaust my financial resources;
- (v) the core allegation in the Action is that I acted in furtherance of a “conspiracy” with and among the Defendants, against the Plaintiffs, simply by filing a regulatory whistleblower complaint and is vexatious and baseless and demonstrates the nature and purpose of this action as a SLAPP. This Action is being pursued for the collateral purposes of deflecting from the plaintiffs’ own wrongful and unlawful misconduct and business failures and losses, caused solely by their own hands, that has come to light and not as a result of any statement or conduct by me;
- (vi) the Action is also designed to reinforce the Plaintiffs’ reputation for engaging in aggressive litigation as a means to discourage legitimate criticism of the Plaintiffs, who over the course of the past five (5) years have launched four (4) lawsuits in Ontario against me; and
- (vii) the Plaintiffs have failed to demonstrate any viable claims against me and have failed to provide any documentation that could implicate me in the claims advanced against me and other Defendants. This further demonstrates the nature and purpose of this action as a SLAPP.
- (viii) The purpose of this action is also an attempt to improperly undermine solicitor-client privilege, common interest privilege, absolute privilege, qualified privilege and privilege associated with the Whistleblower program and the confidentiality protected by that program.
- (ix) It is my belief that any responsible legal individual who has performed extensive due diligence and who is also informed by other parties that fraud and other illegal activities is

being perpetrated against them and the public at large and that this information can be reasonably relied on, would report his observations to the appropriate authorities.

Overview and Background of the Involvement of McFarlane with Callidus

13. In 2012, XTG's operations were under significant liquidity pressures. At the time Callidus purchased the XTG Debt, I was led to believe that Callidus intended to provide sufficient operating liquidity to increase operational revenues and to stabilize and improve XTG's working capital position. However, even prior to closing, Callidus, at the direction of Newton Glassman, unilaterally and arbitrarily placed a \$1 million "block" on the availability of the loan, reducing XTG's credit capacity by \$1 million. This negatively affected XTG's ability to pay its suppliers, acquire product and generally manage its working capital.
14. Over the ensuing months, Callidus drastically devalued XTG's business by "drip-feeding" capital increases, delaying the inclusion of additional assets in Callidus' loan availability calculation, artificially restricting liquidity, accumulating high interest charges and fees and obstructing investment into XTG on commercially reasonable terms. This led to the events of default.
15. It is my belief that Callidus engaged in a pattern of strangling XTG's operating capital and piling on debt and interest charges, because it believed that XTG had sufficient long-term value that Callidus could recover its additional hard and soft debt through acquiring XTG's assets in a later court process. In particular, in a meeting with Callidus, Triangle Capital (XTG's subordinated lender) and XTG senior management on May 20, 2013, Callidus performed an analysis of XTG's break-up value and observed that there was a \$10-15 million equity cushion to allow it to run up the senior debt to the detriment of the subordinated debt holders and equity holders. Large

segments of this conversation involving Craig Boyer from Callidus and Cary Nordan from Triangle Capital were recorded and can be provided if necessary. Callidus was clearly engaging in a “loan to own” strategy by which it consumed the equity value of the business through debt and fees, and thereby precluded any reasonable prospect of XTG being refinanced by another lender or acquired by a strategic buyer.

16. Because of this “loan to own” strategy, and the inconsistent provision of funding, the operations of XTG continued to deteriorate over the course of 2013. As part of this same strategy, and reflective of Callidus’ likely assessment of XTG’s value, Callidus blocked re-financing opportunities that were in similar amounts to its loans, as well as valuable asset divestiture opportunities.
17. For instance, in April 2013, I attempted to help Callidus reduce its loan exposure through the immediate disposition of a discrete business unit known as PartStock. PartStock was acquired by XTG in 2009. We grew its revenues from US \$11 million to US \$22.9 million. However, PartStock’s business model was highly seasonal, which meant that it was particularly susceptible to short term funding shortages. As a result, PartStock was affected even more severely by the liquidity constraints imposed by Callidus on XTG than the rest of the business.
18. Because PartStock’s core business had value, the solution to preserving it was to bundle it off. In the process, Callidus would receive a reduction on its debt. To that end, I facilitated a proposal by North Mill Capital LLC, in or around April 2013. Under the proposal, Callidus would have received \$3-3.5 million in debt reduction. It would also have decreased XTG’s total funding needs and the incremental increases in the XTG Debt.

19. Callidus flatly refused the proposal, notwithstanding XTG and PartStock's deteriorating condition. I specifically warned Callidus on May 1 and May 30, 2013 that PartStock would not survive much longer. Key employees were unhappy with the instability of the business and close to resigning. Further, PartStock would not survive an insolvency proceeding because such a proceeding would eventually disqualify PartStock from a core business area – public sector supply.
20. PartStock indeed never recovered. In October 2013, a week prior to the Receivership application, the PartStock facility was closed down by Callidus, using Duff & Phelps as their proxy, and all of the senior sales employees and managers terminated. Most of the remaining staff were terminated in a matter of weeks and the remaining inventory relocated to XTG's larger warehouse in Morrisville, NC
21. Callidus impaired refinancing efforts in the same way it opposed the PartStock divestiture. In or around May 2013, XTG retained Canaccord Genuity Corporation (**CGC**) to conduct a refinancing solicitation process for XTG (the **CGC Process**), pursuant to which 56 parties, including financial and strategic parties and private equity firms, believed to have an interest in participating in a refinancing of XTG, were identified and invited to meet with XTG management. I participated in this process as CGC's principal contact.
22. As part of the CGC Process, XTG received a financing proposal from Falcon Strategic Partners IV, LP (**Falcon**) for up to \$35 million in debt and equity financing (the **Falcon Proposal**). Callidus refused to allow XTG to fund the due diligence in a timely fashion and obstructed XTG's efforts to successfully conclude this financing.

23. Also during the CGC Process, I met with representatives from a large US private equity fund, HIG Growth Partners (**HIG**), which expressed interest in acquiring XTG and merging it with another business that it was in the process of acquiring.
24. Callidus received and blocked these two competing offers for the true value of the XTG assets with no meaningful discussion of the offers whatsoever.
25. On or about August 15, 2013 – while XTG’s liquidity was rapidly deteriorating - HIG submitted a letter of intent (the **Letter of Intent**) to Callidus to purchase XTG’s business and assets for US \$15 million, which was quickly dismissed by Callidus. Callidus advised that it was not prepared to consider the offer.
26. Following Callidus’ rejection of the first Letter of Intent, HIG offered to purchase the XTG Debt for US \$17 million (the **HIG Offer**). Callidus, through Craig Boyer, bluntly advised me and HIG that it was not prepared to consider the offer, nor would it even entertain a negotiation. I concluded that Callidus would not take any steps that would result in a write down of a portion of its loan, regardless of the size of the loss or the fact that a significant portion of the face value of the debt was attributable to fees.
27. Later I learned that Callidus was in the final stages of planning its IPO and proclaimed in its Prospectus Summary that “Callidus has a strong track record as evidenced by, among other things, no realized losses on principal after consideration of liquidated collateral and costs to settle from 2011 to 2013.”.

Receivership by Callidus

28. On or about October 25, 2013, Callidus brought an application and obtained an order (the **Receivership Order**) for the appointment of Duff & Phelps Canada Restructuring Inc. as receiver of XTG (the **Receiver**) (the **XTG Receivership**).
29. Callidus, through its wholly-owned subsidiary, 2393134 Ontario Inc. (**239**), submitted a stalking horse offer (the **Stalking Horse Offer**), pursuant to which it offered to “purchase” XTG’s assets for the forgiveness or assumption of the then-existing amount of the XTG Debt, less CAD \$3 million (the **Carve Out**). At that time, the existing face value of the XTG Debt was US \$36.97 million, swollen by professional fees, accumulated interest charges and other fees, including the Facility Fee and First and Second Forbearance Fees.
30. The Stalking Horse Offer was memorialized in an Asset Purchase Agreement negotiated by 239, Callidus and the Receiver (the **Asset Purchase Agreement**).
31. Under the XTG Receivership, the Receiver initiated an expedited process for the solicitation of prospective purchasers and the sale of XTG. The Receivership Order directed the Receiver to accept the Stalking Horse Offer subject to the receipt of a superior bid (as defined in the Receivership Order) submitted on or before the bid deadline of November 19, 2013. The reasons cited by the Receiver for the expedited process were fourfold:
- (a) the breadth and duration of the pre-filing marketing efforts to identify a party to refinance the XTG Debt;
 - (b) the inability to generate an offer from the refinancing efforts;
 - (c) the distressed state of the business; and

(d) the need to quickly stabilize XTG's business to prevent erosion in stakeholder confidence.

32. These circumstances were of Callidus' own making. The failure to generate an offer from the refinancing efforts was a direct result of Callidus' failure to negotiate in good faith with prospective purchasers and lenders, while at the same time running up the XTG Debt through astronomical interest rates ranging between 18-21% per annum. Further, the deterioration of XTG's business was due to Callidus' failure to inject the requisite funding into the company, its micro-management of the company's disbursements and its absolute control over XTG's cash, for example, by refusing to pay vendors, except where critical to the operation of the business, and stretching the trade creditors as far as possible. At Callidus' direction, the company continued to use the services of and buy products from unsecured creditors knowing full well it never intended to settle these debts with the pending Receivership action it had planned.
33. Not surprisingly, no other purchaser by then was prepared to bid against the amount of the XTG Debt.
34. As a result, on or about November 19, 2013, the Receiver advised Callidus that it was the "successful bidder" and that Callidus had acquired XTG for the amount of its loan, leaving the Carve Out owing from the XTG Debt of \$3 million, as set out in the Asset Purchase Agreement. This enabled Callidus to maintain the loan value on its books for its investment in XTG.
35. The sale by the Receiver of XTG to 239 was approved by the Court on November 22, 2013 (the **Sale Approval**).
36. At no time during the Sale Approval process did Callidus ever attempt to explain to the court that the \$3 million so-called Carve Out was related to my Guarantee. In fact, the first time that

Callidus explicitly connected the \$3 million Carve Out with the amount of the Guarantee was more than fifteen months after the XTG Receivership, in the context of a rectification motion brought by Callidus to change the currency of the Carve Out as stated in the Asset Purchase Agreement.

37. At all times, the Asset Purchase Agreement provided for a Carve Out of \$3 million, denominated in Canadian currency. Callidus later asserted (after I contacted the Receiver to confirm the value of the Carve Out in light of this action) that the Carve Out was intended to be denominated in USD to correspond with the US \$3 million secured by me under the Guarantee. The currency of the Carve Out was rectified in the Asset Purchase Agreement by Order dated January 25, 2016.

38. Callidus now asserts that the purpose of the Carve Out was to preserve the Guarantee. The Carve Out is not referred to in the Guarantee. The Asset Purchase Agreement was entered into long after the Guarantee and I was not a party to the Asset Purchase Agreement, which was between Callidus and the Receiver.

Additional litigation

39. In addition to this action, on or about April 23, 2015, Callidus commenced a separate action against me, among others, bearing Court File no. CV-15-52673, in which it raises allegations of, among other things, breach of fiduciary duty, inducing breach of non-disclosure and non-solicitation agreements, breach of contract, breach of the duty of confidentiality, fraudulent or negligent misrepresentation, injurious falsehood, false and misleading statements, unlawful interference with economic relations, misappropriation of business opportunities, conversion and unjust enrichment.

40. In yet another example of Callidus' attempt to intimidate and strong arm its adversaries, the Claim names my then wife as a Defendant to the action, without any underlying allegations against her. The claim against Mrs. McFarlane was struck by Order dated November 24, 2015, on the basis that the pleadings disclosed no reasonable cause of action against her and she is not a necessary part of the claims against other defendants.
41. In addition to my own proceedings, I am aware that Callidus' aggressive, methodical and unscrupulous business tactics have been the subject of comment in the press and the subject matter of other litigation with facts quite similar to my own concerns. As early as May 11, 2015 the Wall Street Journal, began covering the practices of Callidus Capital by publishing an Article entitled "Manager Feels the Heat on IPO", referring to Newton Glassman, hereby attached as "Exhibit A", demonstrating the Wall Street Journal was aware of Callidus' practices resulting in conflicts of interest between Callidus Capital and Catalyst Capital, Newton Glassman's extraordinarily egotistical comments from, including, *"I'm not really sure anyone else has access to the No. 1 distressed-debt manager in the world for one dollar"* and Callidus' suspect accounting and or decision making around the XTG situation.

Research Demonstrates a Clear Pattern of Wrongful Loan Conduct by Callidus

42. I became aware that the manner of wrongful and intentional loan misconduct of Callidus by researching other litigation cases that Callidus was involved in with other borrowers. What was strikingly obvious, were the similarities and patterns that other borrowers asserted they had experienced with Callidus. These assertions were supported in many instances by sworn affidavits and other pleadings filed in other borrower cases to support those assertions. This analysis lead to the production of **Exhibit "B"** which outlines the ten (10) common, fraudulent and deceptive practices that Callidus deployed against its borrowers as it executed its Loan to Own scheme over and over.

43. The basis of the allegation that Callidus had a corrupt, unlawful business plan, that it used against the borrowers that it induced, by misrepresentations, to borrow money from Callidus include the following:

(a) Callidus would make representations that Callidus knew were not true or were made recklessly, not caring whether they were true or false, in order to induce a borrower to borrow from them including:

(i) Callidus was an asset-based lender and did not require personal guarantees and was light on covenants, and for that reason, Callidus did charge higher interest rates;

(ii) Callidus' role as a lender is to work with its customers, inject capital, be flexible and to support the business of the borrower as they transition back to traditional lenders,

(b) Contrary to its representations, Callidus would change its position, using last minute changes when the borrower has no alternative financing, demonstrated by:

(i) requiring guarantees, or changing temporary guarantees to permanent guarantees (for no consideration);

(ii) changing contractual provisions to incorporate the discretion of Callidus as well as other onerous terms, to the detriment of the borrower, but to the benefit of Callidus;

(iii) adding broad release language into the overall loan agreement to protect Callidus from its misconduct, including misrepresentations and breaches of its overall loan agreement, and updating every amendment to the loan agreements with a new release;

(iv) dragging out the closing or completion of the overall loan agreement, so that the funding would become critical to the borrower and so that, in order to obtain the

advance of the necessary funding from Callidus, Callidus could extract terms and conditions from the borrower to the benefit of Callidus and to the detriment of the borrower;

- (v) manipulating the borrower's circumstances in order to retain the personal guarantees while maintaining the high cost of the loan, including high interest rates and fees;
 - (vi) manipulating the circumstances of the borrower by creating financial difficulty for the borrower, by delaying advances of funds, by not providing all funds to which the business is entitled pursuant to the overall loan agreement, knowing that this will place the business in financial jeopardy or in a position of default;
 - (vii) Charging excessive fees, often in excess of \$1 million USD to make changes to loan agreements,
 - (viii) using the credit committee as an excuse to delay decisions by Callidus when in fact Newton Glassman made every decision of consequence unilaterally,
 - (ix) delay providing financing, thereby placing financial pressure on the borrower, when Callidus knew that the credit committee does not make the decisions, but rather they are made by Glassman;
 - (x) carrying out a "loan to own" strategy to connive or manipulate a default by the borrower so that bankruptcy or receivership proceedings occur and Callidus can then, as the senior secured creditor, buy the assets at a deflated value using a credit bid in the court proceeding;
 - (xi) Callidus then inflates the value of the assets to sell the assets in a non-arm's length transaction, to support the market price of the Callidus stock sold to the public or sell the assets at a significant profit, as they did in the case of XTG;
- (c) controlling access to the working capital of the borrower by either not providing the funds or delaying the advance of funds in a timely manner, knowing that it will significantly adversely affect the working capital and the business relationship of the borrower with its suppliers, employees, customers and creditors; and,

- (d) after the asset purchase, or attempted purchase by Callidus, at a shortfall, so that Callidus can sue on the guarantees.
44. As part of its business plan, Callidus obtains confidential information about other assets owned by the principals of the borrowers that Callidus can later misuse to exert financial pressure on the borrower, to have the business and the guarantors succumb to Callidus' demands for increased security and one-sided contractual terms to the benefit of Callidus.
 45. Callidus deliberately interferes with the relationship with suppliers by not paying critical suppliers or prohibiting the business from paying critical suppliers in order to put financial pressure on the business and adversely interfere with the business relationships of the borrower.
 46. In order to carry out this plan, Callidus and its officers, directors and employees, during negotiations and performance of the overall loan agreement, breach their duty of honest performance and fail to act in good faith. Callidus also fails to use its best efforts when required to perform steps in order to carry out the intent of the overall loan agreement, in order for Callidus to carry out their plan for a loan to own asset credit bid.
 47. I learned through publicly available information, of the identities of other individuals who had been sued by the plaintiffs (including the Defendants, Kevin Baumann, Darryl Levitt, Gerald Duhamel, and Andrew Levy).
 48. This information showed that other borrowers of Callidus claimed that similar loan misconduct had been perpetrated against them by Callidus through Craig Boyer ("Boyer") and appeared to demonstrate a pattern that seemed to be a pre-orchestrated and integral part of Callidus' business plan. The plan involved inducing potential clients to obtain loans from Callidus with the objective then of forcing such businesses into bankruptcy and attempting to acquire the assets on the cheap through a credit bid in a bankruptcy process. Once this had occurred, Callidus would often sell the assets to its parent Catalyst, and Callidus would then claim a "yield enhancement" or a gain on disposal of the acquired assets in its financial reporting on earnings, which had the direct effect of artificially increasing the value of the assets it had acquired. In

addition, Callidus would then aggressively seek to enforce personal guarantees that were neither part of the original loan terms or that had limited scope. As part of its plan, Callidus would aggressively pursue enforcement of these guarantees in the hopes that it would exhaust the resources of the guarantor to assert its legal rights and remedies for the wrongful acts of Callidus.

“Yield Enhancements” - A Flawed and Fanciful Part of Callidus Business Plan

49. Based on the extensive due diligence that I conducted, I formed the opinion that Callidus was improperly utilizing a non-IFRS accounting measure referred to as “Yield Enhancements” to artificially inflate its earnings and distort its true financial performance.
50. It had become clear that the misconduct of Callidus had the effect of destroying the very businesses that it lent money to and as a result of the bankruptcy process that Callidus had forced upon its borrowers into, the businesses’ values had declined, often substantially to far less than the loan value.
51. I highlighted this manipulative and unsustainable business practice in my whistleblower reports. The OSC did take steps to stop Callidus utilizing this “creative accounting” measure to artificially inflate the value of its assets. As a result of the OSC stopping Callidus from reporting on earnings using “yield enhancements”, the fundamental part of Callidus’ business plan failed and the true nature of Callidus’ earnings were then reported demonstrating dismally poor financial performance and large losses. The OSC however should have gone further and insisted Callidus restated its prior earnings to conform with then current reporting practices if it was to fulfill its mandate of protecting investing public.

Callidus Sues its own Former VP of Underwriting – Craig Boyer for Misrepresentation

52. In March 2017, Callidus subsequently filed a lawsuit against its own former VP of Underwriting, Craig Boyer, (“Boyer”), the same loan officer in each of the Borrower’s cases, claiming:
- (a) Boyer had been failing to properly manage loans in his portfolio;

- (b) Boyer had encouraged my former company XTG to artificially inflate its financial results and or projections;
- (c) Boyer had directed a company in his portfolio to create a letter on fake Callidus letterhead purporting to make financial commitments on Callidus' behalf and then to sign the letter for Boyer even though Boyer did not have authorization from Callidus to make any such commitment or to provide such letter.

53. The lawsuit by Callidus also claimed that Boyer artificially inflated the value of client assets of Callidus and wrongfully performed acts that I and others had complained of in our own respective cases and had formed some of the subject matter of my complaints. In Boyer's reply to the claim against him by Callidus, he pleaded that Callidus is the subject of regulatory action and complaints and that the claim against him was brought for a nefarious purpose.

There was no Illegal Coordination by the Guarantors

54. There was no illegal coordination by the Guarantors. Callidus did not likely anticipate borrower clients in different industries and geographical regions making contact and discussing how they had been harmed wrongfully by Callidus. Craig Boyer, the former senior VP of Underwriting for Callidus, and who has been himself been sued for fraudulent misconduct by Callidus, was the same underwriter in each of the loans that formed the subject matter of the complaints. Based on discussions between myself and certain of the individuals referred to in the Fresh as Amended Statement of Claim as the "Guarantors," it was determined that these individuals had similar circumstances and potentially similar legal defences and claims against Callidus (the "Affected Borrowers"). Furthermore, I and the other Guarantors believed, based on their collective experience with Callidus, that Callidus' conduct was part of a deliberate practice of wrongful misconduct by Callidus which was integral to Callidus' business strategy.
55. Due to the potential high costs of litigation with Callidus, and the similarities between our respective legal situations, the Affected Borrowers, jointly sought legal advice regarding a potential claim against Callidus under the U.S. Racketeer Influence and Corrupt Organizations Act ("RICO"). In the course of the process of exploring their potential legal remedies against

Callidus, the Affected Borrowers entered into mutual confidentiality agreements, in order to ensure that the information they were sharing with each other for the purposes of potentially pursuing litigation against Callidus remained confidential as between them.

56. The Affected Borrowers did not, ultimately, pursue a U.S. Rico claim, due to our inability to obtain sufficient litigation funding to do so, as a result of, among other things, (i) Callidus settling its \$19.5 million claim against Gary Smith of Fortress Resources for \$10,000 on the conditions that he not only withdraw his appeal, but withdraw any statements critical of Callidus; and (b) Callidus settling with the principals of Esco Marine, Levy and Jaross. Although other avenues to bring a claim against Callidus were pursued from time to time, no joint claim against Callidus was brought. Instead, each of the Affected Borrowers proceeded to individually defend the claims brought against them by Callidus, although they continued to communicate with each other in order to assist in defending the respective claims against them.

OSC Whistleblower Complaints

57. The whistleblower complaint highlights aspects of fraud and misrepresentation that I believe the Plaintiffs have conducted. The whistleblower report is based largely on the Plaintiffs' own public disclosure documents coupled with my insights into the XTG situation. It details the complex financial frauds that the Plaintiffs have engaged in with their investors and the public at large and has subsequently proved to be both true and accurate given the numerous reporting changes the OSC imposed on Callidus.
58. As a former borrower of Callidus while at XTG, McFarlane was often perplexed by the questionable tactics used by the Callidus and Newton Glassman against their borrowers. During the time in which XTG was a borrower of Callidus, some of these tactics appeared to be economically irrational, whether it was the deliberate withholding or delay of funds or the unwillingness to negotiate an exit with a prospective buyer who offered to acquire the Callidus loan for well in excess of what Catalyst eventually wrote their position down to.
59. It was only after reviewing the Callidus Initial Public Offering ("IPO") Prospectus that McFarlane became suspicious of Callidus' accounting practices and how they deviated

materially in practice from the stated practices in the IPO Prospectus and from industry standard practices. McFarlane was also suspicious that Callidus did not wish to disclose a material, but unrealized loss on the XTG loan to the markets in advance of its IPO and thereby contradict its own prospectus statements.

60. These deviations would include the Plaintiff's:

- (a) inconsistent application of the Catalyst Guarantee –the IPO prospectus explicitly stated that the guarantee only covered principle, not interest, but uniquely in the case of XTG, interest was included
- (b) accruing interest income from a borrower in Receivership with no ability to repay the loan rather than putting it into a non-accrual status
- (c) policies around Allowance for Loan Losses
- (d) Fair Value Measurement

61. Other obvious concerns included:

- (a) Callidus' statement involving its Stalking Horse Bid that the XTG receivership would be concluded in about 2 months, when it left XTG in receivership for almost 15 months.
- (b) The manufacturing of earnings represented as “Yield Enhancements” by Callidus; now prohibited by the OSC
- (c) The inherent conflict of interest between Callidus and Catalyst Funds when facing a substantial loss or write-down
- (d) McFarlane's sources of information included, among other things:
- (e) The Callidus Capital Corporation Initial Public Offering prospectus
- (f) Bankruptcy, receivership, and court documents;
- (g) Callidus' own public financial statements
- (h) Multiple court filings relating to the Plaintiffs;
- (i) Discussions with other former borrowers that have experienced similar loan misconduct by Callidus and its loan officers;

62. As a result of his research, largely of publicly available documents, McFarlane formed the view that Catalyst and Callidus were engaging in an unlawful and fraudulent scheme to inflate the earnings of Callidus – now a publicly traded company, and by implication, inflate the value of

the Catalyst funds holding an investment in Callidus. McFarlane was also of the opinion that on occasion, Callidus would artificially inflate the value of its assets and shift losses to its parent, Catalyst, to the detriment of limited partners in the Catalyst Funds.

63. Ultimately McFarlane submitted an OSC Whistleblower Complaint in or around February of 2017 in an attempt to bring to light fraudulent practices by members of the investment industry.

Communication with Journalists

64. As interest grew in investigating the Plaintiff's business and accounting practices, McFarlane was often approached by investigative journalists. When McFarlane did agree to speak with journalists it was usually to confirm or point out patterns in publicly available documents or to relay his own experience with Callidus as a Borrower. I have never influenced the publication or timing, or release of any news article.

McFarlane Did Not Participate in Any Conspiracy

65. Notwithstanding that shorting stocks is not illegal in Canada, I did not participate in any conspiracy to cause economic harm to the Plaintiffs nor did I have the intention to cause economic or other harm to the Plaintiffs. The Plaintiffs allegations are invented as I have never participated in the shorting of any stock or security. Any losses occurred by the Plaintiffs were directly as a result of the Plaintiffs own failed underwriting and poor performance and not as a result of the comments or actions alleged to have been done or uttered by me.

Malicious Conduct by the Plaintiffs

66. The Plaintiffs have brought this claim to deflect from the losses incurred by them solely at their own hands. This lawsuit is an attempt to deflect for as long as possible the full extent of the Plaintiff's wrongful misconduct and account for its wrongdoings.
67. Newton Glassman, ("Glassman"), James Riley ("Riley") (a lawyer), David Reese, ("Reese") and Rocco DiPucchio ("DiPucchio") (a lawyer, formerly a partner with Lax O'Sullivan, Lisus,

Gottlieb LLP (“Lax O’Sullivan”) until August 7, 2018. He acted for Callidus). Lax, O’Sullivan were the former lawyers for Callidus and Catalyst before they removed themselves from the record of this action, on December 21, 2017, after the clandestine taping of a meeting with Black Cube employees or personnel, and a lawyer, the former Justice Frank Newbould, was reported in all the major newspapers in Canada, on November 24, 2017. Glassman, Riley, Reese, and DiPucchio were fully aware of all of the espionage activities they had instructed, contracted for and approved be carried out by Black Cube for Callidus and Catalyst. DiPucchio has been a full time employee at Callidus since the summer of 2018 and is the Chief Operating Officer and Managing Director).

Plaintiff’s Claims of Causation of Loss are Remote and Unconnected

68. The Plaintiff’s’ claims that I caused economic loss to the Plaintiffs is far-fetched and remote. The overwhelming evidence and recently completed take-private transaction points to the Plaintiffs being wholly responsible for their own losses as a result of these matters:
- (i) Directing agents to conduct a sting on a retired judge to attempt to influence an existing case before the courts, such shocking conduct brings the administration of justice into disrepute;
 - (ii) Attempting to dupe a highly distinguished journalist into writing a false story about a retired judge in the hopes of influencing an existing case before the courts in circumstances where the judge had determined that the Plaintiffs evidence could not be relied on and Glassman’s testimony not being able to be relied on;
 - (iii) Massive losses and write-downs on loans of Callidus into the hundreds of millions of dollars;
 - (iv) A litany of media articles about the Plaintiffs highlighting the poor performance, unhinged behaviour and misconduct of the Plaintiffs and other matters of concern surrounding the Plaintiffs;

- (v) The excessive claim for damages of \$150 million against a former Senior VP of Underwriting, Craig Boyer, for allegedly falsifying accounting statements of a borrower of Callidus, failed loan management, and fraud;
 - (vi) The allegations of Boyer himself disclosing in his defence to the Claims by Callidus, that the Plaintiffs are the subject of regulatory complaints way before even the allegedly article by the Wall Street Journal had been published;
 - (vii) Findings of abuse of process and the court system in other court cases in which the Plaintiffs had litigated against other parties, often litigating the same set of facts multiple times;
 - (viii) The fact that the share price of Callidus was already trending down, only started to recover when Callidus announced a stock buyback share prices higher than the market,
 - (ix) Failed litigation by the Plaintiffs in other litigation;
 - (x) The OSC having taken steps to stop Callidus from utilizing the reporting of “yield enhancements” to artificially inflate profits where it was stated that there was no reasonable basis for Callidus to report using yield enhancements and which Glassman has reported in 2016 as being a fundamental part of the Callidus business; and
 - (xi) Attempts to stop media from reporting on the Plaintiff with multiple threats of litigation
69. The conduct of Callidus and Catalyst is wrongful, heavy-handed, commercially immoral and illegal business practices all designed to intimidate McFarlane, the Guarantors and others into silence.
70. Callidus and Catalyst believed that its espionage tactics would not be discovered. It was only as a result of newspaper coverage in the USA that resulted in the discovery by West Face that the espionage and unlawful tactics used or directed or authorized by Callidus and Catalyst involving

deceit, deception, dishonesty, illusion, fantasy, fraudulent misrepresentation and using and sending false documents and emails, and impersonating other or fictitious persons. Callidus and Catalyst received legal advice that approved of this unlawful, unethical conduct and, as a result, chose to take that unlawful approach to attempt to intimidate and manipulate the individuals and manufacture “evidence”. Callidus and Catalyst attempted to obtain this information from those individuals. Callidus used false or forged and fictitious documents with the assistance of Black Cube employees and personnel, all the particulars of which, including all agreements to carry out these espionage tactics, are known to Callidus and Catalyst and unknown to me. Callidus and Catalyst intended to use this information it was conniving to obtain, knowing that it had no factual or legal basis, against McFarlane or others. The attempt to intentionally (and successfully) obtain solicitor client privileged information, as pleaded by West Face, is egregious as is the clandestine taping of lawyers, including a former judge.

I swear this affidavit in support of my motion to dismiss the within proceeding as a strategic lawsuit against public participation and for no other or improper purpose.

SWORN BEFORE ME in the Town of Cary, the State of North Carolina, on December , 2019.

Matthew J. Lovell
~~Commissioner for Taking Affidavits~~
Durham County, NC Notary Public



Jeffrey J. McFarlane

MATTHEW J LOVELL
Notary Public
Durham Co., North Carolina
My Commission Expires Sept. 9, 2023

EXHIBIT "A"

THE WALL STREET JOURNAL.

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<http://www.wsj.com/articles/manager-feels-heat-on-ipo-1431386833>

MARKETS

Manager Feels Heat on IPO

Catalyst Official Criticized Over Potential Conflicts

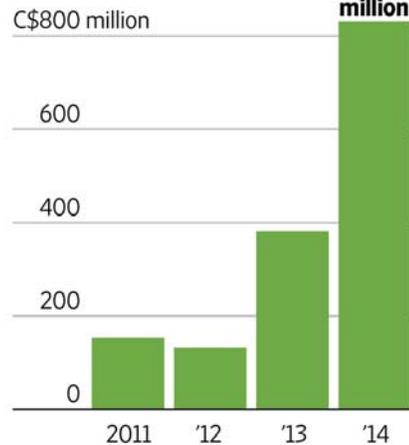
Opposite Directions

Callidus's stock price is under pressure despite rapid loan growth.

Daily closing share price



Lending activity



Note: C\$100 million= \$82.4 million

Sources: FactSet (share price); the company (lending activity) THE WALL STREET JOURNAL.

By **BEN DUMMETT** And **ELENA CHERNEY**

May 11, 2015 7:27 p.m. ET

TORONTO—As one of the world's best-performing distressed-debt fund managers, Newton Glassman built his \$5.7 billion firm by showing he doesn't shy away from a fight.

Now, Mr. Glassman, managing partner of Toronto-based private-equity firm Catalyst Capital Group Inc. and known as one of Canada's most aggressive investors, finds himself on the defensive.

Mr. Glassman is fending off criticism from investors in Callidus Capital Corp., the alternative lender taken public by Catalyst last year in the firm's first foray into public equity markets.

Some Callidus investors say they are worried about potential conflicts created by the companies' shared management team. Mr. Glassman, who founded Catalyst in 2002 after leaving Cerberus Capital Management, is both managing partner at Catalyst and chief executive of Callidus. Catalyst's chief operating officer, Jim Riley, also is Callidus's corporate secretary.

Some also say the companies' intermingled lending practices also could put minority shareholders' interests at risk and say there isn't enough disclosure about Callidus's loans and a Catalyst guarantee to back some of those loans. They say they lack the information needed to assess whether Callidus's borrowers will be able to pay what they owe.

The debate between Mr. Glassman and his critics highlights the risk for private-equity firms of remaining heavily involved in their portfolio companies after they list those shares on a stock exchange. It also highlights issues faced when companies share management teams and operations.

"The way the company is structured [means] there can be potential conflicts of interest and the intercompany linkages create issues," Salman Malik, a portfolio manager at Toronto-based Barometer Capital Management Inc., said. Barometer sold its position in Callidus late last year in part because of concerns over the entangled relationship between Catalyst and Callidus, Mr. Malik said.

The controversy has damped Callidus's stock price in recent months, threatens Mr. Glassman's plans to take two more Catalyst companies public and has become the talk of Canada's tightly knit financial community.

Catalyst sold about a 40% stake in Callidus last year on the Toronto Stock Exchange in an initial public offering, establishing a value of about 392 million Canadian dollars (US\$323 million) for the Callidus shares held in the Catalyst funds after the offering's completion.

In its IPO regulatory filing, Callidus said its management arrangement with Catalyst allows it to benefit from Messrs. Glassman and Riley's experience investing in distressed debt and restructuring, while it focuses on its main lending business. It does warn that "in some cases, the interests of [Catalyst Capital] and the Catalyst Funds may not be the same as those of [Callidus's] other shareholders, and conflicts of interest may arise from time to time that may be resolved in a manner detrimental to [Callidus] or its other shareholders."

Mr. Glassman argues that Callidus shareholders are getting a good deal, since he is paid only C\$1 a year for his Callidus duties. “I’m not really sure anyone else has access to the No. 1 distressed-debt manager in the world for one dollar,” he said.

Mr. Glassman, Callidus and Catalyst haven’t been accused of any wrongdoing. Mr. Glassman said he is a victim of an “attack” by short sellers that he said was spearheaded by well-known Canadian hedge-fund investor West Face Capital Inc. He said criticism of Callidus’s disclosure and of its relationship with Catalyst is ill-founded and said West Face is retaliating for a court challenge Mr. Glassman launched against West Face after West Face hired a Catalyst analyst.

Greg Boland, West Face’s chief executive, declined to comment on Mr. Glassman’s comments.

“We will always put [the interests] of outside investors first,” Mr. Glassman said in a recent interview in his offices in Toronto.

Callidus shares are down 35% from their high of C\$24.01 in August. Callidus lends to borrowers that are considered too risky for banks and other traditional lenders and can’t access high-yield debt markets because their capital needs are too small.

Earning and keeping the trust of public shareholders is key to his strategy, he said, since he aims to split off two more of Catalyst’s portfolio companies this year—Gateway Casinos, a casino operator in western Canada, and Therapure Biopharma Inc., a Canadian biopharmaceutical company, to realize gains on his investment.

Catalyst boasts the second-most consistent performance record among distressed-debt funds globally, according to data provider Preqin Ltd., after Cerberus.

The size of Callidus’s loan book has more than doubled in each year since 2012 to C\$831 million at the end of December 2014. Callidus said it hasn’t realized any losses on the principal of loans it has originated between 2011 and the end of 2014, and Catalyst guarantees to cover losses incurred by Callidus on loans with the highest risk of default.

Mr. Glassman said this guarantee is one of the measures that demonstrates his commitment to treating public shareholders fairly. But some critics have complained that the terms of the guarantee are murky because of uncertainty over which loans have the guarantee.

“It would be worthwhile if the company was a lot more explicit about the business, the

loan guarantees and the business in general because they have to answer to public shareholders, but management is still pretty tight lipped,” Andrew Pink, a fund manager at LDIC Inc., said. The Toronto-based money-management firm sold its Callidus shares around the end of last year.

Callidus doesn't identify specific loans with guarantees but provides details in aggregate. At the end of March, Catalyst said that all but three of its 35 outstanding loans have at least a “partial” guarantee and most have a full guarantee, according to a transcript of its fourth-quarter earnings. Its regulatory filings for the end of 2014 also include additional information about the guarantees.

Catalyst helps Callidus generate new business because the private-equity firm provides additional financing to issue new Callidus loans, according to Callidus's IPO filing, further deepening Callidus's ties with Catalyst. Catalyst then earns revenue that is commensurate with its participation in the loans. According to the IPO filing, Catalyst is also responsible for its share of any losses from a Callidus loan it helps finance.

As an example of the company's limited disclosure, some point to Xchange Technology Group LLC. The Xchange loan represented about 10% of Callidus's portfolio at the time of the IPO, but the IPO filing didn't disclose Xchange's identity or that Callidus had rejected two tentative offers to refinance the loans at discounted values prior to the IPO as outlined in bankruptcy-court protection filings.

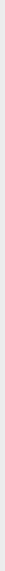
Callidus doesn't identify its borrowers because doing so could hurt their relationships with customers and suppliers particularly if they are struggling financially, spokesman Jean Lepine said.

Write to Ben Dummett at ben.dummett@wsj.com and Elena Cherney at elena.cherney@wsj.com

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EXHIBIT "B"

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Overview of Callidus and Catalyst Capital Lending Practices

Introduction and Summary

Using a **pattern analysis** of the lending activities of Callidus Capital, common to each and every one of the Borrowers, this summary presentation demonstrates how:

Callidus Capital and its parent organization Catalyst Group use a scheme of deception, including acts and behaviour pre-designed to:

- Fraudulently induce Borrowers to enter into loan arrangements with them, and
- Deprive Borrowers of their business and personal assets by using a **Scheme of Deception and Economic Extortion**.

It is a Fraudulent Scheme

- Designed NOT to “enable Borrowers” to recover, grow, or transition to traditional financing as they represent, but their **Scheme** intends to deprive Borrowers of personal and business assets, by making various False Representations:
 1. Which are relied on by the Borrowers
 2. Which are never kept as promised
- Their intention is not allow a business to obtain conventional debt, but to choke it into bankruptcy and acquire the business through a credit bid, at a steep discount to their original value.
- Resulting in significant economic and personal losses to the Borrowers, Shareholders, subordinate debt holders, concurrent creditors and suppliers

Fraud & Misrepresentation Issues

Public Interest Concerns

- Fraudulent Inducement against the Borrowers
- Pre-designed Scheme to wrestle control of the Borrower's assets
- Destruction of value for the Borrowers and Shareholders by engineering loan defaults, taking the assets and then still claiming deficiencies against Personal Guarantees
- Fraudulent Financial Misrepresentation – Securities Fraud
 - To the public markets and in particular to the shareholders of Callidus Capital Corp (TSX:CBL)
 - To the limited partners of Catalyst Capital LP (various funds – 3 through 5)
 - This requires Public Interest Protection

Lending Practices

The following charts summarize ten (10) practices that have been determined to be the common experience from five (5) borrowers who have subsequently had their businesses taken over by Callidus between 2013 and 2016. It became abundantly clear that Callidus has consistently applied a set of aggressive and dishonest lending practices, which when viewed as a series of marketing, representations, acts, non-acts, a patterned Scheme clearly emerges which is:

- Designed to fraudulently induce borrowers to take loans from Callidus and place unmanageable financial pressure on Borrowers (“strangle them financially”) to the point that they default on the loans.
- Obtain Borrowers’ assets and many cases, their personal assets, directly or through personal guarantees.
- The former Borrowers were equity holders in:
 - Fortress Resources / Opes
 - Xchange Technology Group
 - Esco Marine
 - Aiken Drilling
 - Bluberi Gaming

Lending Practices

Fraudulent Inducement and Misrepresentation

- Callidus consistently positions itself as a “bridge lender”. In practice, and to quote their chairman, Newton Glassman, they are a “*distressed debt lender with a no cost equity option*”.
- This means that they do not wish to pay fair value for a business, but have other means they resort to, to take control and ultimately ownership of a business. A high percentage, approaching 50% of loans initiated by Callidus result in a loss of control for the equity holders. All too often this bridge turns into a pier for its borrowers through Callidus’ fraudulent inducement.

Last minute changes to deal terms under extortionate terms and circumstances – often engineered by Callidus

- Virtually every transaction has had the deal terms evolve and change materially, prior to closing - usually once Callidus feels the prospective borrowers have ceased pursuing or have lost the opportunity to attract alternative financing. Deal term changes may include any or all of the above:
 - A rate increase – usually from 18% to as high as 35%
 - A fee increase – their fees can escalate into the millions
 - Personal guarantees
 - Arbitrarily blocking credit availability under their own loan formula

Lending Practices

Valuations (Irregular and Non-Independent)

- While valuations are a fundamental component of Asset Based Lending (ABL), Callidus will use or ignore the guidance in these reports to suit its own purposes.
- In the most egregious cases, Callidus will order a valuation from a complicit third party to suit its own plans – often when they are planning to take control of a debtor – and will actually dictate to the evaluator what the report is to say.
- In other cases they will ignore acknowledged shortcomings of the reports until such a time as it is convenient to them.
- Often the rectification of these shortcomings would lead to increase borrowing capacity once and if implemented.

Intentional holding back of advances under the loans

- Callidus is notorious for withholding advances when requested, even when there is availability under the loan agreements. They will often wait for extreme pressure to build around critical payments like payroll, taxes, etc before releasing funds. Their drip-feeding of capital has a massively detrimental impact on the company's vendor and customer relationships as a result often leading to a loss of business or at a minimum business reputation. Borrowers are often forced to go two or more weeks without funding of any kind. This destroys the business.
- Subsequent facilities or assets are often not funded or funded far later than is expected and represented or useful. They will often break up the overall loan agreement into multiple tranches of lending, often five or more "Facilities" to further complicate, control and slow advances.
- Callidus' actions contribute to or further the insolvency of the Borrowers, which results in detrimental legal ramifications for the business owners.
 - See Esco case in Texas where judge determined the practice to be fraudulent

Lending Practices

Decision Making in the Callidus Credit Committee

- References are made to the “credit committee” whenever a real decision needs to be made. The credit committee is a falsity and in reality only Glassman makes any decisions of consequence. Nobody else in Callidus is able to make a decision of consequence and “one beats two” and “one beats three” as acknowledged by Callidus’ own staff in recorded meetings. After all “it is his money” is the comment made by Craig Boyer, Callidus VP for Portfolio Management. (play attached recordings from May 2013)
- If Glassman is not available for a week or two, is travelling, or is consumed by a major Catalyst deal, meaningful and time-sensitive decisions about a borrower’s business will be deferred by weeks - to the great detriment of the borrower since there is no other recognized authority at Callidus. This means Newton Glassman is aware of the hostile tactics deployed against their borrowers.
- Boyer’s Statement of Claim, in Section 8a confirms our collective experience that Glassman’s *“management style focuses on taking hyper-aggressive positions with third parties”*

Incremental Demands (now referred to as “Yield Enhancements” by Callidus)

- In concert with the drip feeding of capital, Callidus will routinely create pressure points, often around critical payments like payroll funding. They will then further deprive the Borrowers of their assets by demanding the principals inject more equity behind them, pay more in fees, or they will demand additional collateral from the guarantors – often including real estate.
- Callidus and Glassman have engineered these pressure points so as to further deprive borrowers of their assets. With their stock (TSX:CBL) under pressure, this extreme behaviour will continue with new borrowers until they are stopped.
- These demands on the owners to inject more capital or assets will happen even after it has become clear that they are planning to take over (own) a company yet still falsely represent they are negotiating loan terms in good faith.

Lending Practices

Enterprise value consumption

- Callidus cares very little about a borrower's earnings or overall financial health – and have stated so explicitly in meetings. All they are concerned with is collateral and enterprise value. If Callidus perceives there is enterprise value (equity) that it has not already consumed, it will formulate plans to grab this value through equity-like returns using exorbitant fees and interest rates to do so (recordings from May 2013).
- Callidus deems equity-level returns to be in excess of 35% and in some loan agreements has charged interest as high as 35% and in other cases, seven figure fees for renewal and forbearance are common. It is always Callidus plan to weaken the equity holders so they will not resist the extreme measures being imposed.

Vendor Management

- Callidus will test a borrower's vendor base to see just how far payables can be stretched. It is their practice to deprive unsecured creditors of payments owed as a part of their takeover strategy and to cease paying them once they have decided to run a business through a bankruptcy process - before taking control of the business.
- It is common practice for Callidus to artificially allow vendor relationships to degenerate with court filings as yet another way to position itself as the white knight to the bankruptcy courts. Callidus will also cease funding legal defenses or ignore these claims if they're coming from unsecured creditors once they've decided on a bankruptcy process – often many months in advance of the actual filing.

Lending Practices

Removal of Principals & Appointment of New Management

- In advance of a bankruptcy process Callidus will often take extreme measures to
 - Remove any principals from the operation of the business
 - Prevent principals from gaining access to their own company's financial information
 - Lock the principals out of their premises, offices and internal communication systems
 - Appoint or force upon the borrower a third party consultant named by Callidus, in the capacity of CRO - fully funded by the borrower. The principals are forced to completely withdraw from management and then Callidus will use the newly appointed executive / CRO / consultant to further defraud the business owners by signing off on:
 - Loan modifications and Yield Enhancements – for Callidus' benefit
 - Corporate releases – in an attempt to avoid legal responsibility for their scheme, depriving the borrower from recourse in court
 - Ultra-short term Forbearance agreements - that often dramatically increase indebtedness in the form of fees, further depriving the borrowers

Exerting fiduciary control

- Leading up to a bankruptcy filing, Callidus will begin to take a hands-on approach to the company, either directly or through their third party consultant, to selectively control which suppliers will get paid and whom they will deprive in the bankruptcy process.
- They are effectively acting as owners, implementing the most aggressive aspects of their scheme in the months preceding a bankruptcy filing, acting solely in their own best interest – not in the best interests of all parties as fiduciary should undertake.

Common Patterns

The Scheme

- Fraudulent Inducement
- False Representations
- Fraudulent Lending Activities
- Manipulated Valuations
- Economic Extortion
- Borrowers Reliance on representation oral and written
- Significant and devastating losses to Borrowers
- Fabricated “Yield Enhancements” that do not withstand accounting scrutiny

Contrast to Traditional Ponzi Schemes

- The Callidus Scheme requires more and more cash to be sustained
- Virtually all of Callidus' earnings are non-cash, accounting entries and interest accruals
- The propagation of this Scheme requires Catalyst and Callidus to aggressively target:
 1. More borrowing capacity
 - from new lenders
 - recent CDO facility
 2. More investors – Fund 3, 4, 5, etc
 3. New Borrowers - who are unaware of their Scheme
- Until the Scheme collapses, the Borrowers will bear the brunt of the fraud
- When the Scheme collapses
 - Investors in Callidus and Catalyst will face massive write-downs
 - Their lenders will similarly be faced with large losses
- Meanwhile Catalyst and its management team will accrue millions in performance bonuses and fees in the process

Callidus History of Loan Losses and Write- downs

- According to the 2014 Callidus IPO Prospectus:
 - *Callidus is a successful asset-backed lender with a history of consistently generating significant returns. Callidus has a strong track record, as evidenced by, among other things, no realized losses on principal on Callidus-originated loans after consideration of liquidated collateral and costs to settle from 2011 until 2013.*
- According to Callidus' own financial statements, increasingly large loan loss accruals are building within the Callidus loan book and are likely still understated.

Year	Loan Loss Accrual Balance	Assets "Acquired" from Borrowers
2013	\$10.18 million	\$11.36 million
2014	\$18.97 million	Engineered to nil
2015	\$35.65 million	\$102.37 million
2016	\$132.31 million	\$91.21 million

Clearly the size and scale of the Callidus / Catalyst Scheme is beginning to show signs of distress with:

- Loan losses and accruals pushing \$200 million in the last 4 years
- With former owners / Borrowers deprived of over \$200 million of assets

Summary Conclusion

- Callidus is a loan-to-own operation
- Fraudulently induces Borrowers to take loans
- Is a pre-organized Scheme that is intended to deprive people of their assets
- There is an overarching public interest consideration to stop this harmful practice
- Pattern emerges after investigating multiple events and companies and talking to other Borrowers. Experience and playbook is the same.
- Acknowledgement by Callidus of significant fraud having occurred
- Callidus and Catalyst are run by the same person. They are Alter Egos of Newton Glassman

EXHIBIT #5

Jeff McFarlane

From: Alan Rupp
Sent: 24 July 2013 20:23
To: Jeff McFarlane
Subject: FW: Discussion with Jeff

From: Craig Boyer [mailto:cboyer@CallidusCapital.ca]
Sent: Wednesday, July 24, 2013 2:19 PM
To: Alan Rupp
Subject: Re: Discussion with Jeff

Not going to happen

He releases the consent now

He leaves the premises

Then we (and he can be involved) deals with the FA

And even then I don't know if the CC will agree to change the course of action

He has no negotiating room right now

And until he does what he needs to do this is in Court and he likely loses everything

Things are escalating at our end

Rapidly

I have another call at 5 this evening

No bluffs here

And I don't see us blinking

Ball is in Jeff's court

And he should be reminded of that

I am back in the office around 315 as I have a chiro appointment

From: Alan Rupp [mailto:arupp@xtgglobal.com]
Sent: Wednesday, July 24, 2013 02:13 PM
To: Craig Boyer

Subject: Discussion with Jeff

Just had a discussion with Jeff. He is asking for \$50K so counsel can review the management consent and the FA. He believes the FA has substantially changed from the previous version and he needs counsel input. He's asked me to communicate this to you. Ultimately, he wants to find a solution that he sends the consent and the FA is postponed a couple weeks while Falcon completes due diligence.

Separately, I know you know this, but we have until 4:00pm to fund payroll. I have someone here preparing communication to our employees.

Alan W. Rupp
Chief Financial Officer
Xchange Technology Group



9241 Globe Center Dr., Ste. 100, Morrisville, NC 27560
Office 919.354.1581
www.xtgglobal.com

EXHIBIT #6

Jeff McFarlane

From: Jeff McFarlane
Sent: Wednesday, May 18, 2016 10:10 PM
To: Levitt, Darryl; Gary Smith
Cc: Andrew Levy; Michael Endler; Phil Iovieno; Mr Richard G Molyneux; roger.simard@dentons.com; rjaross@aol.com; Robert Tietjen; Kyle Smith; Ari Sorek; Symon Zucker; gerald_duhamel@hotmail.com
Subject: RE: Privileged

I concur with Darryl, that it would be advantageous to move before a privatization takes place. There could be a lot more leverage for a settlement while it's still listed.

It also struck me that to avoid conflict of interest that none of us in the contemplated class action should get involved in shorting the stock. Is there consensus on this point?

Jeff

From: Levitt, Darryl [mailto:darryl.levitt@nortonrosefulbright.com]
Sent: Wednesday, May 18, 2016 3:54 PM
To: Gary Smith <gsmith@pmgllc.biz>
Cc: Andrew Levy <alevy@redstonecc.com>; Jeff McFarlane <jmcfarlane@triathloncc.com>; Michael Endler <mendler@BSFLLP.com>; Phil Iovieno <piovieno@BSFLLP.com>; Mr Richard G Molyneux <rmolyneux2@yahoo.ca>; roger.simard@dentons.com; rjaross@aol.com; Robert Tietjen <rtietjen@BSFLLP.com>; Kyle Smith <ksmith@BSFLLP.com>; Ari Sorek <ari.sorek@dentons.com>; Symon Zucker <sz@bondlaw.net>; gerald_duhamel@hotmail.com
Subject: Re: Privileged

Of interest in today's Financial Post.

<http://www.financialpost.com/m/wp/blog.html?b=business.financialpost.com/investing/market-moves/newton-glassmans-catalyst-faces-decision-on-callidus-privatization-as-share-price-falls-short>

Timing is very important now.

Darryl Levitt

Of Counsel

Norton Rose Fulbright Canada LLP / S.E.N.C.R.L., s.r.l.

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Darryl.Levitt@nortonrosefulbright.com

On May 18, 2016, at 2:17 PM, Gary Smith <gsmith@pmgllc.biz> wrote:

The only difference in Fortress is that the coal industry turned south so fast and they did not understand the reclamation obligations, which in our case was greater than the loan. Everything else is spot on.

From: Andrew Levy [mailto:alevy@redstonecc.com]

Sent: Wednesday, May 18, 2016 2:08 PM

To: Jeff McFarlane <jmcfarlane@triathloncc.com>; Levitt, Darryl <darryl.levitt@nortonrosefulbright.com>; Michael Endler <mendler@BSFLLP.com>
Cc: Phil Iovieno <piovieno@BSFLLP.com>; Gary <gsmith@pmgllc.biz>; Mr Richard G Molyneux <rmolyneux2@yahoo.ca>; roger.simard@dentons.com; rjaross@aol.com; Robert Tietjen <rtietjen@BSFLLP.com>; Kyle Smith <ksmith@BSFLLP.com>; Ari Sorek <ari.sorek@dentons.com>; Symon Zucker <sz@bondlaw.net>; gerald_duhamel@hotmail.com
Subject: RE: Privileged

Jeff et al,

I would like to point out several other common elements to all of these transactions with Callidus. Forgive me if I duplicate.

1. Callidus makes sure they get a security interest in ALL of the assets to foreclose any possibility of getting in another DIP lender in the inevitable bankruptcy proceeding. In the Esco case, Caterpillar Finance had the debt on most of the Esco equipment. We liked CAT. Callidus insisted on replacing them at a significantly higher interest rate.
2. They agree to advance funds in writing and then don't advance all the funds contracted for (this is another RICO problem if they had advance intent to do this).
3. To advance the funds they had already agreed to advance, they demand a Loan Amendment containing additional fees and releases.
4. At some point they stop paying the payroll to shut the place down.
5. Then since operations and hence cash flow cease, they begin foreclosure. The Debtor inevitably counters with a bankruptcy filing.
6. Callidus becomes the DIP funder because there is no unencumbered collateral to get in another DIP lender.
7. Callidus writes the rules of the bankruptcy auction sale so tight that no one else can bid.
8. Callidus always winds up with the assets in a credit bid. There is never room for an outside bidder, like in virtually all other bankruptcy sales.

Please advise whether these elements are present in each of your situations.

Andrew Levy

From: Jeff McFarlane [<mailto:jmcfarlane@triathloncc.com>]
Sent: Tuesday, May 17, 2016 1:04 AM
To: Andrew Levy; Levitt, Darryl; Michael Endler
Cc: Phil Iovieno; Gary; Mr Richard G Molyneux; roger.simard@dentons.com; rjaross@aol.com; Robert Tietjen; Kyle Smith; Ari Sorek; Symon Zucker; gerald_duhamel@hotmail.com
Subject: Privileged

Folks, I've written up the memo I committed to authoring from our meeting that highlights the most common Callidus practices and have attached it here. I would suggest it not be forwarded outside of

this group at the moment. For the team and BSF, I'm available to field any questions you might about this memo and I suspect we'd all welcome your feedback on how useful this might be in a claim. To Phil's point in our meeting, these are not exceptions, these are the norm when borrowing from Callidus.

With respect to Andy's comments on the Plaintiff Group, I would add the following points and questions:

- I think a majority of some sort should control the decision making process and am fine with 3 of 4
- Should there be a reasonably equitable way to apportion the claim in advance, it might make sense to allow votes along these lines and possibly bring the threshold for agreement down to 2/3's
- We should give some thought to:
 - o What standing (if any) in the plaintiff group would new plaintiffs have should more emerge?
 - I suspect we would welcome them if their cases were similar in nature.
 - o Should the original plaintiffs maintain the voting control?
 - I would say yes on this point given the initial investment this group has made
 - o Would it make sense for some small amount of the settlement to be distributed equally amongst the plaintiffs, regardless of the attribution of damages?
 - Perhaps 5-10% so all of the current parties have a vested interest in the overall case?

I do not want to over-engineer this but do want to ensure we've taken a short amount of time to think this through in advance.

And on a different note, my Personal Guaranty defense is up for a Summary Judgment motion next week, initiated by Callidus, but not opposed by me. If you want to see the boilerplate Factum they will probably use for all of these claims, I've attached it here. You will note they rely almost solely on the releases and frankly have ignored large portions of what we have asserted in the statement of defense and affidavits.

It was a pleasure to meet you all last week and I look forward to getting this off the ground in the near future.

Thanks

Jeff

From: Andrew Levy [<mailto:alevy@redstonecc.com>]
Sent: Monday, May 16, 2016 5:17 PM
To: Levitt, Darryl <darryl.levitt@nortonrosefulbright.com>; Michael Endler <mendler@BSFLLP.com>
Cc: Jeff McFarlane <jmcfarlane@triathloncc.com>; Phil Iovieno <piovieno@BSFLLP.com>; Gary <gsmith@pmgllc.biz>; Mr Richard G Molyneux <rmolyneux2@yahoo.ca>; roger.simard@dentons.com; rjaross@aol.com; Robert Tietjen <rtietjen@BSFLLP.com>; Kyle Smith <ksmith@BSFLLP.com>; Ari Sorek <ari.sorek@dentons.com>; Symon Zucker <sz@bondlaw.net>; gerald_duhamel@hotmail.com
Subject: RE: Summary Judgements, RICO, and claim coordination - privileged

Gentlemen:

It was a pleasure to finally meet all of you in Albany last week. I am thankful the chemistry was very good.

Richard Jaross and I at Esco believe it very important to reach agreement on a united front in order to secure the attention of a funder for the coming battle. We therefore propose as follows:

1. All four plaintiff groups band together in one action , however and wherever it is ultimately litigated.
2. All decisions (settlement, etc) are made by majority (at least three out of four) vote.
3. The pot at the end is split up by the same majority vote guided by the facts as they ultimately appear through the litigation. In case of failure of majority agreement on this division of proceeds, the matter would be settled by compulsory arbitration in New York City. We believe it could result in a perceived unfair division to attempt to resolve this matter up front.

We would be interested in the views of the group on this proposal and after a meeting of the minds is reached have BSF draft an agreement.

Regards,

Andrew Levy

From: Levitt, Darryl [<mailto:darryl.levitt@nortonrosefulbright.com>]

Sent: Monday, May 16, 2016 2:27 PM

To: Michael Endler

Cc: Jeff McFarlane; Phil Iovieno; Gary; Mr Richard G Molyneux; roger.simard@dentons.com; Andrew Levy; rjaross@aol.com; Robert Tietjen; Kyle Smith; Ari Sorek; Symon Zucker; gerald_duhamel@hotmail.com

Subject: Summary Judgements, RICO, and claim coordination - privileged

Dear All

To the extent that some of you might have existing summary judgement applications pending, please ensure that you coordinate any proposals with Michael and Phil at Boies Schiller since any settlement proposal from Callidus that is formulated by Callidus will likely be accompanied by an all-encompassing release that could affect your claims and the RICO complaint and the ability to recover any of your damages. We all know the types of releases that have been presented in the past. They will not keep the door open to come back and sue them.

In addition, I have just spoken with Michael and suggest we start giving thought to how the composition of the decision-making process will look like with the claim. One idea is that there are 4 votes and 3 would be needed to make major decisions on settlement etc. I would appreciate any thoughts on this so that we can start formalizing the document to govern this.

Thanks and regards,

Darryl Levitt

Of Counsel

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EXHIBIT #7

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of securities only in those jurisdictions where such securities may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered hereby have not been, and will not be, registered under the United States Securities Act of 1933, as amended ("U.S. Securities Act"), or any state securities laws and, subject to certain exceptions, may not be offered or sold in the United States. See "Plan of Distribution".

PROSPECTUS

Initial Public Offering

April 15, 2014

CALLIDUS CAPITAL

CALLIDUS CAPITAL CORPORATION

\$252,000,000
18,000,000 Common Shares

This prospectus qualifies the distribution to the public (the "Offering") of 18,000,000 common shares ("Offered Shares") in the capital of Callidus Capital Corporation ("Callidus" or the "Corporation"), at a price of \$14.00 per Offered Share (the "Offering Price"). The Offered Shares are being offered by Canaccord Genuity Corp. (the "Lead Underwriter") and CIBC World Markets Inc., TD Securities Inc., National Bank Financial Inc., GMP Securities L.P., Desjardins Securities Inc. and Dundee Securities Ltd. (collectively, with the Lead Underwriter, the "Underwriters") pursuant to an underwriting agreement between the Corporation, Catalyst Fund II (as defined herein), Catalyst Fund III (as defined herein), Catalyst Fund IV (as defined herein) and the Underwriters dated April 15, 2014 (the "Underwriting Agreement").

There is currently no market through which the common shares of the Corporation ("Common Shares") may be sold and purchasers may not be able to resell Common Shares purchased under this prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of Common Shares, and the extent of issuer regulation. See "Risk Factors".

In connection with the Offering, the Underwriters may, subject to applicable law, over-allot or effect transactions that stabilize or maintain the market price of Common Shares at levels other than those which otherwise might prevail on the open market. The Underwriters may offer Offered Shares at a price lower than the Offering Price. Any such reduction in price will not affect the proceeds received by the Corporation. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

An investment in Offered Shares is subject to a number of risks that should be considered by a prospective purchaser. Prospective purchasers should carefully consider the risk factors described under "Risk Factors" before purchasing Offered Shares.

**Price: \$ 14.00 per Offered
Share**

	Price to the Public ⁽¹⁾	Underwriting Fee	Net Proceeds to the Corporation ⁽²⁾⁽³⁾
Per Offered Share	\$14.00	\$0.805	\$13.195
Total Offering ⁽²⁾	\$252,000,000	\$14,490,000	\$237,510,000

Notes:

- (1) The Offering Price has been determined by negotiation between the Corporation, Catalyst Fund II, Catalyst Fund III, Catalyst Fund IV, and the Underwriters.
- (2) The Corporation has agreed to grant to the Underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part at any time and from time to time, for a period of 30 days following the closing of the Offering ("Closing"), to purchase up to an additional 2,700,000 Common Shares (representing 15% of the Offered Shares offered pursuant to the Offering) on the same terms as set forth above solely to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total price to the public, underwriting fee ("Underwriting Fee"), and the net proceeds to the Corporation will be \$289,800,000, \$16,663,500, and \$273,136,500, respectively. This prospectus qualifies the grant of the Over-Allotment Option and the distribution of Common Shares upon the exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Underwriters' over-allocation position acquires those Common Shares under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".
- (3) After deducting the Underwriting Fee payable by the Corporation, but before deducting expenses of the Offering estimated to be \$3,000,000, which the Corporation will pay out of the proceeds it receives from the Offering.

The following table sets out the number of Offered Shares that may be sold by the Corporation to the Underwriters pursuant to the exercise of the Over-Allotment Option:

Underwriter's Position	Maximum Number of Common Shares Available	Exercise	Exercise Price
Over-Allotment Option	2,700,000	Within 30 days following Closing	\$14.00 per Common Share

Unless otherwise indicated, all information in this prospectus assumes that the Over-Allotment Option will not be exercised.

The Underwriters, as principals, conditionally offer the Offered Shares qualified under this prospectus, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement as further described under the heading "Plan of Distribution", and subject to the approval of certain legal matters on behalf of the Corporation by Fasken Martineau DuMoulin LLP and on behalf of the Underwriters by Cassels Brock & Blackwell LLP.

Subscriptions for Offered Shares will be received subject to rejection or allotment, in whole or in part, and the Underwriters reserve the right to close the subscription books at any time without notice. The closing date of the Offering is expected to occur on or about April 23, 2014 or such other date as the Corporation and the Underwriters may agree, but in any event no later than the date that is 42 days after the date of the receipt for this prospectus (the "Closing Date").

Offered Shares will be delivered electronically through the non-certificated inventory ("NCI") system of CDS Clearing and Depository Services Inc. ("CDS"). On the Closing Date, the Corporation, via its transfer agent, will electronically deliver the Offered Shares registered to CDS or its nominee. A holder of an Offered Share participating in the NCI system will not be entitled to a certificate or other instrument from the Corporation or the Corporation's transfer agent evidencing that person's interest in or ownership of Offered Shares, nor, to the extent applicable, will such holder be shown on the records maintained by CDS, except through an agent who is a CDS participant. See "Plan of Distribution".

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PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and is qualified in its entirety by, and should be read together with, the more detailed information and the financial data and statements contained elsewhere in this prospectus. Please refer to "Appendix 'A' – Glossary of Terms" for the meaning of certain terms used in this prospectus.

Business Overview

Callidus is a specialty asset-based lender, focused primarily on Canadian companies and select U.S. companies that are unable to obtain adequate financing from traditional lenders. Callidus provides flexible and innovative loan structuring, with limited or no covenants and an efficient credit approval process. The Corporation's loans are generally structured as demand, first lien (senior secured) facilities, on a fully collateralized basis, with targeted Gross Yields of approximately 20%.

Callidus addresses an important gap in the lending markets by providing financing to borrowers whose perceived credit risk is too high for the lending criteria of traditional lenders, and whose capital requirements are too small to access high yield markets. Callidus also provides borrowers with access to capital to fund growth or acquisitions, without dilution to their equity ownership. Additionally, Callidus can assist borrowers through challenging periods by working with the operators and drawing on the extensive experience of the Corporation's management team. Callidus seeks to work with borrowers that are likely to improve their financial stability and gain the ability to repay the funding Callidus has advanced through loan commitments from traditional lenders or otherwise.

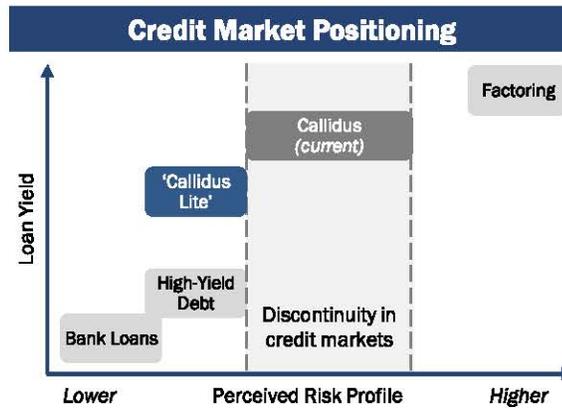
The Corporation believes that its expertise in assessing the quality of each prospective borrower, and its ability to complete timely detailed due diligence, enables Callidus to identify opportunities for significant returns in situations where risks can be assessed, controlled and managed. As part of its strategy to manage the perceived risk of these borrowers and each loan, Callidus takes an active approach to lending as it carefully assesses and lends against collateral, typically accounts receivable, inventory and fixed operating assets, and monitors this collateral on an ongoing basis. In addition, the Corporation seeks to provide lending in industries where management has expertise. Callidus has consistently generated significant returns while effectively and prudently managing its risk exposure. **Callidus has a strong track record, as evidenced by, among other things, no realized losses on principal on Callidus-originated loans after consideration of liquidated collateral and costs to settle from 2011 until 2013.**

As at April 10, 2014, Callidus managed \$471 million of loan assets. For the 12 months ended December 31, 2013, Callidus had total revenue of \$53.3 million and **Adjusted EBITDA⁽¹⁾ of \$41.5 million** on Average Loan Portfolio Outstanding⁽¹⁾ of \$251 million.

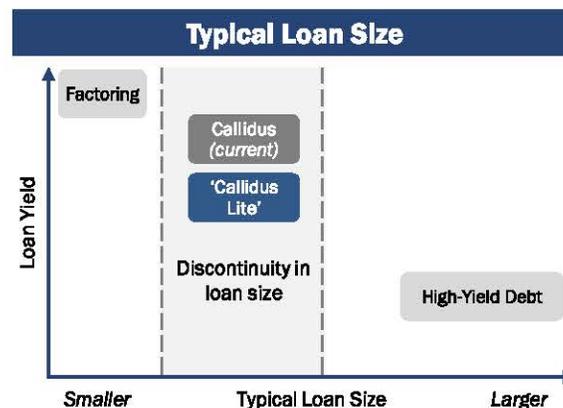
Credit Markets

Callidus targets a market with borrowers whose perceived risk is too high for the lending criteria of traditional lenders, and whose capital requirements are too small to access high yield markets. Many traditional lenders have lending criteria that are not met by the credit profile of the borrowers in the Corporation's target market and such lenders are generally unwilling to commit the time and resources necessary to monitor each loan effectively. Callidus believes it generates a higher return relative to the perceived risk profile of its loans due to its unique approach to lending. Callidus effectively manages the risk of its portfolio by prudent collateral-backed lending, and through active management of its loans. The following chart illustrates the market in which Callidus operates:

(1) Please see definitions of Adjusted EBITDA and Average Loan Portfolio Outstanding under the heading "Management's Discussion and Analysis of Financial Results – Description of Non-IFRS Measures". These financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, they may not be comparable to similar measures used by other issuers.



Callidus generally commits to loans ranging in size from \$5 million to \$50 million. Management believes there is a general lack of credit available in the market at these loan sizes for borrowers with the same risk profile as a typical Callidus borrower. Callidus loans are generally larger than those of factoring companies, which typically provide loans of \$5 million or less, and are generally smaller than those of high yield lenders, which typically provide loans of \$50 million or more. While banks provide loans of all sizes, these loans are not generally available to borrowers with the same risk profile as a typical Callidus borrower. The following chart illustrates the typical loan size for various debt products:

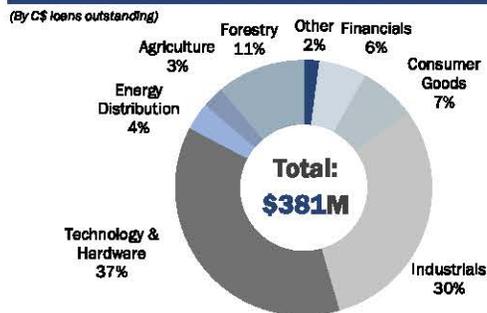


Current Loan Portfolio

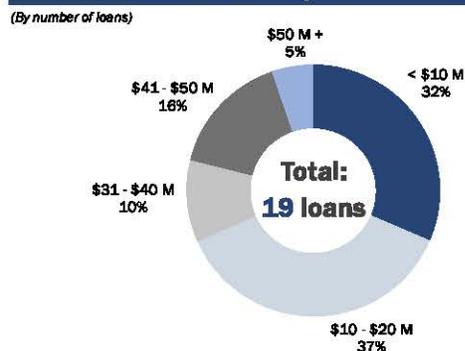
As of December 31, 2013, the Loan Portfolio consisted of 19 loans with an aggregate Gross Loans Receivable amount outstanding² of \$381 million. The largest loan commitment was approximately US\$75 million and the smallest loan commitment was approximately \$4 million. The Corporation's loans are diversified across a variety of industries, with the technology and hardware industry and the industrials industry comprising the largest segments. Callidus will often target sectors that are experiencing a downturn as such borrowers may be under financial pressure and may be unable to access capital from traditional lenders. During 2011, the Corporation received 100% of the common shares of a borrower, in exchange for a loan valued at \$12.6 million. This entity is being held for sale on the statement of financial position. The asset held for sale is recorded at the lower of carrying value or fair value less cost to sell. Some of the loans in the Loan Portfolio contain a payment-in-kind interest provision. Unless a portion of a loan with a payment-in-kind interest provision is sold, the Corporation will not receive cash in respect of such loan until such time as cash payment is due.

(2) Please see definition of Gross Loans Receivable under the heading "Management's Discussion and Analysis of Financial Results – Description of Non-IFRS Measures". These financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, they may not be comparable to similar measures used by other issuers. As at December 31, 2013, the Gross Loans Receivable consisted of \$350 million loans receivable, \$11 million assets held for sale, \$10 million loan loss allowance, and \$10 million in discounts on loan acquisitions.

Gross Loans Receivable by Borrower Sector



Loan Portfolio by Amount Funded



Note: As at December 31, 2013, the Gross Loans Receivable consisted of \$350 million loans receivable, \$11 million assets held for sale, \$10 million loan loss allowance, and \$10 million in discounts on loan acquisitions.

The average amount funded per loan is approximately \$20 million, with the principal amount outstanding typically between 65% and 75% of the committed amount at any given time. The original commitment term is typically 12 months, with extensions permitted subject to credit re-approval and renewal fees. The average period of time a loan and its renewal is outstanding typically ranges from 18 to 24 months.

Growth Strategy

Following the completion of the Offering, the Corporation's public company status may raise the profile of Callidus as a solution for borrowers and for lenders with challenging loan portfolios in addition to increasing the Corporation's access to capital. Callidus believes its Loan Portfolio will grow in the following ways:

- Organic Growth in Canada:** Management estimates that the market size in Canada for its current product is approximately \$1 billion in loans at any time, of which management believes that approximately \$650 million is currently addressed by either Callidus or its competitors. Callidus believes it is well positioned to capture a significant share of this unserved market given the Corporation's flexible and innovative approach to lending, the Corporation's extensive in-house team and proprietary systems, management's significant ABL experience and workout expertise, the presence of relatively few known competitors in the Bridge or Distressed ABL Providers market segment (see "Asset-Based Lending Industry – General") and the Corporation's access to capital from both public markets and the Catalyst Funds.

The Corporation's Gross Loans Receivable grew at a compound annual growth rate of 57% from 2011 to 2013. During the same period, potential new loans being considered by the Corporation remained steady. As a result, the Corporation believes that there is significant market demand for the Corporation's loan product. The Corporation is currently considering potential new loans totalling approximately \$300 million. As part of its overall strategy to grow the Loan Portfolio, the Corporation targets \$50 million to \$150 million of net new loans for each loan originator per year. However, there can be no assurance that Callidus will be able to grow its Loan Portfolio as anticipated.

Callidus has historically served primarily Ontario and Québec based borrowers; however, more recent growth reflects lending opportunities across Canada. Callidus intends to expand its geographical reach by increasing the number of loan officers and adding originators outside of Ontario. In addition, Callidus is increasingly providing larger loans and expects to further increase its average loan size.

- Expansion of Loan Product:** In order to extend the Corporation's lending market, the Corporation will expand 'Callidus Lite', a lower-priced loan product for relatively lower-risk borrowers. Management expects that 'Callidus Lite' will have targeted Gross Yields of between 12% and 14%. Certain of the borrowers in this market may have traditional lending alternatives available to them; however management believes these borrowers may accept the higher pricing of the 'Callidus Lite' product in exchange for flexible and innovative loan structuring along with limited or no covenants.

Management believes that the 'Callidus Lite' product represents an incremental market opportunity that is distinct from the market for its current loans. 'Callidus Lite' will allow Callidus to extend its potential lending market and loan duration, while preserving attractive returns.

- **Expansion in the United States:** Management believes that the United States market presents a significantly larger opportunity than the Canadian market. Regulatory standards in the United States such as the Dodd–Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) combined with Basel III Accord (“Basel III”) place constraints on commercial lenders that do not apply to Callidus. Although the United States is a different lending market, management has extensive experience in successfully originating and underwriting debt transactions in the United States. The Corporation’s existing loan products have been made available in the United States on a situational basis through existing borrower relationships. Callidus demonstrated the flexibility of its systems, back office and procedures through six U.S. based transactions since 2011. In addition, five Canadian based transactions since 2011 had U.S. collateral or exposure as a substantial part of their operations, requiring Callidus to test and validate its ability to perfect U.S. collateral and successfully address other structural issues. Consistent with the Corporation’s targeted geographical expansion across Canada, new origination and underwriting officers allow for natural coverage of the northern United States and expansion of the Loan Portfolio.
- **Growth through Acquisitions of Loan Portfolios:** Management believes that there will be opportunities to acquire asset-based loan portfolio assets from other lenders in Canada and the United States on an opportunistic basis, at discounted values. Callidus has successfully acquired and managed loan portfolios from lenders seeking to exit challenging situations in the past. The Offering provides Callidus access to capital to execute on such future opportunities.
- **Purchase of Loan Assets from the Catalyst Funds:** Following completion of the Offering, the Catalyst Funds will continue to have an interest in the Loan Portfolio. When a Catalyst Fund intends to dispose of an interest in the Loan Portfolio, Callidus will have the option to acquire such interest for an amount equal to the aggregate funded amount of the interest in the Loan Portfolio being sold plus such Catalyst Fund’s entitlement to undistributed interest and fees on the applicable Loan Portfolio, pursuant to the terms of the Participation Agreement. As private equity funds, the Catalyst Funds expect to have a need to redeploy their capital into other investments and have a limited investment horizon, thereby creating a necessity to sell their interests in the Loan Portfolio once capital is needed for other investments. Catalyst Funds established after the closing of the Offering will be entitled to invest in interests in the Loan Portfolio, providing for mutual interest in the performance of the Loan Portfolio and another source of financing for growth in Callidus’ loan assets. In addition, in the event of any Realization Proceedings for a loan prior to the approved renewal at the next scheduled credit review for that loan (generally one year after the initial advance or the last extension), the applicable Catalyst Fund will make a payment to Callidus in an amount equal to the difference between the amounts advanced by Callidus to the borrower under that loan and the amounts actually received by Callidus in connection with that loan, whether by way of proceeds of realization or repayment of principal. See “Funding Arrangements –Participation Agreement”.

Competitive Strengths

Management of Callidus believes that the Corporation has material competitive strengths compared to its competitors. Management believes that competitors manage smaller loan portfolios than the Corporation and that the lack of scale and limited access to capital has provided a challenging environment for its competitors. In contrast, Callidus has benefitted from access to the capital of the Catalyst Funds providing ample capital to grow its business to date and has been able to reach a size where access to attractive leverage alternatives has provided additional sources of capital. The experienced management team and effective collateral monitoring system that Callidus has built since its inception has facilitated the increase in the size of the Loan Portfolio while still maintaining the ability to keep a proactive relationship with borrowers that management believes is critical to success in the markets in which the Corporation operates.

Strong Track Record

Callidus is a successful asset-backed lender with a history of consistently generating significant returns. Callidus has a strong track record, as evidenced by, among other things, no realized losses on principal on Callidus-originated loans after consideration of liquidated collateral and costs to settle from 2011 until 2013. In aggregate, the Corporation’s loans have had a Gross Yield⁽³⁾ on funds advanced of over 20% since 2010. The Corporation’s Loan Portfolio grew at a compound annual growth rate of 57% from 2011 to 2013.

Unique and Differentiated Business Model

- **Speed of Execution** - Callidus has a streamlined credit approval process that provides for rapid decision making, with the Credit Committee involved in the approval process from an early stage. All loans are subject to unanimous Credit Committee

(3) Please see definition of Gross Yield under the heading “Management’s Discussion and Analysis of Financial Results – Description of Non-IFRS Measures”. This financial measure is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, it may not be comparable to similar measures used by other issuers.

approval. The Credit Committee consists of three members of the executive team. See “Description of the Business – Lending Review Process”.

- *Structural Flexibility* - Callidus provides practical solutions to its borrowers through flexible and innovative loan structuring. Callidus can provide flexible solutions to meet the needs of borrowers, including, but not limited to, providing loans margined against accounts receivable and inventory, and term loans margined against other assets, including equipment, real estate and manufacturing facilities. Payments in kind and longer amortizations may also be considered in appropriate circumstances. Callidus’ loans typically have limited or no covenants, as loans are normally payable on demand. See “Description of the Business – Lending Principles”.
- *Ongoing Relationships with Borrowers*- Callidus engages in a high degree of monitoring of the collateral securing the Loan Portfolio and regular interaction with its borrowers. The Corporation’s experienced team of finance professionals actively monitors each loan on a daily, weekly or monthly basis, as appropriate depending on the risks. In most cases, Callidus maintains control of the borrower’s deposit account through the use of blocked accounts, which facilitates loan repayment and reduces fraud. Financial results and collateral values are regularly monitored against business plans and industry trends. Frequent meetings with the borrowers’ management are combined with regular field audits. Third party collateral appraisers, as appropriate, confirm initial asset values and professional restructuring advisors are involved, as necessary. This extensive system of collateral monitoring and management contact mitigates risk by acting as an early warning system of potential credit issues. Early detection of issues ensures that proactive remedies can be implemented.

Support from CCGI

The Catalyst Capital Group Inc. (“CCGI”) is a Toronto-based private equity investment management firm with over \$3 billion in assets under management. CCGI supports Callidus by providing funding through the Catalyst Funds and the involvement of senior executives in the Corporation’s business.

Pursuant to its partnership arrangements with the Catalyst Funds, CCGI expects to be entitled to 20% of the Common Shares held by Catalyst Fund II and Catalyst Fund III at Closing, representing an approximate 8% interest in the issued and outstanding Common Shares, as a result of its carried interest in the performance of Catalyst Fund II and Catalyst Fund III. Such Common Shares will be subject to a lock-up of at least two years. See also “Principal Shareholders” and “Risk Factors – Risks Relating to the Offering – Future Sales of Common Shares by Existing Shareholders”. Further, CCGI, as manager of the Catalyst Funds (existing and future) will have the ability to deploy funds from new Catalyst Funds directly into the Active Portfolio thereby providing a source of financing for growth in Callidus’ loan assets.

Any Catalyst Funds currently directly invested in the Initial Portfolio, or any new Catalyst Funds investing in the growth of future Loan Portfolios, will be entitled to a participation interest in the Loan Portfolio, and will bear the debt service costs associated with the leverage allocated to its interest in the Loan Portfolio and a *pro rata* share of all expenses relating to the management of the Loan Portfolio based on its participation interest in the Loan Portfolio. Each of Callidus and the Catalyst Funds with a participation interest in the Loan Portfolio have a mutual interest in the performance of the Loan Portfolio.

Experienced Management

The members of the Callidus management team have significant experience in the Canadian asset-based financing market and have close strategic relationships with various professional groups, including accountants, restructuring professionals and appraisers. The Corporation’s management team and the Credit Committee also have extensive expertise across various sectors. This experience and expertise, combined with the Corporation’s disciplined approach to evaluating potential borrowers, enables Callidus in identifying high return lending opportunities where risks can be controlled and managed to ensure minimal portfolio losses.

Key Terms of the Proposed Offering

Pre-Closing Transactions

Historically, the Loan Portfolio has been 100% funded by the Catalyst Funds through the Participating Debenture. Prior to Closing, the amounts owing under the Participating Debenture will be repaid in full. The repayment of the Participating Debenture will be satisfied as follows: (i) as to approximately \$105 million, by the issuance of 5,939,431 Common Shares to Catalyst Fund III and 1,529,371 Common Shares to Catalyst Fund IV at a price per Common Share equal to the Offering Price; (ii) as to \$50 million, by granting to Catalyst Fund IV an approximately 18% undivided participation interest in the Initial Portfolio in accordance with the Participation Agreement, as such participation interest may be adjusted in accordance with the terms of the Participation Agreement; (iii) as to approximately \$125 million, by issuance of promissory notes of approximately \$67 million to Catalyst Fund III and

approximately \$58 million to Catalyst Fund IV (such promissory notes to be repaid from the proceeds of the Offering); and (iv) as to the balance of approximately \$109 million, by payment of approximately \$50 million to Catalyst Fund III and approximately \$59 million to Catalyst Fund IV from cash on hand and funding pursuant to the Second Credit Agreement (as defined herein). See "Pre-Closing Transactions".

Catalyst Fund III and Catalyst Fund IV will agree in the Debenture Repayment Agreement that, in the event that Realization Proceedings have been initiated in connection with any loan included in the Loan Portfolio on the Closing Date or any such proceedings are initiated in connection with such a loan prior to its approved renewal at the next scheduled credit review for that loan (generally one year after the initial advance or the last extension), even if the loss on the loan is not realized until a later time, Catalyst Fund III and Catalyst Fund IV, collectively, will pay to Callidus an amount equal to the difference between the amounts advanced by Callidus to the borrower under that loan and the amounts actually received by Callidus in connection with that loan, whether by way of proceeds of realization or repayment of principal. Catalyst Fund III and Catalyst Fund IV will also agree to pay to Callidus an amount equal to the difference between the amounts advanced by Callidus to the borrower under certain specified loans and the amounts actually received by Callidus in connection with those loans, regardless of whether they are renewed. Any such amounts paid by Catalyst Fund III or Catalyst Fund IV will be considered an asset of the Initial Portfolio and available for reinvestment in future loans. See "Pre-Closing Transactions - Repayment of Participating Debenture".

Following completion of the transactions contemplated by the Debenture Repayment Agreement, Callidus will not be responsible for, or entitled to, any of the risks or rewards in connection with Catalyst Fund IV's 18% participation interest in the Initial Portfolio, representing a 18% undivided beneficial ownership interest in the principal and income of each of the loans in that Initial Portfolio. Catalyst Fund IV's interest in the Initial Portfolio will be derecognized from Callidus' balance sheet for the purposes of IFRS. Callidus and Catalyst Fund IV will bear the risk of loan losses with respect to loans for which Realization Proceedings have not been initiated prior to their renewal in accordance with their respective interests in the Initial Portfolio.

No Catalyst Fund will be entitled to fund any growth in the Initial Portfolio and any such funding will be provided by Callidus. Accordingly, the Catalyst Funds will not have any entitlement to fund growth in the Loan Portfolio until such time as a new Loan Portfolio is established which will be concurrent with the first closing of the offering of securities of a new Catalyst Fund. It is currently anticipated that the earliest a new Catalyst Fund will be established is the second half of 2015.

Funding Arrangements

The Catalyst Funds will be entitled to participate in the growth of new Loan Portfolios established after the closing of the Offering by funding new loans pursuant to the Participation Agreement thereby acquiring a participation interest in that Loan Portfolio. The participation interest represents an undivided beneficial ownership interest in the principal and income of each of the loans in that Loan Portfolio and the applicable Catalyst Fund will assume all of the risks and rewards in connection with its participation interest. The Loan Portfolio will be derecognized from Callidus' balance sheet for the purposes of IFRS to the extent of the Catalyst Funds' interest therein.

A new loan portfolio will be established on each date of the first closing of the offering of securities of a new Catalyst Fund. It is currently anticipated that the earliest a new Catalyst Fund will be established is the second half of 2015. Once a new loan portfolio is established it will be the Active Portfolio and any then existing loan portfolio will be considered a Passive Portfolio. Subject to certain exceptions, no further growth will be permitted in a Passive Portfolio.

The Corporation will determine, in its sole discretion, whether any additional funding required in the Loan Portfolio will be financed through Debt Capital or through New Equity Funding. In the event that Callidus determines to finance all or a portion of the financing required with New Equity Funding, until the Management Services Agreement has been terminated, Callidus must offer the Catalyst Funds an opportunity to fund a portion of the growth pursuant to the Participation Agreement. The extent of the Catalyst Funds' entitlement to fund the growth of the Active Portfolio will be based on the available capital of each of Callidus and the applicable Catalyst Fund determined in accordance with the Funding Formula and the amount of leverage that the applicable Catalyst Fund elects to allocate to its participation interest. See "Funding Arrangements – Participation Agreement".

As new Catalyst Funds are raised and capital is committed to such funds, the Catalyst Funds' entitlement to fund the growth in a Loan Portfolio could be as high as 75% of the growth in a Loan Portfolio at any particular time, with the result that Callidus may only be entitled to fund 25% of such growth and would therefore only receive 25% of the benefit of such growth. Accordingly, the proportion of loans to new borrowers funded by the Catalyst Funds may increase and Callidus' aggregate funded amount in the Loan Portfolio could decrease which may have an adverse effect on net income to Callidus. In the event of a proposed sale of a Catalyst Fund's participation interest in a Loan Portfolio, the Catalyst Funds have granted Callidus an option to acquire that Catalyst Fund's interest in the Loan Portfolio based on the funded amount of the interest in the Loan Portfolio being sold, thereby allowing Callidus to

recapture that growth from the Catalyst Funds. See “Risk Factors – Callidus’ Equity Participation in the Loan Portfolio May Decrease as the Size of the Loan Portfolio Increases”.

The actual amount of growth to be funded by the Catalyst Funds is subject to the limitation that the aggregate capital invested in the Loan Portfolio by all Catalyst Funds taken together cannot be greater than \$300 million and Callidus’ right to provide 100% of New Equity Funding to an aggregate investment in the Loan Portfolio of \$230 million with the result that the Catalyst Funds’ proportion of the overall funding of the Loan Portfolio will not exceed 57%. The amount that may be funded by the Catalyst Funds is further limited by the requirement that the leverage allocated by the Catalyst Funds to a particular Loan Portfolio may not exceed the leverage allocated to that portfolio by Callidus and the further restriction that, with respect to any particular funding of growth, the leverage allocated by the Catalyst Funds may not exceed the leverage allocated to that funding by Callidus without Callidus’ consent.

In connection with the sale to Callidus of any participation interest of a Catalyst Fund in the Loan Portfolio, the applicable Catalyst Fund will agree in the Participation Agreement that in the event any Realization Proceedings have been initiated with respect to any of the loans in the Loan Portfolio at the time of the sale, or if any such proceedings are initiated in connection with any such loan prior to its approved renewal at the next scheduled credit review for that loan (generally one year after the initial advance or the last extension), the applicable Catalyst Fund will make a payment to Callidus in an amount equal to the loss on that loan. That amount will be calculated as the difference between the amounts advanced by Callidus to the borrower under that loan and the amounts actually received by Callidus in connection with that loan, whether by way of proceeds of realization or repayment of principal. Any such amounts will be considered an asset of the Loan Portfolio and not Callidus Growth Capital for the purposes of the Participation Agreement. The Catalyst Funds will not be required to make any payments related to losses on interest income. Callidus and the applicable Catalyst Fund will bear the risk relating to loan losses with respect to loans for which Realization Proceedings have not been initiated prior to their renewal in accordance with their respective interests in the applicable Loan Portfolio.

Decisions with respect to funding of the Loan Portfolio will be made by CCGI on behalf of the Catalyst Funds subject to the Funding Formula. Newton Glassman, the Executive Chairman and Chief Executive Officer of Callidus, is also the Managing Partner of CCGI. In some cases, the interests of CCGI and the Catalyst Funds may not be the same as those of the Corporation’s other shareholders, and conflicts of interest may arise from time to time that may be resolved in a manner detrimental to the Corporation or its other shareholders.

The Catalyst Funds shall be responsible for their proportionate share of the costs incurred by Callidus in connection with managing, enforcing and collecting the loans as well as the debt service costs related to the leverage allocated to a Loan Portfolio. Additionally, pursuant to the Participation Agreement, the Catalyst Funds will pay to Callidus a participation fee with respect to the expenses of the Corporation that are not directly related to the Loan Portfolio and which are attributable to the Catalyst Funds, including salaries and wages, and general and administrative expenses.

Management Services Agreement

Pursuant to the terms of the Management Services Agreement, CCGI will provide Callidus with the services of Mr. Glassman, as Executive Chairman and Chief Executive Officer of the Corporation, and Mr. Riley, as Secretary of the Corporation, or such other persons to perform those functions as may be acceptable to Callidus, acting reasonably; and (b) provide Callidus with access to CCGI’s senior management, analysts and research library, as required. It is expected that each of Mr. Glassman and Mr. Riley will devote approximately 25% of his working time to Callidus. Callidus will pay to CCGI a nominal sum in consideration for making available the services of the Executive Chairman and Chief Executive Officer of the Corporation and the Secretary of the Corporation. CCGI will not be paid any other compensation or fees in connection with making available the services of the Executive Chairman and Chief Executive Officer of the Corporation and the Secretary of the Corporation. In the event that Callidus appoints a full-time chief executive officer, it shall be at Callidus’ expense.

Pursuant to the Management Services Agreement, CCGI has agreed that for a period ending on the later of (a) five years from the Closing Date, and (b) two years after the termination of the Management Services Agreement, neither CCGI nor its affiliates will (i) engage in; (ii) establish or manage any fund or other entity that engages in; or (iii) invest in any other fund or entity that engages principally in the asset-based lending business as carried on by Callidus. In addition, CCGI has agreed that during the term of the Management Services Agreement any opportunities within such business description that are made available to CCGI or its affiliates will first be offered to Callidus. CCGI and its affiliates will not be restricted from entering into lending transactions with one of the Catalyst Funds’ portfolio companies or from making or acquiring loans as part of an overall investment objective of acquiring control or influence over an entity (other than an entity that engages principally in the asset-based lending business as carried on by Callidus).

The Management Services Agreement will remain in force until the earlier of (i) the date on which the Corporation and CCGI mutually agree in writing to terminate the Management Services Agreement; and (ii) the date on which CCGI gives written notice of the termination of the Management Services Agreement, provided that such notice may not be given for so long as any Catalyst Fund

holds Common Shares or holds a direct participation interest in any Loan Portfolio. No additional fees will be payable by Callidus to CCGI on termination of the Management Services Agreement. See “Executive Officers and Directors Compensation – Management Services Agreement”.

Summary of Selected Financial Information

The following table presents selected financial information as at and for the years ended December 31, 2013, 2012 and 2011 derived from the audited annual financial statements of Callidus prepared in accordance with IFRS. The following data should be read along with “Presentation of Financial Matters – Selected Financial Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and the audited financial statements and related notes of the Corporation, included elsewhere in this prospectus. All financial information with respect to the Corporation has been presented in Canadian dollars. The information appearing elsewhere in this prospectus on which the financial information in this summary is based has been audited.

	Year ended December 31		
	2013 (\$ thousand)	2012 (\$ thousand)	2011 (\$ thousand)
Revenue:			
Interest	47,102	21,451	18,720
Fees and other	6,222	6,070	3,095
	<u>53,324</u>	<u>27,521</u>	<u>21,815</u>
Interest expense and participation fees:			
Catalyst Funds	37,494	17,870	14,074
Senior debt and revolving credit facilities	4,414	4,307	3,245
	<u>41,908</u>	<u>22,177</u>	<u>17,319</u>
Net interest income	11,416	5,344	4,496
Other income (loss):			
Provision for loan losses	(5,976)	(2,030)	(3,199)
Foreign exchange losses	(1,363)	(433)	940
Other income	451	-	-
	<u>(6,888)</u>	<u>(2,463)</u>	<u>(2,259)</u>
Non-interest expenses:			
Management fees	-	-	260
Salaries and wages	4,248	3,004	2,379
Stock options	5,152	-	-
General and administrative	2,036	1,745	1,287
	<u>11,436</u>	<u>4,749</u>	<u>3,926</u>
Loss before income tax	(6,908)	(1,868)	(1,689)
Income taxes (recovery):			
Current	34	(66)	-
Deferred	(1,228)	-	-
	<u>(1,194)</u>	<u>(66)</u>	<u>(66)</u>
Loss and comprehensive loss for the year	(5,714)	(1,802)	(1,689)

Pro-forma Financial Statements

The following table sets forth the Pro-forma Consolidated Statements of Comprehensive Income of Callidus for the year ended December 31, 2013 after giving effect to the Pre-Closing Transactions and the Offering. The tables below should be read together with “Prospectus Summary – Summary of Selected Financial Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Use of Proceeds” and Callidus’ historical audited financial statements and related notes included elsewhere in this prospectus.

	2013				
	(\$ thousand)				
	<u>IFRS</u>	<u>Adjustments</u>	<u>Normalized</u>	<u>Co-Own. ⁽⁷⁾</u>	<u>Pro Forma</u>
Revenue					
Interest	47,102	-	47,102	(8,424)	38,678
Fees and other	6,222	-	6,222	(1,113)	5,109
	53,324	-	53,324	(9,537)	43,787
Interest expense and participation fees:					
Catalyst Funds ⁽¹⁾	37,494	(37,494)	-	-	-
Senior debt and revolving credit facilities ⁽²⁾	4,414	1,805	6,219	(1,012)	5,207
	41,908	(35,689)	6,219	(1,012)	5,207
Net interest income	11,416	35,689	47,105	(8,525)	38,580
Other income (loss):					
Provision for loan losses	(5,976)	-	(5,976)	1,069	(4,907)
Foreign exchange loss	(1,363)	-	(1,363)	244	(1,119)
Other income	451	-	451	(81)	370
Participation fees ⁽³⁾	-	-	-	1,403	1,403
	(6,888)	-	(6,888)	2,635	(4,253)
Non-interest expenses:					
Salaries and wages	4,248	-	4,248	-	4,248
Stock options ⁽⁴⁾	5,152	-	5,152	-	5,152
General and administrative ⁽⁵⁾	2,036	1,000	3,036	-	3,036
	11,436	1,000	12,436	-	12,436
Income/(loss) before income taxes	(6,908)	34,689	27,781	(5,890)	21,891
Income taxes (recovery) ⁽⁶⁾					
Current	34	7,328	7,362	(1,317)	6,045
Deferred	(1,228)	1,228	-	-	-
Income/(loss) attributable to shareholders	(5,714)	26,133	20,419	(4,573)	15,846

Notes

- (1) The Catalyst Funds will no longer collect interest or participation fees in the form collected prior to Closing, as all indebtedness due to the Catalyst Funds pursuant to the Participating Debenture will be repaid prior to Closing. See “Pre-Closing Transactions”.
- (2) The adjusted interest expenses reflects the Corporation's 40% leverage target on Gross Loans Receivable. Additional leverage above that which was in place on average for 2013 is assumed to be in the form of the New Senior Debt, with an assumed effective interest rate of 3.58%. Having the New Senior Debt facility in place is a condition precedent to Closing. Interest expense related to a portion of the Corporation's debt is adjusted as part of the participation fee. See note (3) below.
- (3) The participation fee, to be paid in the future by the Catalyst Funds to Callidus, accounts for the expenses of the Corporation that are not directly related to the Loan Portfolio, which are attributable to the Catalyst Funds pursuant to the Participation Agreement. In fiscal 2013, the participation fee shown accounts for a portion of interest and fees on debt that is not subject to Derecognition for accounting purposes, salaries and wages, and general and administrative expenses.
- (4) The stock option expense in 2013 represents a non-cash item. An additional \$3.3 million of stock-based compensation cost is expected to be recognized over a weighted average period of two years as part of this one-time issuance. This table assumes that no other options will be granted. Please refer to Note 16 of the Financial Statements.

- (5) Subsequent to Closing, management estimates that the Corporation will incur additional general and administrative costs on a continuing basis including but not be limited to expenses associated with ongoing financial reporting and disclosure, public company listing fees, increased director fees and related director and officer insurance costs, investor relations and annual shareholder meetings.
- (6) Income taxes have been adjusted to reflect management's expectation for the Corporation to pay income taxes at a substantially similar rate to the statutory tax rate of 26.5%.
- (7) The Catalyst Funds will retain an approximately 18% undivided interest in the Initial Portfolio, and will share approximately 18% of the returns and associated expenses of the Initial Portfolio, including a proportionate share of any public company costs.

Adjusted EBITDA Schedule

	2013				
	(\$ thousand)				
	<u>Adjusted</u>	<u>Public Costs</u> ⁽²⁾	<u>Normalized</u>	<u>Co-Own.</u> ⁽³⁾	<u>Pro Forma</u>
Revenue	53,324	-	53,324	(9,537)	43,787
Less: Provision for loan losses	(5,976)	-	(5,976)	1,069	(4,907)
Add: Other income	451	-	451	(81)	370
Add: Participation fees, net of portion related to interest expense	-	-	-	1,303	1,303
Less: Non-interest expenses	(11,436)	(1,000)	(12,436)	-	(12,436)
Less: Stock option expense ⁽⁴⁾	5,152	-	5,152	-	5,152
Adjusted EBITDA ⁽¹⁾	41,515	(1,000)	40,515	(7,246)	33,269

Notes

- (1) See "Non-IFRS Measures".
- (2) Subsequent to Closing, management estimates that the Corporation will incur additional general and administrative costs on a continuing basis including but not be limited to expenses associated with ongoing financial reporting and disclosure, public company listing fees, increased director fees and related director and officer insurance costs, investor relations and annual shareholder meetings.
- (3) The Catalyst Funds will retain an approximately 18% undivided interest in the Initial Portfolio, and will share approximately 18% of the returns and associated expenses of the Initial Portfolio, including a proportionate share of any public company costs.
- (4) The stock option expense in 2013 represents a non-cash item. An additional \$3.3 million of stock-based compensation cost is expected to be recognized over a weighted average period of two years as part of this one-time issuance. This table assumes that no other options will be granted. Please refer to Note 16 of the Financial Statements.

Consolidated Capitalization

The following table sets forth the consolidated capitalization of Callidus: (i) as at December 31, 2013; (ii) as at December 31, 2013 after giving effect to the Pre-Closing Transactions; and (iii) as at December 31, 2013 after giving effect to the Pre-Closing Transactions and the Offering. The table below should be read together with “Prospectus Summary – Summary of Selected Financial Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Use of Proceeds” and Callidus’ historical audited financial statements and related notes included elsewhere in this prospectus.

	Authorized	Outstanding as at December 31, 2013 (\$ thousand)	Outstanding as at December 31, 2013 after giving effect to the Pre-Closing Transactions ⁽⁷⁾ (\$ thousand)	Outstanding as at December 31, 2013 after giving effect to the Pre-Closing Transactions and Offering ⁽⁷⁾⁽⁸⁾ (\$ thousand)
Cash and cash equivalents.....	—	\$38,014	\$16,042	\$125,552
Total Debt.....	—	\$400,594	\$283,063	\$158,063
Participating Debenture ⁽¹⁾	—	\$330,703	\$—	\$—
Promissory notes ⁽²⁾	—	\$—	\$125,000	\$—
Credit Agreement ⁽³⁾				
Revolving Facility.....	—	\$19,879	\$—	\$—
Term Loan.....	—	\$49,683	\$41,596	\$41,596
FX Facility.....	—	\$329	\$329	\$329
Second Credit Agreement ⁽⁴⁾				
Class A Loans.....	—	—	\$96,782	\$96,782
Class B Loans.....	—	—	\$19,356	\$19,356
Share Capital ⁽⁵⁾				
Common Shares ⁽⁶⁾	unlimited	\$1 (100 Common Shares)	\$104,563 (28,042,732 Common Shares)	\$339,073 (46,042,732 Common Shares)
Preferred Shares.....	unlimited	\$— (nil Preferred Shares)	\$— (nil Preferred Shares)	\$— (nil Preferred Shares)
Shareholders’ Equity.....	—	(\$4,699)	\$99,864	\$334,374

- Notes:
- (1) The Participating Debenture will be repaid as part of the Pre-Closing Transactions. See “Pre-Closing Transactions”.
 - (2) The promissory notes will be issued as part of the Pre-Closing Transactions. See “Pre-Closing Transactions”.
 - (3) The Credit Agreement provides for a \$40 million Revolving Facility and a \$50 million Term Loan, as well as a \$7.5 million FX Facility. See “Funding Arrangements”.
 - (4) The Second Credit Agreement provides for an aggregate of approximately US\$167 million of Class A Loans and approximately US\$33 million of Class B Loans. See “Funding Arrangements”.
 - (5) At Closing, the Corporation’s authorized share capital will consist of an unlimited number of Common Shares and an unlimited number of Preferred Shares, issuable in series. No series of Preferred Shares will be issued as at Closing. See “Description of Share Capital”.
 - (6) This table does not reflect Options outstanding to purchase Common Shares. See “Executive Officers and Directors Compensation – Incentive Plan Awards – Narrative Discussion of Incentive Plans – Incentive Plan”.
 - (7) Prior to or concurrently with Closing, the Corporation will complete the Pre-Closing Transactions. See “Pre-Closing Transactions”.
 - (8) The net proceeds to the Corporation from the Offering (assuming no exercise of the Over-Allotment Option) are estimated to be \$234,510,000, based on the issuance of 18,000,000 Offered Shares for aggregate gross proceeds of \$252,000,000 less the Underwriting Fee of \$14,490,000 and expenses of the Offering estimated to be \$3,000,000.

The Offering

Issuer: Callidus Capital Corporation

Offering: 18,000,000 Offered Shares

Offering Price: \$14.00 per Offered Share

Common Shares Outstanding prior to the Offering: As at the date hereof, there are 100 Common Shares issued and outstanding, and certain Catalyst Funds (as defined herein) managed, controlled and directed by CCGI or its affiliates, beneficially own 100 Common Shares, representing 100% of the outstanding Common Shares. Following completion of the Pre-Closing Transactions, and prior to Closing, there will be 28,042,732 Common Shares issued and outstanding, and the Catalyst Funds will beneficially own 100% of the outstanding Common Shares. See “Principal Shareholders” and “Options to Purchase Securities”.

Common Shares Outstanding after the Offering: Immediately after Closing and assuming the Over-Allotment Option has not been exercised, the Catalyst Funds, which are managed, controlled and directed by CCGI or its affiliates, will beneficially own 28,042,732 Common Shares, representing approximately 60.91% of the outstanding Common Shares. See “Principal Shareholders”, “Executive Officers and Directors” and “Pre-Closing Transactions”.

Over-Allotment Option: The Corporation has granted the Underwriters an Over-Allotment Option, exercisable in whole or in part at any time and from time to time, for a period of 30 days following Closing, to purchase up to an additional 2,700,000 Common Shares (representing 15% of the Offered Shares offered pursuant to the Offering at the Offering Price. If the Over-Allotment Option is exercised in full, the total price to the public, the Underwriting Fee and the net proceeds to the Corporation will be \$289,800,000, \$16,663,500, and \$273,136,500, respectively. See “Plan of Distribution – Over-Allotment Option”.

Use of Proceeds: The net proceeds to be received by Callidus from the Offering are estimated to be \$234,510,000 (\$270,136,500 if the Over-Allotment Option is exercised in full), after deducting the Underwriting Fee of \$14,490,000 (or \$16,663,500 if the Over-Allotment Option is exercised in full) and the expenses of the Offering, which are estimated to be \$3,000,000.

Callidus expects to use the anticipated net proceeds of the Offering of \$234,510,000 as follows: approximately \$125,000,000 will be used to repay to the Catalyst Funds indebtedness incurred by Callidus in order to finance the loans in the existing Loan Portfolio and approximately \$109,510,000 will be held by the Corporation to finance additional loans after the Closing Date.

Pending use of the net proceeds of the Offering, such net proceeds will be invested as determined by the Board. See “Use of Proceeds” and “Description of the Business”.

Restrictions on the Sales of Common Shares: Pursuant to the Underwriting Agreement, the Corporation has agreed that without the prior written consent of the Lead Underwriter, it will not, during the period ending 180 days after the Closing Date: (i) offer, sell, issue, contract to sell, pledge or otherwise dispose of, directly or indirectly, any Common Shares, rights to purchase Common Shares or any securities convertible into or exercisable or exchangeable for Common Shares; (ii) enter into any swap, hedge or any other agreement that transfers, in whole or in part, the economic consequences of ownership of Common Shares; or (iii) agree or announce any intention to do any of the foregoing, other than Common Shares issuable under the Over-Allotment Option or under equity compensation plans of the Corporation outstanding at Closing; regardless of whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Shares, or other securities or interests, in

cash or otherwise. See “Plan of Distribution”.

Lock-up Arrangements:

Prior to Closing, the Lead Underwriter will enter into a lock-up agreement with CCGI and each of Catalyst Fund II, Catalyst Fund III and Catalyst Fund IV pursuant to which each such party will agree, subject to certain exceptions, not to offer, sell, contract to sell, agree to sell, pledge, hypothecate, grant or otherwise dispose of, or agree to dispose of, directly or indirectly, any Common Shares or securities convertible into or exchangeable or exercisable for any Common Shares or Common Shares issuable on the conversion or exchange of any convertible security (whether such Common Shares or convertible securities were held or received prior to, at, or after Closing, but excluding any Common Shares acquired on the secondary market after the completion of the Offering), enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of Common Shares, without the prior written consent of the Lead Underwriter, for the following periods:

- (a) with respect to 3,964,786 Common Shares representing the number of Common Shares anticipated to be distributed to CCGI or its affiliates as its carried interest (the “CCGI Shares”), until the later of (i) two years after the Closing Date; and (ii) the date on which CCGI or its affiliates would become entitled to such Common Shares pursuant to the provisions of the partnership agreement of the applicable Catalyst Fund (or, if CCGI does not become entitled to such Common Shares with respect to a particular Catalyst Fund, on the date such fund has disposed of substantially all of its investments); and
- (b) with respect to all other Common Shares held beneficially by the Catalyst Funds, 180 days after the Closing Date.

See “Plan of Distribution” and “Principal Shareholders”.

Risk Factors:

An investment in Common Shares is speculative and involves a high degree of risk. Prospective purchasers of Common Shares should carefully consider information set forth under the heading “Risk Factors” and other information included in this prospectus before deciding to invest in Common Shares.

Risks relating to Callidus’ operations include: (i) lending to small and mid-sized companies; (ii) the creditworthiness of borrowers and the risk they may default on their loans; (iii) default or bankruptcy by a borrower, (iv) uncertainty associated with the adequacy of credit loss provisions; (v) an inability to replicate the historical performance of the Loan Portfolio as its size increases; (vi) failure to properly perfect liens on the collateral securing loans and the value of such collateral being insufficient to cover loan losses; (vii) members of Callidus’ management, including Messrs. Glassman, Reese and Riley, ceasing to be employed by Callidus; (viii) the presence of conflicts of interest and the potential participation by Callidus’ directors and officers in businesses which may compete with Callidus; (ix) CCGI and the Catalyst Funds exercising significant control over Callidus; (x) Callidus’ participation in the Loan Portfolio potentially decreasing as the portfolio size increases; (xi) the concentration of Loan Portfolio assets in certain industry sectors; (xii) the inability of Callidus to predict if or when a borrower will prepay a loan; (xiii) uncertain forecasts of, and fluctuations in, quarterly net finance income and results of operations; (xiv) changes in market interest rates and their effect on the fair values and cash flows of financial instruments; (xv) a borrower assuming additional indebtedness of equal or greater seniority to that held by Callidus; (xvi) fraudulent misrepresentation by the borrower of its financial health, operations, or compliance with loan terms; (xvii) the inability of Callidus to exercise control over its borrowers; (xviii) Callidus’ lending being almost exclusively to private companies whose securities may be illiquid or subject to restrictions on transfer; (xix) the time burden on management associated with enforcement proceedings for non-performing loans; (xx) potential default under the Credit Facilities or other indebtedness; (xxi) the inability of Callidus to secure funding for its loans and to fund its existing obligations; (xxii) the concentration of Callidus’ indebtedness with a limited number of lenders; (xxiii) the use of leverage by Callidus; (xxiv) the impact of changes in market and general economic conditions; (xxv) the entry of new competitors into the market or increased activity by existing competitors; (xxvi) the inability of Callidus to develop and penetrate new

markets; (xxvii) the inability of Callidus to realize the potential benefits from its growth strategy; (xxviii) Callidus' ability to identify, attract, hire, train, retain, and motivate highly qualified management and employees; (xxix) the potential for Callidus to become the subject of legal, government or regulatory proceedings, or government or regulatory investigations; (xxx) the Board modifying or waiving operating policies or strategies without prior notice to, or approval by, Callidus shareholders; (xxxi) the effect of changes in the Canadian dollar exchange rate relative to the currency of other countries and the use of derivative instruments to hedge against such risk; (xxxii) the failure of computer and data processing systems; (xxxiii) a security breach in Callidus' computer systems; (xxxiv) trading restrictions that may result from Callidus' access to material non-public information relating to its borrowers; (xxxv) Callidus' use of payment-in-kind interest provisions with certain borrowers; and (xxxvi) changes to the regulations that govern the asset-based lending industry and the risk that such changes may impede the industry's ability to extend credit.

Risks relating to the Offering include: (i) the lack of a prior public market for the Common Shares; (ii) the ability of Callidus to invest the net proceeds of the Offering without investors having an opportunity to evaluate the merits of such investment plans; (iii) Callidus being unable to invest the proceeds of the Offering in suitable investment opportunities in a timely manner; (iv) the uncertainty associated with Callidus not having identified all of the portfolio investment opportunities into which a portion of the Offering's proceeds will be invested; (v) the potential for investors in Common Shares to lose their entire investment; (vi) volatility and fluctuations in the market price of the Common Shares; (vii) uncertainty surrounding the existence, amount and timing of future dividends; (viii) dilution from Callidus raising additional funds through the issuance of further equity; (ix) the impact on the price of the Common Shares resulting from the sale of a substantial number of Common Shares by an existing shareholder (or shareholders); and (x) inaccurate or unfavourable research or reports about Callidus published by analysts and other third-parties.

PRE-CLOSING TRANSACTIONS AND BASIS OF PRESENTATION OF CALLIDUS

As disclosed under the heading “Pre-Closing Transactions” in this prospectus, prior to or concurrently with Closing, Callidus will complete the Pre-Closing Transactions. Accordingly, unless otherwise indicated, it is assumed that the Pre-Closing Transactions have been completed. References to “management” in this prospectus mean the executive officers of the Corporation. Any statements in this prospectus made by or on behalf of management are made in such persons’ capacities as executive officers of the Corporation and not in their personal capacities.

NOTICE TO INVESTORS

General Matters

Prospective purchasers should rely only on the information contained in this prospectus. The Corporation and the Underwriters have not authorized any other person to provide prospective purchasers with additional or different information. If anyone provides prospective purchasers with additional, different or inconsistent information, including information or statements in media articles about Callidus, prospective purchasers should not rely on it and such information does not form part of this prospectus. The Corporation and the Underwriters are not making an offer to sell or seeking offers to buy Offered Shares in any jurisdiction where the offer or sale is not permitted. Prospective purchasers should assume that the information appearing in this prospectus is given only as at the date of the prospectus, regardless of its time of delivery or of any sale of Offered Shares. Callidus’ business, properties, financial condition, operations, results of operations and prospects may have changed since that date.

For investors outside of Canada, neither the Corporation nor any of the Underwriters has done anything that would permit the Offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in Canada. Investors are required to inform themselves about and to observe any restrictions relating to the Offering and the distribution of this prospectus. See “Plan of Distribution”.

Certain capitalized terms and phrases used in this prospectus are defined under the heading “Appendix ‘A’ – Glossary of Terms”.

Unless otherwise indicated, information contained in this prospectus concerning Callidus’ industry, including Callidus’ general expectations and market position, market opportunity, market share and other management estimates, is based solely on management’s current understanding and knowledge of the industry and is not based on any independent publicly available source. Management estimates and the information provided under the heading “Asset-Based Lending Industry” are based on assumptions made by Callidus based on its understanding and knowledge of its industry, which management believes to be reasonable. Such estimates and information cannot be and have not been independently verified. While Callidus has no reason to believe that the market data, industry forecasts and similar information included in this prospectus are not generally reliable, such information is inherently imprecise. In addition, projections, assumptions and estimates of Callidus’ future performance and the future performance of its industry and markets in which it operates are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described under the heading “Risk Factors” and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in estimates made by Callidus. Further, statements as to the past performance including, without limitation, the past performance of the Loan Portfolio and the Catalyst Funds, are statements of historical results and are not necessarily indicative of or guarantees of future performance and there is no representation, warranty or assurance that Callidus will achieve similar results or success and readers should not place undue reliance on such statements.

Information contained in this prospectus concerning CCGI or the Catalyst Funds has been solely provided by CCGI or the Catalyst Funds. While neither Callidus nor the Underwriters have any knowledge that would indicate that any such information is untrue or incomplete, neither Callidus nor the Underwriters assume any responsibility for the accuracy or completeness of any information concerning CCGI or the Catalyst Funds, or for the failure by CCGI or the Catalyst Funds to provide information which may affect the accuracy or completeness of such information.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements that are not reported financial results or other historical information are forward-looking information within the meaning of applicable Canadian securities laws (collectively, “forward-looking statements”). This prospectus includes forward-looking statements regarding Callidus and the industries in which it operates, including statements about, among other things, expectations, beliefs, plans, future loans and origination, business and acquisition strategies, opportunities, objectives, prospects, assumptions, including those related to trends and prospects and future events and performance. Sentences and phrases containing or modified by words such as “anticipate”, “plan”, “continue”, “estimate”, “intend”, “expect”, “may”, “will”, “project”, “predict”,

“potential”, “targets”, “projects”, “is designed to”, “strategy”, “should”, “believe”, “contemplate” and similar expressions, and the negative of such expressions, are not historical facts and are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Forward-looking statements should not be read as guarantees of future events, future performance or results, and will not necessarily be accurate indicators of the times at, or by which, such events, performance or results will be achieved, if achieved at all. Forward-looking statements are based on information available at the time and/or management’s expectations with respect to future events that involve a number of risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. The factors described under the heading “Risk Factors”, as well as any other cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause Callidus’ actual results to differ materially from the expectations it describes in its forward-looking statements. Before investing in the Corporation, readers should be aware that the occurrence of the events described in these risk factors and elsewhere in this prospectus could have an adverse effect on, among other things, Callidus’ business, prospects, operations, results of operations and financial condition.

Specific forward-looking statements contained in this prospectus include, among others, statements, management’s beliefs, expectations or intentions regarding the following:

- the completion of the Pre-Closing Transactions;
- the completion and closing of the Offering and the timing thereof;
- the use of proceeds of the Offering;
- Callidus’ expected growth, including
 - organic growth in the Canadian market;
 - through acquisitions;
 - introduction of the ‘Callidus Lite’ loan product;
 - through expansion into the United States; and
 - the purchase of Loan Assets from the Catalyst Funds;
- the targeted Gross Yields of the Callidus and ‘Callidus Lite’ loans;
- the expected number of Grants to be offered pursuant to the Incentive Plan;
- funding pursuant to the Participation Agreement;
- funding pursuant to the Second Credit Agreement;
- the relationships between Callidus, CCGI and the Catalyst Funds, including in respect of the Debenture Repayment Agreement, the Participation Agreement and the Management Services Agreement; and
- the amount of dividends expected to be paid, or ability to pay any dividends.

Readers are cautioned that the foregoing list of forward-looking statements should not be construed as being exhaustive.

In making the forward-looking statements in this prospectus, the Corporation has made assumptions regarding: general economic conditions, reliance on debt financing, funding pursuant to the Participation Agreement, interest rates, continued lack of ABL regulation, continued operation of key systems, debt service, the expectation that the number of industry competitors in Callidus’ marketplace will continue to decline, bank lending to mid-market companies will continue to be constrained for at least several years, future capital needs, retention of key employees, **adequate management of conflicts of interests**, continued performance of the Loan Portfolio and solvency of borrowers, limited loan prepayment, effective use of leverage, and such other risks or factors described in this prospectus and from time to time in public disclosure documents of Callidus that are filed with securities regulatory authorities.

Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future events, performance or results, and will not necessarily be accurate indicators of whether such events, performance or results will be achieved.

Forward-looking statements are based on information available at the time and/or management's expectations with respect to future events that involve a number of risks and uncertainties. Any forward-looking information concerning prospective results of operations, financial position, expectations of cash flows and future cash flows is based upon assumptions about future results, economic conditions and courses of action and is presented for the purpose of providing prospective purchasers with a more complete perspective on Callidus' present and planned future operations. Such information may not be appropriate for other purposes and actual results may differ materially from those anticipated in such forward-looking statements.

No auditor has compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor has any auditor expressed any opinion or any other form of assurance on such information or its achievability, and accordingly no auditor has assumed responsibility for the prospective financial information contained herein.

To the extent any forward-looking information in this prospectus constitutes future-oriented financial information or financial outlooks within the meaning of Canadian securities laws, such information has been prepared by the Corporation to provide a reasonable estimate of the potential earnings of the current Loan Portfolio, subject to (among other things) the assumptions and risks discussed in this prospectus, and readers are cautioned that this information should not be relied upon for any other purpose. Future-oriented financial information and financial outlooks, including management's estimate of net income on page 47 of this prospectus, are, without limitation, based on the assumptions and subject to the risks set out herein.

Actual results could differ materially from those anticipated in or implied by any forward-looking statements, including without limitation, as a result of the risk factors, which are described in detail under "Risk Factors", and other risks set out elsewhere in the prospectus. Prospective purchasers should reference the factors discussed under the heading "Risk Factors" in this prospectus. The forward-looking statements included in this prospectus are expressly qualified by this cautionary statement and are made as at the date of this prospectus. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. If the Corporation does update one or more forward-looking statements, it is not obligated to, and no inference should be drawn that it will, make additional updates with respect thereto or with respect to other forward-looking statements.

PRESENTATION OF FINANCIAL MATTERS

The financial statements of Callidus included within this prospectus as Appendix "D" have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost basis except for derivative instruments which are measured at fair value.

NON-IFRS MEASURES

This prospectus contains references to gross yield ("Gross Yield"), average loan portfolio outstanding ("Average Loan Portfolio Outstanding"), net income before interest expense & fees, income tax expense, and foreign exchange gain/loss ("EBITDA"), EBITDA adjusted for non-cash expenses ("Adjusted EBITDA") and gross loans receivable ("Gross Loans Receivable") (collectively, the "Non-IFRS Measures"), each of which is not a generally accepted accounting measure under IFRS and therefore may differ from definitions of such terms used by other entities. The Non-IFRS Measures are defined and reconciled under the heading "Management's Discussion and Analysis of Financial Results – Description of Non-IFRS Measures". Management believes that the Non-IFRS Measures are useful supplemental measures that may assist purchasers in assessing the financial performance and the cash anticipated to be generated by the Corporation's business.

The Corporation has included the measure of Gross Yield as it believes the information to be instructive and enables potential purchasers to see, at a glance, trends in the yield of the Loan Portfolio. Average Loan Portfolio Outstanding measures the average amounts outstanding of the Loan Portfolio, to allow potential purchasers to see, at a glance, trends in the amounts of capital outstanding over a certain period of time, the most directly comparable IFRS measure being Loans Receivable. EBITDA measures operational profitability and is intended to assist potential purchasers to assess the performance of the Corporation in comparison with peer companies; while Adjusted EBITDA adjusts EBITDA for expenses that are not representative of cash costs of the operations.

The Non-IFRS Measures should not be considered as the sole measure of the Corporation's performance and should not be considered in isolation from, or as a substitute for, analysis of the Corporation's financial statements.

CURRENCY AND EXCHANGE RATES

Unless otherwise indicated, in this prospectus all references to: (i) "\$" are to Canadian dollars; and (ii) "US\$" are to United States dollars.

The Canadian dollar rates of exchange on the following dates were:

Date	United States Dollars ⁽¹⁾	Canadian Dollars ⁽¹⁾
December 30, 2011.....	\$1.00 = US\$0.9833	US\$1.00 = 1.0170
December 31, 2012.....	\$1.00 = US\$1.0051	US\$1.00 = \$0.9949
December 31, 2013.....	\$1.00 = US\$0.9402	US\$1.00 = \$1.0636
April 14, 2014.....	\$1.00 = US\$0.9116	US\$1.00 = \$1.0970

Notes:

(1) Bank of Canada noon rates of exchange.

MARKETING MATERIALS

The following marketing materials (as such term is defined in National Instrument 41-101 — *General Prospectus Requirements* (“NI 41-101”)) filed with the securities commission or similar authority in each of the provinces and territories of Canada are specifically incorporated by reference into and form an integral part of this prospectus:

1. A template version (as such term is defined in NI 41-101) of the indicative term sheet for the Offering dated March 26, 2014 (the “**Term Sheet**”);
2. A template version of the roadshow presentation for the Offering dated March 26, 2014 (the “**Roadshow Presentation**”);
3. An amended and restated template version of the indicative term sheet for the Offering dated April 15, 2014 (the “**Amended and Restated Term Sheet**”); and
4. An amended and restated template version of the roadshow presentation for the Offering dated April 15, 2014 (the “**Amended and Restated Roadshow Presentation**”).

The Term Sheet, Roadshow Presentation, Amended and Restated Term Sheet and Amended and Restated Roadshow Presentation (together, the “**Marketing Materials**”) are not part of this prospectus to the extent that the contents of the Marketing Materials have been modified or superseded by a statement contained in this prospectus.

The Company has prepared amended and restated template versions of the Term Sheet and Roadshow Presentation, which have been black-lined pursuant to subsection 13.7(7) of NI 41-101 to reflect modifications to certain statements in the Term Sheet and Roadshow Presentation in view of the disclosure contained in this prospectus. The following summary provides details regarding such modifications:

1. The statements relating to the Offering size, Offering Price, net proceeds of the Offering, Underwriting Fee and related Offering terms were included to reflect the final Offering terms as disclosed in this prospectus. See the face pages of this prospectus and “Plan of Distribution”.
2. The statements relating to the use of proceeds of the Offering were amended to reflect the proposed use of proceeds as disclosed in this prospectus. See “Use of Proceeds”.
3. The statements relating to expected Gross Loans Receivable as at Closing were amended to reflect the revised Gross Loans Receivable disclosure as at the date hereof in this prospectus. See “Management’s Discussion and Analysis of Financial Results – Outlook”.
4. The statements relating to the declaration and payment of a dividend were removed, as the Corporation does not intend to declare or pay dividends to holders of Common Shares. See “Dividend Policy”.

The foregoing summary of modifications is not exhaustive and is qualified by the information set forth in the Amended and Restated Term Sheet and Amended and Restated Roadshow Presentation and the black-lined versions of such documents, which have been filed with the Canadian securities regulatory authorities and are available under the Company’s profile on www.sedar.com. Purchasers are encouraged to read the full text of the foregoing Marketing Materials.

In addition, any template version of any other marketing materials filed with the securities commission or similar authority in each of the provinces and territories of Canada in connection with this Offering after the date hereof, but prior to the termination of the distribution of the securities under this prospectus, is deemed to be incorporated by reference herein.

CORPORATE STRUCTURE

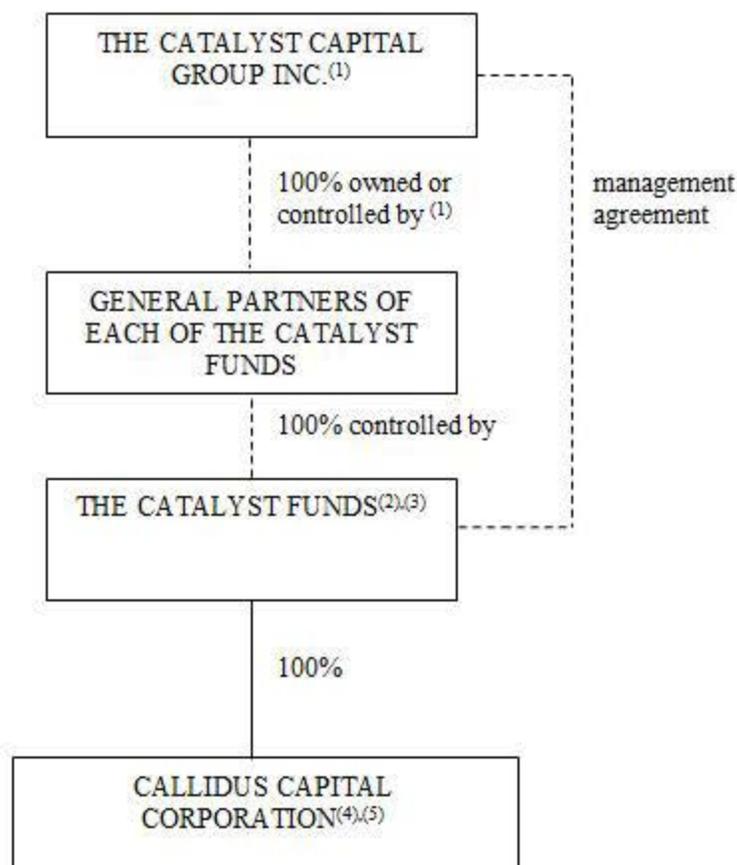
General

Callidus Capital Corporation was incorporated on October 3, 2003 pursuant to the *Business Corporations Act (Ontario)* (the "OBCA"). On January 1, 2013, it amalgamated with its wholly-owned subsidiary, Callidus Capital Management Inc., pursuant to the OBCA. Prior to or concurrently with Closing, the Corporation will amend its articles to (i) authorize the issuance of an unlimited number of Preferred Shares, (ii) remove its private company provisions, and (iii) implement a share split.

The Corporation's head and registered office is at 77 King Street West, Suite 4320, TD North Tower, P.O. Box 212, Toronto, Ontario M5K 1K2. Callidus is registered as an exempt market dealer in Ontario, Alberta, British Columbia and Québec, and as an investment fund manager in Ontario, Québec and Newfoundland and Labrador.

Ownership Chart

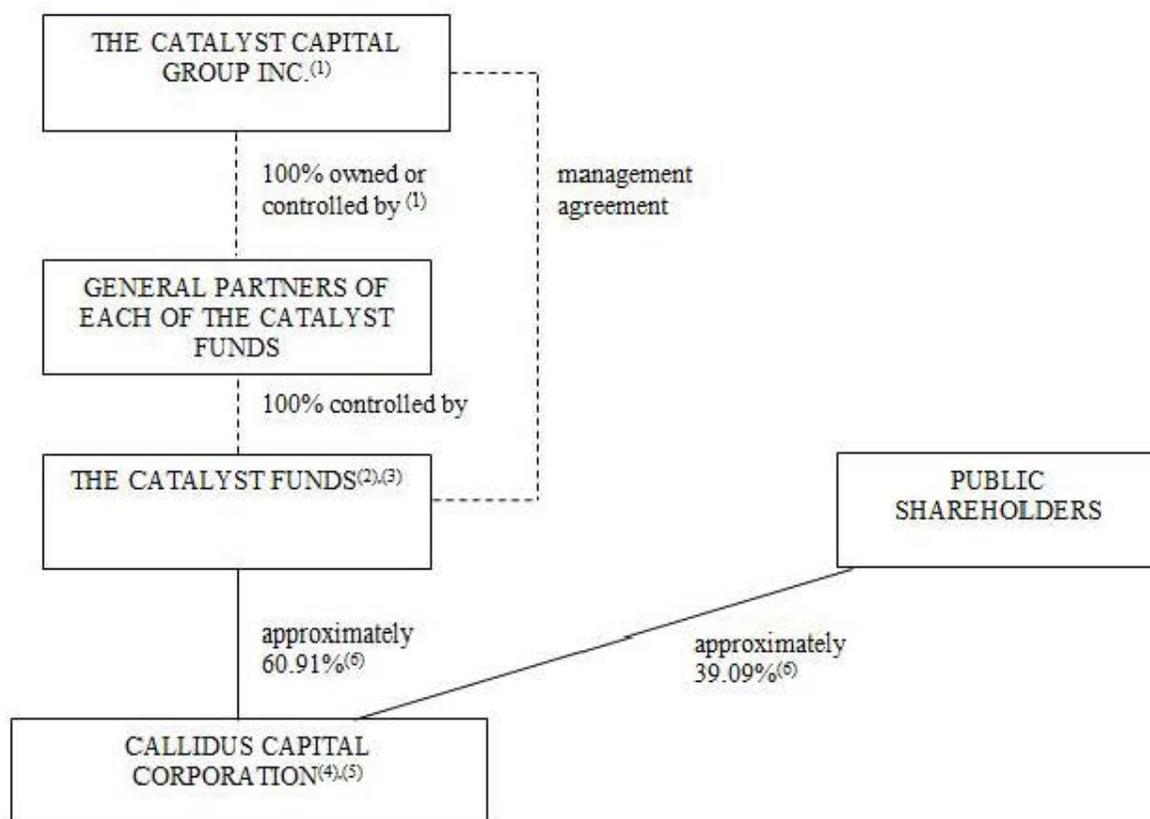
The following organizational chart illustrates the relationship between Callidus and its principal shareholders as at the date hereof:



Notes:

- (1) Includes affiliates of CCCE.
- (2) Catalyst Fund II, Catalyst Fund III and Catalyst Fund IV.
- (3) CCCE expects to be entitled to 3,964,766 Common Shares held by the Catalyst Funds. See "Principal Shareholders".
- (4) Callidus may acquire equity interests in other entities from time to time in connection with loan realizations.
- (5) Includes CCC Funding Corporation, a funding vehicle wholly owned by and consolidated into Callidus in accordance with the terms of the Second Credit Agreement.

The following organizational chart illustrates the relationship between Callidus and its principal shareholders following the completion of the Offering.



Notes:

- (1) Includes affiliates of CCGE.
- (2) Catalyst Fund II, Catalyst Fund III and Catalyst Fund IV.
- (3) CCGE expects to be entitled to 3,964,786 Common Shares held by the Catalyst Funds. See "Principal Shareholders".
- (4) Callidus may acquire equity interests in other entities from time to time in connection with loan realizations.
- (5) Includes CCC Funding Corporation, a funding vehicle wholly owned by and consolidated into Callidus in accordance with the terms of the Second Credit Agreement.
- (6) The Catalyst Funds will participate in the Loan Portfolio pursuant to the Participation Agreement. See "Funding Arrangements – Participation Agreement".

DESCRIPTION OF THE BUSINESS

Company Overview

Callidus is a specialty asset-based lender, focused primarily on Canadian companies and select U.S. companies that are unable to obtain adequate financing from traditional lenders. Callidus provides flexible and innovative loan structuring, with limited or no covenants and an efficient credit approval process. The Corporation's loans are generally structured as demand, first lien (senior secured) facilities, on a fully collateralized basis, with targeted Gross Yields of approximately 20%.

Callidus addresses an important gap in the lending markets by providing financing to borrowers whose perceived credit risk is too high for the lending criteria of traditional lenders, and whose capital requirements are too small to access high yield markets. Callidus also provides borrowers with access to capital to fund growth or acquisitions, without dilution to their equity ownership. Additionally, Callidus can assist borrowers through challenging periods by working with the operators and drawing on the extensive experience of the Corporation's management team. Callidus seeks to work with borrowers that are likely to improve their financial stability and gain the ability to repay the funding Callidus has advanced through loan commitments from traditional lenders or otherwise.

The Corporation believes that its expertise in assessing the quality of each prospective borrower, and its ability to complete timely detailed due diligence, enables Callidus to identify opportunities for significant returns in situations where risks can be assessed, controlled and managed. As part of its strategy to manage the perceived risk of these borrowers and each loan, Callidus takes

an active approach to lending as it carefully assesses and lends against collateral, typically accounts receivable and inventory, and monitors this collateral on an ongoing basis. In addition, the Corporation seeks to provide lending in industries where management has expertise. Callidus has consistently generated significant returns while effectively and prudently managing its risk exposure. Callidus has a strong track record, as evidenced by, among other things, no realized losses on principal on Callidus-originated loans after consideration of liquidated collateral and costs to settle from 2011 until 2013.

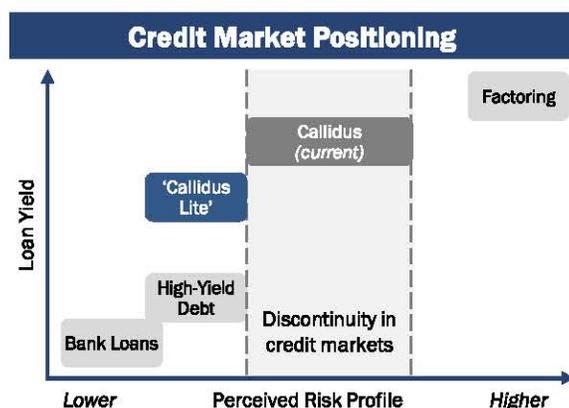
As at April 10, 2014, Callidus managed \$471 million of loan assets. For the 12 months ended December 31, 2013, Callidus had total revenue of \$53.3 million and Adjusted EBITDA of \$41.5 million on Average Loan Portfolio Outstanding of \$251 million.

Credit Markets

Callidus targets a market with borrowers whose perceived risk is too high for the lending criteria of traditional lenders, and whose capital requirements are too small to access high yield markets. Callidus believes that the already small number of industry competitors in the Canadian market will continue to decline. See “Asset-Based Lending Industry”. Through flexible and innovative loan structuring, the Corporation seeks to fill this growing gap in the lending market.

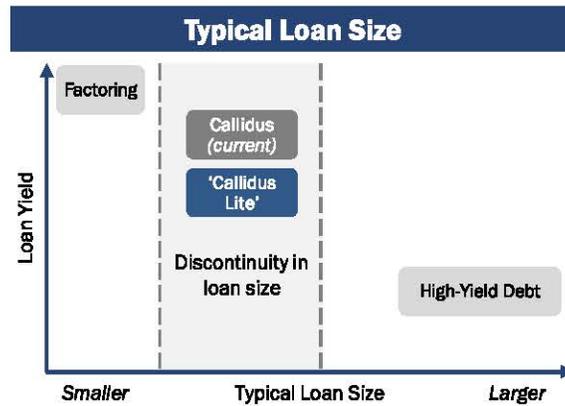
Credit Market Positioning

There are currently few competitors in the market in which Callidus operates. Many traditional lenders have lending criteria that are not met by the credit profile of the borrowers in the Corporation’s target market and such lenders are generally unwilling to commit the time and resources necessary to monitor each loan effectively. Ongoing credit assessment and monitoring requires proactive management of the Loan Portfolio and is different from the approach traditional lenders employ to increase the size of their loan portfolios. Callidus believes it generates a higher return relative to the perceived risk profile of its loans due to its unique approach to lending. Callidus effectively manages the risk of its portfolio by prudent collateral-backed lending and through active management of its loans. The following chart illustrates the market in which Callidus operates:



Loan Size

Callidus generally commits to loans ranging in size from \$5 million to \$50 million. Management believes there is a general lack of credit available in the market at these loan sizes for borrowers with the same risk profile as a typical Callidus borrower. Callidus loans are generally larger than those of factoring companies, which typically provide loans of \$5 million or less, and are generally smaller than those of high yield lenders, which typically provide loans of \$50 million or more. While banks provide loans of all sizes, these loans are not generally available to borrowers with the same risk profile as a typical Callidus borrower. The following chart illustrates the typical loan size for various debt products:



Approach to Lending

Callidus takes a disciplined approach to each loan that it considers by completing financial and business due diligence before committing to make loans. This approach assists the Corporation in identifying opportunities for significant returns in situations where risks can be controlled and managed. Callidus focuses its due diligence on a borrower's collateral value (particularly inventory, receivables and tangible fixed assets), and uses liquidation analysis to determine advance rates. The Corporation also uses third-party appraisal and field audit firms to assess collateral value and acceptable financial controls. As part of its security package, Callidus commonly obtains personal guarantees and a pledge of personal assets from the owner of a borrower.

Callidus works directly with each borrower to develop financing solutions that support each borrower's specific needs to achieve its strategic goals. If Callidus is satisfied that a borrower has appropriate management and a viable business model, it will ensure that the borrower has sufficient funding to meet working capital requirements in order to execute its business plan. In structuring loans in these situations, Callidus relies on the inventory, receivables and fixed asset values, and occasionally on enterprise value and other non-working capital assets, such as intellectual property of the borrower.

Once loans are granted, the Corporation's team of finance professionals performs detailed and comprehensive analyses to monitor the borrower during the term of the loan. The team also monitors loans and collateral on a periodic basis, as appropriate depending on the risk profile of the borrower and the nature of its collateral, and performs quarterly field audits. Results are regularly monitored relative to the borrower's business plan and Callidus also meets frequently with the borrower's management. The Corporation may also use third party appraisers to assess asset values as required, on an ongoing basis. Callidus also maintains control over a borrower's cash through the use of blocked accounts, from which funds may only be released with Callidus' approval.

In connection with managing and monitoring the Loan Portfolio, Callidus establishes a "watch list" system whereby borrowers with a deteriorating financial condition, or that otherwise meet certain criteria, are closely monitored by Callidus with a view to Callidus taking a proactive approach to ensuring the borrower's compliance with the terms and obligations of its loan and managing the risk of default. See "Risk Factors – Monitoring, Enforcement and Liquidation Procedures".

Callidus typically offers loans ranging in size from \$5 million to \$50 million, but may also accommodate larger commitments where exposure to identifiable asset groups can be compartmentalized. The largest loan commitment provided by the Corporation to date is approximately US\$75 million.

While the Corporation is open to lending to most industries, its borrowers tend to have identifiable and liquid working capital assets and often operate in out-of-favour sectors. Prospective borrowers are typically referred to Callidus from the special loans groups of traditional lenders through intermediaries such as accounting firms and consultants. Loans are assigned to special loans groups when borrowers fail to meet the lending criteria originally established for them. Special loans groups will typically take the necessary steps to limit their exposure to these loans and will look to third party lenders like Callidus to provide an alternative lending solution to the borrower. These loans can also carry capital charges for regulated entities. Callidus is willing to provide loans to this type of borrower as a result of its expertise in assessing, monitoring and managing credit risk; traditional lenders are less willing to dedicate the requisite time and resources to mitigate the perceived risk of such loans. Ongoing credit assessment and monitoring requires proactive management of the Loan Portfolio and is different from the approach traditional lenders employ to manage loan portfolios.

In order to extend the Corporation's lending market, the Corporation will extend 'Callidus Lite', a lower-priced loan product for relatively lower-risk borrowers with a target Gross Yields of between 12% and 14%. These borrowers may have traditional lending alternatives available to them; however, management believes many borrowers will accept the higher pricing of the 'Callidus Lite'

product in exchange for more flexible and innovative loan structuring with limited or no covenants. “See Description of the Business – Growth Strategy – Expansion of Loan Product”.

Lending Principles

The Corporation’s strategy is to seek out, structure and underwrite senior secured asset-based loans that will generate attractive risk-adjusted returns. The Corporation achieves this strategy by operating on and utilizing the following core lending principles:

1. **Value-Based Lending** – Callidus achieves downside protection by lending on collateral values which are based on a prudent liquidation analysis, with, in some cases, the benefit of in-house or third party valuation input. Callidus monitors and assesses each borrower’s loan base on a daily, weekly, or monthly basis as appropriate.
2. **Underwriting Flexibility** –Callidus provides flexible and innovative loan structuring tailored to the borrower’s needs. The Corporation’s loans contain limited or no covenants but are generally structured as demand loans (with the exception of one current loan of less than \$20 million). Payment in kind (a loan where principal accretes in lieu of cash debt service payments) may be considered in appropriate circumstances. Similarly, required principal amortization payments may be subject to a more flexible structure.
3. **Security** – Callidus loans are generally provided on a first lien (senior secured) and fully collateralized basis.
4. **Control** – Callidus actively monitors loans issued by the Corporation and the associated collateral on an on-going basis and reassesses borrowing base typically on a weekly basis. Callidus also maintains control over borrowers’ cash receipts through the use of blocked accounts.
5. **Target Term** –Loans are initially provided for a 12-month period and are typically outstanding for 18 to 24 months. Extensions are subject to a new credit approval and a renewal fee of typically 1% to 2%.
6. **Target Rates** – Callidus offers fixed rate Canadian dollar or United States dollar denominated loans. Callidus currently targets a 19% interest rate, with fees that consistently result in targeted Gross Yields of approximately 20%.
7. **Target Loan Size** – Callidus targets loans between \$5 million and \$100 million, typically within the \$5 million to \$50 million range.
8. **Borrowers** – Callidus only lends to borrowers that it believes will be able to repay their loans in full and regain financial stability. Callidus enables borrowers to do so by funding asset growth, including accounts receivable, inventory and property and equipment growth. Callidus has, to date, liquidated only two businesses and has otherwise achieved a repayment for the remainder of its loans through a going concern solution.

Lending Review Process

Asset-based lending (“ABL”) requires the commitment of people and systems to provide an effective risk management tool for a loan portfolio. An asset-based lender must employ sufficient people to perform specific roles in both the pre-loan closing and post-loan closing processes. An extensive review of a borrower, its assets and liabilities and customers must be undertaken in order to determine the appropriate borrowing base before a loan is offered. After the loan closing, the review of financial reports and the monitoring of assets and general financial performance of the borrower continue until the loan is repaid.

Callidus currently has an experienced team of 15 professionals, including Newton Glassman, Executive Chairman and Chief Executive Officer, David Reese, Chief Operating Officer, Dan Nohdomi, Chief Financial Officer, and Jim Riley, Secretary.

Loans are originated by two dedicated originators, located in Toronto, Ontario. Loan originators initially review each prospective borrower and its suitability for a loan from Callidus. Internal or external field examiners initially, and then periodically, review the collateral and the books and records of each prospective borrower to provide information regarding its assets and performance, including the quality and value of accounts receivable and inventory. Callidus currently employs one field examiner to conduct ongoing field examinations. If the originator makes a determination to proceed, they will propose a credit to one of the Corporation’s loan underwriters. Callidus believes part of its success is based on an effective origination team that is well-known to the Canadian market. The Corporation intends to hire origination professionals in Québec and in eastern and western Canada to increase its penetration.

The Corporation has four loan underwriters, located in Toronto, Ontario, who are responsible for a detailed analysis of the proposed borrower and for determining any additional credit terms that may be required. The underwriters interpret information and present the recommended structure and parameters of the proposed loan by way of a detailed credit memo. The detailed credit memo, which includes details of the borrower's business, financial results and collateral values, is submitted to the Corporation's credit committee (the "Credit Committee") for approval.

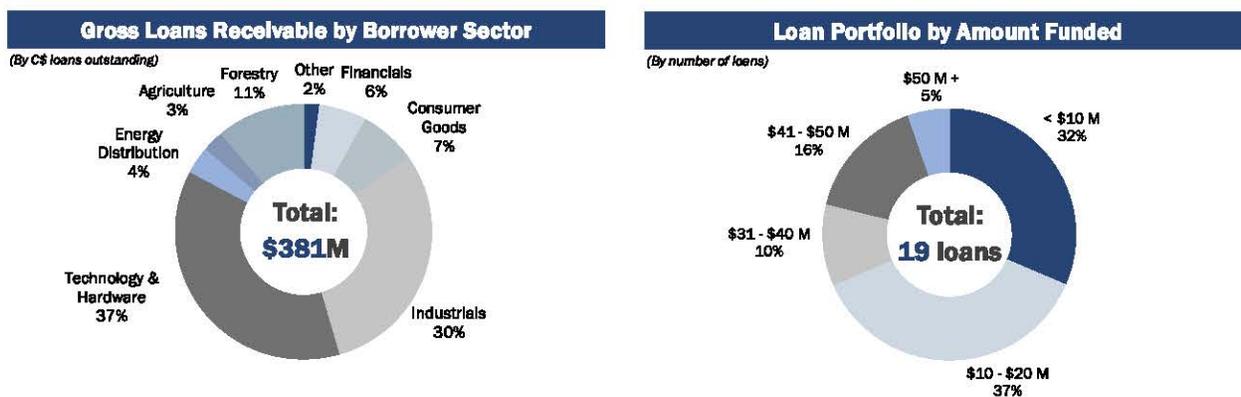
The Credit Committee is comprised of Newton Glassman (Chairman), David Reese, and Jim Riley. The Credit Committee may require additional information or specify additional terms prior to approval, and has the discretion to approve or decline any loan. Unanimous approval of the Credit Committee is required for each loan.

Callidus typically engages professional third parties to appraise the value of a borrower's inventory, fixed assets and real property forming a part of its collateral. Typically, those appraisals are based on forced liquidation value which Callidus then discounts. Callidus also has a dedicated team of three collateral analysts who process each borrower's collateral reporting and monitor its business on an ongoing basis.

Typically the loan underwriters carry out the day-to-day management of the borrower's account. Ongoing monitoring by loan underwriters enables rapid identification of a deteriorating credit.

Current Loan Portfolio

As of December 31, 2013, the Loan Portfolio consisted of 19 loans with an aggregate Gross Loans Receivable amount outstanding⁽⁴⁾ of \$381 million. The largest loan commitment is approximately US\$75 million and the smallest loan commitment is approximately \$4 million. The Corporation's loans are diversified across a variety of industries, with the technology and hardware industry and the industrials industry comprising the largest segments. Callidus will often target sectors that are experiencing a downturn as such borrowers may be under financial pressure and may be unable to access capital from traditional lenders. During 2011, the Corporation received 100% of the common shares of a borrower as realization upon security granted in connection with a loan valued at \$12.6 million. This entity is being held for sale on the statement of financial position. The asset held for sale is recorded at the lower of carrying value or fair value less cost to sell. The loans in the Loan Portfolio are generally structured as first secured on inventory and receivables and many have additional security.



Note: As at December 31, 2013, the Gross Loans Receivable consisted of \$350 million loans receivable, \$11 million assets held for sale, \$10 million loan loss allowance, and \$10 million in discounts on loan acquisitions.

The average amount funded per loan is approximately \$20 million, with the principal amount outstanding typically between 65% and 75% of the committed amount at any given time. The original commitment term is typically 12 months, with extensions permitted subject to credit re-approval and renewal fees. The average period of time a loan and its renewal is outstanding typically ranges from 18 to 24 months.

Detailed Portfolio Summary

Below is a summary of the Corporation's Loan Portfolio as of December 31, 2013.

(4) Please see definition of Gross Loans Receivable under the heading "Management's Discussion and Analysis of Financial Results - Description of Non-IFRS Measures". These financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, they may not be comparable to similar measures used by other issuers. As at December 31, 2013, the Gross Loans Receivable consisted of \$350 million loans receivable, \$11 million assets held for sale, \$10 million loan loss allowance, and \$10 million in discounts on loan acquisitions.

Loan	Industry	Origination Date	Approximate Committed Facility (\$ thousand)	Period End Balance (\$ thousand)
Company A	Food Packaging ⁽¹⁾	26-Jul-07	11,016	11,016
Company B	Sports Supplies Manufacturing ⁽²⁾	30-Jun-11	20,000	11,336
Company C	Wireless Infrastructure Provider ⁽²⁾	29-Nov-11	19,506	16,542
Company D	Mattresses Manufacturer ⁽²⁾	05-Dec-11	5,084	5,084
Company E	Aviation Services	25-May-12	3,606	3,114
Company F	Gaming Technology	31-Aug-12	41,018	35,935
Company G	Computers and Accessories	11-Oct-12	40,185	40,472
Company H	Financial Services	06-Nov-12	30,000	17,844
Company I	Tool and Mould Manufacturing	08-Nov-12	40,098	38,531
Company J	Natural Gas and Electrical Supplier	21-Dec-12	20,000	13,384
Company K	Custom Home Engineering and Manufacturer	21-Dec-12	5,576	5,576
Company L	Street Maintenance / Cleaners	24-Dec-12	5,289	4,586
Company M	Lumber Industry	24-Jan-13	42,500	42,148
Company N	Rubber supplier for Auto Industry	22-Feb-13	7,300	6,185
Company O	Coiled tubing and Nitrogen Services	06-Mar-13	16,000	15,175
Company P	Financial Services	17-Apr-13	5,000	4,977
Company Q	Wireless Service provider	08-Oct-13	75,000	48,768
Company R	Fisheries and Aquaculture Industry	12-Dec-13	27,522	10,300
Company S	Mining and Construction Industry	23-Dec-13	64,621	50,158

Notes:

- (1) This loan has remained outstanding since 2007 due to the inability of the borrower to repay the principal amount (interest has been paid throughout).
(2) The loans outstanding since 2011 have been continuously renewed, on an annual basis since that time, and have been performing.

Payment In Kind Loans

Some of the loans in the Loan Portfolio contain a payment-in-kind (“PIK”) interest provision (each, a “PIK Loan”). Unless a portion of a PIK Loan is sold, the Corporation will not receive cash in respect of such PIK Loan until such time as cash payment is due. If the borrower defaults, Callidus may obtain no return on its investment. A PIK Loan would be in default if the Corporation demanded repayment and the borrower failed to pay the principal of the loan, plus accrued interest (whether in cash or PIK). Similarly, default could occur if the cash component of interest owing was not paid on time. All PIK Loans also contain cash payment of interest options.

A loan with a combination of cash pay and PIK interest permits a borrower to manage its cash flow by choosing between payment of interest or for other operating expenses. Callidus carefully considers, in connection with the borrower’s credit approval, the cash flow of a borrower and will consider providing a PIK Loan if this structure will help meet the borrower’s anticipated cash needs.

Although there is reduced competition in the Canadian ABL market, the competition that does exist requires Callidus to be responsive to competitive pricing, including by offering PIK Loans to certain borrowers. See “Risk Factors - Risks Relating to Callidus’ Operations - Payment In Kind Interest.”

Growth Strategy

Following the completion of the Offering, the Corporation's public company status may increase the profile of Callidus as a solution for borrowers and for lenders with challenging loan portfolios. Callidus believes its Loan Portfolio will grow in the following ways:

Organic Growth in Canada

Management estimates that the market size in Canada for its current product is approximately \$1 billion in loans at any time, of which management believes that approximately \$650 million is currently addressed by either Callidus or its competitors. Callidus believes it is well positioned to capture a significant share of this unserved market given the Corporation's flexible and innovative approach to lending, the Corporation's extensive in-house team and proprietary systems, management's significant ABL experience and workout expertise, the presence of relatively few known competitors in the Bridge or Distressed ABL Providers market segment (see "Asset-Based Lending Industry – General"), and the Corporation's access to capital from both public markets and the Catalyst Funds. Callidus has historically served primarily Ontario and Québec based borrowers; however, more recent growth reflects lending opportunities across Canada. Callidus intends to expand its geographical reach by increasing the number of loan officers and originators outside of Ontario. In addition, Callidus is increasingly providing larger loans and expects to further increase its average loan size.

The Corporation's Loan Portfolio grew at a compound annual growth rate of 57% from 2011 to 2013. During the same period, potential new loans being considered by the Corporation remained steady. As a result, the Corporation believes that there is significant market demand for the Corporation's loan product. The Corporation is currently considering potential new loans totalling approximately \$300 million. As part of its overall strategy to grow the Loan Portfolio, the Corporation targets \$50 million to \$150 million of net new loans for each loan originator per year. However, there can be no assurance that Callidus will be able to grow its Loan Portfolio as anticipated.

Expansion of Loan Product

In order to extend the Corporation's lending market, the Corporation will extend 'Callidus Lite', a lower-priced loan product for relatively lower-risk borrowers. Management expects that 'Callidus Lite' will have targeted Gross Yields of between 12% and 14%. Certain of the borrowers in this market may have traditional lending alternatives available to them; however management believes these borrowers may accept the higher pricing of the 'Callidus Lite' product in exchange for flexible and innovative loan structuring along with limited or no covenants. Management believes that the 'Callidus Lite' product represents an incremental market opportunity that is distinct from the market for its current loans. 'Callidus Lite' will allow Callidus to extend its potential lending market and loan duration, while preserving attractive returns.

Expansion in the United States

Management believes that the United States market presents a significantly larger opportunity than the Canadian market. Regulatory standards in the United States such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") combined with Basel III Accord ("Basel III") place constraints on commercial lenders that do not apply to Callidus. Although the United States is a different lending market, management has extensive experience in successfully originating and underwriting debt transactions in the United States. The Corporation's existing loan products have been made available in the United States on a situational basis through existing borrower relationships. Callidus demonstrated the flexibility of its systems, back office and procedures through six U.S. based transactions since 2011. In addition, five Canadian based transactions since 2011 had U.S. collateral or exposure as a substantial part of their operations, requiring Callidus to test and validate its ability to perfect U.S. collateral and successfully address other structural issues. Consistent with the Corporation's targeted geographical expansion across Canada, new origination and underwriting officers allow for natural coverage of the Northern United States and expansion of the Loan Portfolio.

Growth through Acquisitions of Loan Portfolios

Management believes that there will be opportunities to acquire asset-based loan portfolio assets from other lenders in Canada and the United States on an opportunistic basis, at discounted values. Callidus has successfully acquired and managed loan portfolios from lenders seeking to exit challenging situations in the past. The Offering provides Callidus access to capital to execute on such future opportunities.

Purchase of Loan Assets from the Catalyst Funds

Following completion of the Offering, the Catalyst Funds will continue to have an interest in the Loan Portfolio. When a Catalyst Fund intends to dispose of an interest in the Loan Portfolio, Callidus will have the option to acquire such interest for an amount equal to the aggregate funded amount of the interest in the Loan Portfolio being sold plus such Catalyst Fund's entitlement to undistributed interest and fees on the applicable Loan Portfolio, pursuant to the terms of the Participation Agreement. As private equity funds, the Catalyst Funds expect to have a need to redeploy their capital into other investments and have a limited investment horizon, thereby creating a necessity to sell their interests in the Loan Portfolio once capital is needed for other investments. Catalyst Funds established after the closing of the Offering will be entitled to invest in interests in the Loan Portfolio, providing for mutual interest in the performance of the Loan Portfolio and another source of financing for growth in Callidus' loan assets. In addition, in the event of any Realization Proceedings for a loan prior to the approved renewal at the next scheduled credit review for that loan (generally one year after the initial advance or the last extension), the applicable Catalyst Fund will make a payment to Callidus in an amount equal to the difference between the amounts advanced by Callidus to the borrower under that loan and the amounts actually received by Callidus in connection with that loan, whether by way of proceeds of realization or repayment of principal. See "Funding Arrangements – Participation Agreement".

Competitive Strengths

Management of Callidus believes that the Corporation has material competitive strengths compared to its competitors. Management believes that competitors manage smaller loan portfolios than the Corporation and that the lack of scale and limited access to capital has provided a challenging environment for its competitors. In contrast, Callidus has benefitted from access to the capital from the Catalyst Funds, a major Canadian insurance company as well as a Schedule I Bank, providing ample capital to grow its business to date and has been able to reach a size where access to attractive leverage alternatives has provided additional sources of capital. The experienced management team and effective collateral monitoring system that Callidus has built since its inception has facilitated the increase in the size the Loan Portfolio while still maintaining the ability to keep a proactive relationship with borrowers that management believes is critical to success in the markets in which the Corporation operates.

Strong Track Record

Callidus is a successful asset-based lender with a history of consistently generating significant returns. Callidus has a strong track record, as evidenced by, among other things, no realized losses on principal on Callidus-originated loans after consideration of liquidated collateral and costs to settle from 2011 until 2013. In aggregate, the Corporation's loans have had a Gross Yield on funds advanced of over 20% since 2010. The Corporation's Loan Portfolio grew at a compound annual growth rate of 57% from 2011 to 2013.

Unique and Differentiated Business Model

Speed of Execution

Callidus has a streamlined credit approval process that provides for rapid decision making, with the Credit Committee involved in the approval process from an early stage. All loans are subject to unanimous Credit Committee approval. The Credit Committee consists of three members of the executive team. See "Description of the Business – Lending Review Process".

Structural Flexibility

Callidus provides practical solutions to its borrowers through flexible and innovative loan structuring. Callidus can provide flexible solutions to meet the needs of borrowers, including, but not limited to, providing loans margined against accounts receivable and inventory, and term loans margined against other assets, including equipment, real estate and manufacturing facilities. Payments in kind and longer amortizations may also be considered in appropriate circumstances. Callidus' loans typically have limited or no covenants, as loans are normally payable on demand. See "Description of the Business – Lending Principles".

Ongoing Relationships with Borrowers

Callidus engages in a high degree of monitoring of the collateral securing the Loan Portfolio and regular interaction with its borrowers. The Corporation's experienced team of finance professionals actively monitors each loan on a daily, weekly or monthly basis, as appropriate depending on the risks. In most cases, Callidus maintains control of the borrower's deposit account through the use of blocked accounts, which facilitates loan repayment and reduces fraud. Financial results and collateral values are regularly monitored against business plans and industry trends. Frequent meetings with the borrowers' management are combined with regular field audits. Third party collateral appraisers generally confirm initial inventory and fixed asset values and professional restructuring

advisors are involved, as necessary. This extensive system of collateral monitoring and management contact mitigates risk by acting as an early warning system of potential credit issues. Early detection of issues ensures that proactive remedies can be implemented.

Support from CCGI

CCGI is a Toronto-based private equity investment management firm with over \$3 billion in assets under management. CCGI supports Callidus by providing funding through the Catalyst Funds and the involvement of senior executives in the Corporation’s business.

Pursuant to its partnership arrangements with the Catalyst Funds, CCGI expects to be entitled to 20% of the Common Shares held by Catalyst Fund II and Catalyst Fund III at Closing, representing an approximate 8% interest in the issued and outstanding Common Shares, as a result of its carried interest in the performance of Catalyst Fund II and Catalyst Fund III. Such Common Shares will be subject to a lock-up of at least two years. See also “Principal Shareholders” and “Risk Factors – Risks Relating to the Offering – Future Sales of Common Shares by Existing Shareholders”. Further, CCGI, as manager of the Catalyst Funds (existing and future) will have the ability to deploy funds from new Catalyst Funds directly into the Active Portfolio thereby providing a source of financing for growth in Callidus’ loan assets.

Any Catalyst Funds currently directly invested in the Initial Portfolio, or any new Catalyst Funds investing in the growth of future Loan Portfolios, will be entitled to a participation interest in the Loan Portfolio, and will bear the debt service costs associated with the leverage allocated to its interest in the Loan Portfolio and a *pro rata* share of all expenses relating to the management of the Loan Portfolio based on its participation interest in the Loan Portfolio. Each of Callidus and the Catalyst Funds with a participation interest in the Loan Portfolio have a mutual interest in the performance of the Loan Portfolio.

In addition, CCGI has agreed that for a period ending on the later of (a) five years from the Closing Date, and (b) two years after the termination of the Management Services Agreement, neither CCGI nor its affiliates will (i) engage in; (ii) establish or manage any fund or other entity that engages in; or (iii) invest in any other fund or entity that engages principally in the asset-based lending business as carried on by Callidus. In addition, CCGI has agreed that any opportunities within such business description that are made available to CCGI or its affiliates will first be offered to Callidus. (See also “Risk Factors – Conflicts of Interest” and “Executive Officers and Directors Compensation – Management Services Agreement”).

Pursuant to the Management Services Agreement, CCGI provides the services of Mr. Glassman (founder and Managing Partner of CCGI) as Executive Chairman and Chief Executive Officer of Callidus, and Mr. Riley (Managing Director and Chief Operating Officer of CCGI) as Secretary of Callidus. In addition, the Management Services Agreement provides Callidus with access to CCGI’s senior management, analysts and research library, as required. See “Executive Officers and Directors Compensation – Management Services Agreement” for a summary of the Management Services Agreement. CCGI’s senior management have proven experience in distressed investing and restructuring, which facilitates the efficient evaluation and execution of complex transactions and allows Callidus to focus on going concern solutions when credit issues arise. See also “Description of the Business – The Catalyst Capital Group Inc. – Overview”.

Experienced Management

The members of the Callidus management team have significant experience in the Canadian asset-based financing market (as set out in the table below) and have close strategic relationships with various professional groups, including accountants, restructuring professionals and appraisers. The Corporation’s management team and the Credit Committee also have extensive expertise across various sectors. This experience and expertise, combined with the Corporation’s disciplined approach to evaluating potential borrowers, assists Callidus in identifying high return lending opportunities where risks can be controlled and managed to ensure minimal portfolio losses.

Management	Profile
Newton Glassman <i>Executive Chairman and Chief Executive Officer</i>	<ul style="list-style-type: none"> ■ 22 years of experience in private equity, distressed, ABL and under-valued situations in Canada and the United States ■ Before founding CCGI, was a managing director at Cerberus Capital Management LLC (“Cerberus”, which in turn owned Ableco Finance) ■ Prior to Cerberus, held operational, strategic, and financial roles at a number of different entities ■ Holds an MBA from the Wharton School of Business and undergraduate and law degrees from the University of Toronto
Jim Riley <i>Secretary</i>	<ul style="list-style-type: none"> ■ Managing Director and Chief Operating Officer of CCGI ■ Prior to joining CCGI in 2011, was a partner and co-chair of the Banking and Finance Law Group at Goodmans

	<ul style="list-style-type: none"> ■ LLP where his practice focused on corporate finance and restructuring ■ Before Goodmans, was a founding partner of the Toronto office of Ogilvy Renault (now Norton Rose Fulbright)
David Reese <i>Chief Operating Officer</i>	<ul style="list-style-type: none"> ■ 30 years of experience in managing and building teams focused on providing structured debt solutions for clients (ABL, LBOs, private placements and securitizations) across a wide variety of industries ■ Worked in both corporate and investment banking with several Canadian and international financial institutions, including a structured credit boutique that Mr. Reese co-founded
Dan Nohdomi <i>Chief Financial Officer</i>	<ul style="list-style-type: none"> ■ Former Chief Financial Officer of Greypoint Capital, a private debt fund based in Toronto, which he assisted in launching and founding ■ Former Corporate Treasurer of Western Forest Products, a publicly traded, Brookfield Asset Management portfolio company, operating in British Columbia
Mark Wilk <i>Vice President, Origination</i>	<ul style="list-style-type: none"> ■ Over 20 years of experience in financing solutions from senior debt to mezzanine and equity, to companies in the United States and Canada ■ Director of the Association for Corporate Growth (Toronto Chapter) and a member of the Turnaround Management Association
Duane Morrison <i>Vice President, Origination</i>	<ul style="list-style-type: none"> ■ Previously worked at Roynat Capital (the merchant banking arm of a Canadian chartered bank) as leader of the Southwestern Ontario team in originating, underwriting and monitoring transactions for 10 years
Craig Boyer <i>Vice President, Portfolio Management</i>	<ul style="list-style-type: none"> ■ Extensive experience at the senior management level in both banking and industry ■ Former Vice President, Underwriting at a Canadian chartered bank's ABL group
Jim Hall <i>Vice President, Portfolio Management</i>	<ul style="list-style-type: none"> ■ Significant experience, knowledge and expertise in portfolio and investment management, high-risk banking, and challenging business operations and organizational situations ■ Currently a director of Indigo Books & Music Inc., Immunovaccine Inc. and Atomic Energy of Canada Limited

The Catalyst Capital Group Inc.

Overview

Founded in 2002, CCGI is a Toronto-based private equity investment management firm that specializes in control and influence investments in distressed and under-valued opportunities in Canada. CCGI has over \$3 billion in assets under management.

CCGI was founded by Mr. Glassman, who is the Managing Partner of CCGI (and who is the Executive Chairman and Chief Executive Officer of Callidus). Mr. Glassman was previously a managing director at Cerberus, where he was responsible for, among other things, the firm's involvement in Canadian-based opportunities. Gabriel de Alba, Managing Director and Partner, joined CCGI in 2002 and previously served in investment and operational roles in various distressed situations at several U.S. entities. Mr. Riley, Managing Director and Chief Operating Officer of CCGI, joined CCGI in 2011 and was formerly a senior partner at a major Canadian law firm with a practice focused on corporate finance and restructuring. Messrs. Glassman, de Alba and Riley, and the balance of the CCGI management team, collectively possess more than 110 years of experience in restructuring, credit markets and merchant and investment banking in Canada and the United States.

The CCGI management team has significant expertise with regard to the Canadian legislative, financial and restructuring regimes, as well as substantial experience coordinating multi-jurisdictional bankruptcies, restructurings and legal processes.

The Catalyst Funds

CCGI has established and managed the following focused private equity funds: Catalyst Fund Limited Partnership I ("Catalyst Fund I"), Catalyst Fund Limited Partnership II (together with a parallel fund, "Catalyst Fund II"), Catalyst Fund Limited Partnership III ("Catalyst Fund III") and Catalyst Fund Limited Partnership IV ("Catalyst Fund IV") as follows:

- Catalyst Fund I was established in 2002 with approximately US\$185 million in committed capital.
- Catalyst Fund II (including a parallel fund) was established in 2005 with approximately US\$635 million in committed capital.
- Catalyst Fund III was established in 2009 with approximately US\$1.0 billion in committed capital.
- Catalyst Fund IV was established in 2012 with approximately US\$800 million in committed capital.

The CCGI team has generated strong investment performance since inception.

ASSET-BASED LENDING INDUSTRY

The information contained in this prospectus with respect to the ABL industry, including market expectations, market position, market opportunity, market share and other estimates, is based solely on management's current understanding and knowledge of the ABL industry and is not based on any independent publicly available source. Such information cannot be and has not been independently verified. See "Notice to Investors – General Matters".

Overview

ABL encompasses a number of financing alternatives, including commercial finance, factoring, equipment loans, leasing, mortgages, floor-plan finance, trade finance and purchase order finance, but typically refers to commercial finance where loans are secured by assets (often the most liquid assets of the borrower) and subject to a borrowing base. Callidus operates within this definition of commercial finance asset-based loans, lending to corporate businesses and taking security against the assessed or appraised value of working capital and an identifiable portfolio of assets.

Asset-based lenders manage their risk and exposure by carefully assessing the values of secured assets, receiving periodic reports on collateral value and the status of those assets, and tracking financial performance of borrowers. These procedures and their implementation differentiate ABL from commercial or corporate lending. Typical characteristics of an asset-based borrower include unpredictable cash flow, losses, high leverage, fast growth, recent or proposed acquisitions, mergers, leveraged buyouts or bankruptcy reorganization. Asset-based loans allow borrowers with working capital needs to borrow amounts supported by an asset base, when traditional credit may otherwise be unavailable to them.

The key benefit of ABL is that it is not earnings dependent and, as a result, asset-based loans are still available when a borrower's earnings are insufficient to support a traditional bank loan. The typical borrower of an asset-based loan is a medium-sized business that is involved in a cyclical industry or which has low operating margins. Asset-based loans can provide capital to finance growth, inventory expansion or acquisition financing and are also used to refinance existing debt.

Asset-based loans provide borrowers with increased operating flexibility compared to earnings-based financing, generally with fewer financial covenants. Callidus is generally able to structure loans at higher advance rates than traditional financial institutions, which permits growth and increased earnings in the borrower's business. These increased earnings may offset higher lending rates, in whole or in part, while allowing a borrower to retain operational upside and avoid ownership dilution.

Management believes that the Canadian ABL market is comprised of the following types of lenders:

1. **ABL Groups of Large Financial Institutions** – these groups will make credit available based on assets, as well as more traditional profitability metrics and cash flow. They currently tend to offer interest rates at a spread of 3% to 6% over LIBOR, and require extensive performance covenants. Loan sizes will vary, and are generally up to \$100 million. Callidus believes that there are approximately 10 active participants in this category.
2. **Bridge or Distressed ABL Providers** – these providers include Callidus and its competitors, and typically lend money at an interest rate of approximately 20% through demand loans with limited or no covenant requirements. These lenders will generally provide loans of up to \$30 million, and can occasionally lend up to \$100 million. Based on the Corporation's understanding of the market, it believes that there are approximately four competitors in this category, with an estimated aggregate market size in excess of \$1 billion in loans at any time, of which management believes that approximately \$650 million is currently addressed by either Callidus or its competitors.
3. **Factoring Companies** – these companies will purchase receivables at a significant discount, which generally corresponds to implied interest rates above 20%. Loan sizes for these lenders typically range between \$1 million and \$5 million, and can occasionally reach up to \$10 million. Callidus believes that there are a small number of larger factoring companies and many small regional participants. The Corporation does not engage in factoring and does not view factoring companies as direct competitors.

Canadian Asset-Based Lending

	Summary Terms	Deal Size	Scope of Canadian Market
ABL Groups of Large Financial Institutions	<ul style="list-style-type: none"> ■ Interest rates: 3% - 6% spread above LIBOR ■ Performance covenant requirements 	<ul style="list-style-type: none"> ■ \$5 million to \$100 million+ 	<ul style="list-style-type: none"> ■ Approximately 10 active participants
Bridge or Distressed ABL Providers	<ul style="list-style-type: none"> ■ Interest rates: 20% range ■ Demand loans ■ Covenant light 	<ul style="list-style-type: none"> ■ \$1 million to \$50 million; occasionally to \$100 million 	<ul style="list-style-type: none"> ■ 4 known competitors ■ Current estimated market opportunity: over \$1 billion
	<ul style="list-style-type: none"> ■ Interest rates: 14% range ■ Demand loans ■ Covenant light 	<ul style="list-style-type: none"> ■ \$10 million to \$50 million; occasionally to \$100 million 	<ul style="list-style-type: none"> ■ 1 known competitor ■ Incremental market opportunity distinct from market for current product offering
Factoring Companies	<ul style="list-style-type: none"> ■ "Purchase discount" – interest rate over 20% 	<ul style="list-style-type: none"> ■ \$1 million to \$5 million; occasionally to \$10 million 	<ul style="list-style-type: none"> ■ Smaller number of larger factoring companies and many smaller regional factors

Competitive Dynamics

Management believes that the current market for asset-based lenders in Canada, particularly for asset-based lenders such as Callidus that operate independently of Canadian chartered banks and other financial institutions, is robust. As a result of increased regulation and global financial difficulties, several foreign participants in the ABL market have either reduced or shut down their Canadian ABL operations. U.S. lenders in particular have faced pressure to reduce their capital exposure due to financial regulations imposed following the credit crisis in 2008. Additionally, several foreign bank-owned lenders have noticeably reduced their presence in the Canadian ABL market due to capital constraints, regulatory issues, losses or a combination thereof.

Mid-market companies, which management defines as those with borrowing requirements of \$5 million to \$100 million, have fewer credit options. The recent credit crisis and continuation of a generally poor economic environment have combined to limit the willingness of Canadian lenders to extend credit to smaller borrowers; particularly those that do not meet the typical credit requirements. Callidus believes that there are a number of other factors that have resulted in the limited competition in the Canadian ABL market, including, but not limited to the following:

Reduced Credit Supply to Mid-Market Companies from Non-Bank Lenders

The Corporation believes credit to mid-market companies from non-bank lenders will also be constrained, as many of those lenders have either gone out of business, exited the market, or wound down. Some non-bank lenders exited the lending industry due to balance sheet pressures following the credit crisis of 2008 and subsequent regulatory changes. Together with the constraints in bank lending, a promising environment is created in which loans may be offered to mid-market companies by providers such as Callidus. The Corporation cannot, however, provide any assurance as to how long this tight credit supply will persist.

Regulatory Environment in Canada

There are currently no capital adequacy or other regulatory capital requirements on asset-based lenders like Callidus that would impede their ability to extend credit. The major Canadian commercial banks, however, are subject to capital adequacy rules under the *Bank Act* (Canada) and Basel III that require them to maintain capital on hand in connection with each loan advanced. These rules reduce profitability of non-traditional financing, as the amount of capital required to be maintained by the lender tends to be higher for these loans compared to conventional loans.

Basel III and related banking regulations also require Canadian commercial banks to mitigate and minimize risk while preserving regulatory capital and liquidity, which have made Canadian commercial banks even less likely to lend outside of their traditional lines of business.

Concentration of Canadian Commercial Banks

In Canada, commercial lending has been dominated by the six leading commercial banks. While these banks do provide asset-based loans, such loans remain a relatively small portion of the financing that they offer due to the aggregate size of the potential

market and the relatively high operational oversight such loans require. The traditional form of financing favoured by these banks has been cash flow and earnings-based, as opposed to collateral-based financing.

Regulatory Environment in the United States

Recent regulatory changes, including the enactment of the Dodd–Frank Wall Street Reform and Consumer Protection Act (the “**Dodd-Frank Act**”) in the United States, the introduction of new international capital and liquidity requirements under Basel III, and the continued ownership of legacy non-performing assets have significantly curtailed banks’ lending capacity and willingness to lend in the ABL market. In response, the Corporation believes that many U.S. commercial banks have de-emphasized their service and product offerings to mid-market companies in favour of lending, managing capital markets transactions and providing other non-credit services to their larger customers who require less extensive oversight. Callidus expects bank lending to mid-market companies to continue to be constrained for at least several years, as Basel III rules are phased in and rules and regulations are approved and interpreted under the Dodd-Frank Act.

SUMMARY FINANCIAL AND OTHER DATA

	Year ended December 31		
	2013	2012	2011
	(\$ thousand)	(\$ thousand)	(\$ thousand)
Revenue:			
Interest	47,102	21,451	18,720
Fees and other	6,222	6,070	3,095
	53,324	27,521	21,815
Interest expense and participation fees:			
Catalyst Funds	37,494	17,870	14,074
Senior debt and revolving credit facilities	4,414	4,307	3,245
	41,908	22,177	17,319
Net interest income	11,416	5,344	4,496
Other income (loss):			
Provision for loan losses	(5,976)	(2,030)	(3,199)
Foreign exchange losses	(1,363)	(433)	940
Other income	451	-	-
	(6,888)	(2,463)	(2,259)
Non-interest expenses:			
Management fees	-	-	260
Salaries and wages	4,248	3,004	2,379
Stock options	5,152	-	-
General and administrative	2,036	1,745	1,287
	11,436	4,749	3,926
Loss before income tax	(6,908)	(1,868)	(1,689)
Income taxes (recovery):			
Current	34	(66)	-
Deferred	(1,228)	-	-
Loss and comprehensive loss for the year	(5,714)	(1,802)	(1,689)

Pro-forma Financial Statements

The following table sets forth the Pro-forma Consolidated Statements of Comprehensive Income of Callidus for the year ended December 31, 2013 after giving effect to the Pre-Closing Transactions and the Offering. The tables below should be read together with “Prospectus Summary – Summary of Selected Financial Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Use of Proceeds” and Callidus’ historical audited financial statements and related notes included elsewhere in this prospectus.

	2013				
	(\$ thousand)				
	<u>IFRS</u>	<u>Adjustments</u>	<u>Normalized</u>	<u>Co-Own. ⁽⁷⁾</u>	<u>Pro Forma</u>
Revenue					
Interest	47,102	-	47,102	(8,424)	38,678
Fees and other	6,222	-	6,222	(1,113)	5,109
	53,324	-	53,324	(9,537)	43,787
Interest expense and participation fees:					
Catalyst Funds ⁽¹⁾	37,494	(37,494)	-	-	-
Senior debt and revolving credit facilities ⁽²⁾	4,414	1,805	6,219	(1,012)	5,207
	41,908	(35,689)	6,219	(1,012)	5,207
Net interest income	11,416	35,689	47,105	(8,525)	38,580
Other income (loss):					
Provision for loan losses	(5,976)	-	(5,976)	1,069	(4,907)
Foreign exchange loss	(1,363)	-	(1,363)	244	(1,119)
Other income	451	-	451	(81)	370
Participation fees ⁽³⁾	-	-	-	1,403	1,403
	(6,888)	-	(6,888)	2,635	(4,253)
Non-interest expenses:					
Salaries and wages	4,248	-	4,248	-	4,248
Stock options ⁽⁴⁾	5,152	-	5,152	-	5,152
General and administrative ⁽⁵⁾	2,036	1,000	3,036	-	3,036
	11,436	1,000	12,436	-	12,436
Income/(loss) before income taxes	(6,908)	34,689	27,781	(5,890)	21,891
Income taxes (recovery) ⁽⁶⁾					
Current	34	7,328	7,362	(1,317)	6,045
Deferred	(1,228)	1,228	-	-	-
Income/(loss) attributable to shareholders	(5,714)	26,133	20,419	(4,573)	15,846

Notes

- (1) The Catalyst Funds will no longer collect interest or participation fees in the form collected prior to Closing, as all indebtedness due to the Catalyst Funds pursuant to the Participating Debenture will be repaid prior to Closing. See “Pre-Closing Transactions”.
- (2) The adjusted interest expenses reflects the Corporation’s 40% leverage target on Gross Loans Receivable. Additional leverage above that which was in place on average for 2013 is assumed to be in the form of the New Senior Debt, with an assumed effective interest rate of 3.58%. Having the New Senior Debt facility in place is a condition precedent to Closing. Interest expense related to a portion of the Corporation’s debt is adjusted as part of the participation fee. See note (3) below.
- (3) The participation fee, to be paid in the future by the Catalyst Funds to Callidus, accounts for the expenses of the Corporation that are not directly related to the Loan Portfolio, which are attributable to the Catalyst Funds pursuant to the Participation Agreement. In fiscal 2013, the participation fee shown accounts for a portion of interest and fees on debt that is not subject to Derecognition for accounting purposes, salaries and wages, and general and administrative expenses.
- (4) The stock option expense in 2013 represents a non-cash item. An additional \$3.3 million of stock-based compensation cost is expected to be recognized over a weighted average period of two years as part of this one-time issuance. This table assumes that no other options will be granted. Please refer to Note 16 of the Financial Statements.

- (5) Subsequent to Closing, management estimates that the Corporation will incur additional general and administrative costs on a continuing basis including but not be limited to expenses associated with ongoing financial reporting and disclosure, public company listing fees, increased director fees and related director and officer insurance costs, investor relations and annual shareholder meetings.
- (6) Income taxes have been adjusted to reflect management's expectation for the Corporation to pay income taxes at a substantially similar rate to the statutory tax rate of 26.5%.
- (7) The Catalyst Funds will retain an approximately 18% undivided interest in the Initial Portfolio, and will share approximately 18% of the returns and associated expenses of the Initial Portfolio, including a proportionate share of any public company costs.

Adjusted EBITDA Schedule

	<u>Adjusted</u>	<u>Public Costs</u> ⁽²⁾	<u>2013</u> <u>(\$ thousand)</u>		<u>Pro Forma</u>
			<u>Normalized</u>	<u>Co-Own.</u> ⁽³⁾	
Revenue	53,324	-	53,324	(9,537)	43,787
Less: Provision for loan losses	(5,976)	-	(5,976)	1,069	(4,907)
Add: Other income	451	-	451	(81)	370
Add: Participation fees, net of portion related to interest expense	-	-	-	1,303	1,303
Less: Non-interest expenses	(11,436)	(1,000)	(12,436)	-	(12,436)
Less: Stock option expense ⁽⁴⁾	5,152	-	5,152	-	5,152
Adjusted EBITDA ⁽¹⁾	41,515	(1,000)	40,515	(7,246)	33,269

Notes

(1) See "Non-IFRS Measures".

(2) Subsequent to Closing, management estimates that the Corporation will incur additional general and administrative costs on a continuing basis including but not be limited to expenses associated with ongoing financial reporting and disclosure, public company listing fees, increased director fees and related director and officer insurance costs, investor relations and annual shareholder meetings.

(3) The Catalyst Funds will retain an approximately 18% undivided interest in the Initial Portfolio, and will share approximately 18% of the returns and associated expenses of the Initial Portfolio, including a proportionate share of any public company costs.

(4) The stock option expense in 2013 represents a non-cash item. An additional \$3.3 million of stock-based compensation cost is expected to be recognized over a weighted average period of two years as part of this one-time issuance. This table assumes that no other options will be granted. Please refer to Note 16 of the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of the Corporation for the fiscal years ended December 31, 2013, 2012, and 2011. This MD&A should be read in conjunction with the audited annual consolidated financial statements ("Financial Statements") of Callidus as at December 31, 2013, 2012 and 2011, and for the years ended December 31, 2013, 2012 and 2011, and the related notes attached thereto, which were prepared in accordance with IFRS. This MD&A is presented as at the date of this prospectus and is current to that date unless otherwise stated. All amounts herein are expressed in Canadian dollars unless otherwise indicated.

Statement Regarding Forward-Looking Statements and use of Non-IFRS Measures

This MD&A contains forward-looking information within the meaning of Canadian securities laws and applicable regulations. See "Cautionary Note Regarding Forward-Looking Statements" elsewhere in this prospectus.

The Corporation discloses a number of financial measures in this MD&A that are calculated and presented using methodologies other than in accordance with IFRS. The Corporation utilizes these measures in managing the business, including performance measurement and valuation purposes and believes that providing these performance measures on a supplemental basis to its IFRS results is helpful to investors in assessing the overall performance of the business of the Corporation. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. The Corporation cautions readers that these non-IFRS financial measures may differ from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS financial measures to the most directly comparable financial measures calculated and presented in accordance with IFRS are included within this MD&A. See "Non-IFRS Measures".

Business Profile and Strategy

Callidus is a specialty asset-based lender, focused primarily on Canadian companies and select U.S. companies that are unable to obtain adequate financing from traditional lenders. Callidus addresses an important gap in the lending markets by providing financing to borrowers whose perceived credit risk is too high for the lending criteria of traditional lenders, and whose capital requirements are too small to access high yield markets. Callidus provides flexible and innovative loan structuring, with limited or no covenants and an efficient credit approval process.

CCGI is a Toronto based private equity investment firm with over \$3 billion in assets under management. CCGI and the Catalyst Funds, which are managed by CCGI, currently own or control 100% of the issued and outstanding Common Shares of Callidus and support the Corporation by providing funding through the Catalyst Funds and the involvement of senior executives in the Corporation's business.

Description of Non-IFRS Measures

The Corporation's audited consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and accounting policies adopted by the Corporation in accordance with IFRS. The audited consolidated financial statements, in the opinion of management, present fairly Callidus' financial position as at December 31, 2013, 2012 and 2011 and the changes in equity, comprehensive income and cash flows for the years ended December 31, 2013, 2012 and 2011.

Management uses both IFRS and Non-IFRS Measures to monitor and assess the operating performance of the Corporation's operations. Throughout this MD&A, management uses the following terms and ratios which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other organizations:

"Gross Yield" is defined as total revenues divided by Average Loan Portfolio Outstanding. These percentages are presented over a three year period. While Gross Yield is sensitive to non-recurring fees earned (for example, as a result of early repayment), the Corporation has included this information as it believes the information to be instructive and enables readers to see at a glance, trends in the yield of the Loan Portfolio.

"Gross Loans Receivable" is defined as the sum of (i) the aggregate amount of loans receivable on the relevant date, (ii) the loan loss allowance on such date, (iii) the book value of assets held for sale as they appear on the balance sheet, and (iv) discounts on loan acquisitions.

Gross Loans Receivable Reconciliation to Balance Sheet

	2013	2012	2011
Gross Loans Receivable	381,302	132,485	154,010
Less: Discounted facilities	(9,774)	(2,200)	–
Less: Provisions for loan losses	(10,176)	(4,200)	(2,500)
Less: Assets held for Sale	(11,360)	(11,690)	(12,601)
Net loans receivable	349,992	114,395	138,909

“Average Loan Portfolio Outstanding” is calculated for the annual periods using daily loan balances outstanding. The Average Loan Portfolio Outstanding grosses up the loans receivable and assets held for sale for the provision for loan losses and discounted facilities similar to Gross Loan Receivables. This information is presented over a three year period and will enable readers to see at a glance, trends in the size of the Loan Portfolio.

“Adjusted EBITDA” is defined as EBITDA adjusted for non-cash expenses. For 2013, non-cash expenses consisted of employee option expense. The Corporation has adjusted for employee option expense as management believes that the initial award is not reflective of ongoing cash compensation costs of the business.

“EBITDA” is defined as net income before depreciation, amortization, interest expense and fees, income tax expense, and foreign exchange gain/loss.

“total liquidity” consists of cash and cash equivalents and undrawn credit facilities.

The Corporation has included the measure of Gross Yield as it believes the information to be instructive and enables potential purchasers to see, at a glance, trends in the yield of the Loan Portfolio. Average Loan Portfolio Outstanding measures the average amounts outstanding of the Loan Portfolio, to allow potential purchasers to see, at a glance, trends in the amounts of capital outstanding over a certain period of time, the most directly comparable IFRS measure being Loans Receivable. EBITDA measures operational profitability and is intended to assist potential purchasers to assess the performance of the Corporation in comparison with peer companies; while Adjusted EBITDA adjusts EBITDA for expenses that are not representative of cash costs of the operations.

The Non-IFRS Measures should not be considered as the sole measure of the Corporation’s performance and should not be considered in isolation from, or as a substitute for, analysis of the Corporation’s financial statements.

Selected Financial Information

The selected audited financial information set out below for the fiscal years ended December 31, 2013, 2012 and 2011 has been derived from Callidus’ Financial Statements which appear elsewhere in this prospectus. These Financial Statements are prepared in accordance with IFRS. The following information should be read in conjunction with those statements and related notes and with this MD&A.

Table 1 – Selected Financial Information

For the years ended December 31 (\$ 000s)	2013	2012	2011	Change	
				2013vs2012	2012vs2011
Average Loan Portfolio Outstanding ⁽¹⁾	\$251,223	\$120,847	\$106,988	\$130,376	\$13,859
Gross Yield ⁽¹⁾	21%	23%	20%		
Income Statement Data:					
Total revenue	\$53,324	\$27,521	\$21,815	\$25,803	\$5,706
Operating expenses	10,985	4,749	3,926	6,236	823
Provision for loan losses	5,976	2,030	3,199	3,946	(1,169)
EBITDA ⁽¹⁾	36,363	20,742	14,690	15,621	6,052

Add: option expense	5,152	-	-	5,152	-
Adjusted EBITDA ⁽¹⁾	\$41,515	\$20,742	\$14,690	\$20,773	\$6,052
<hr/>					
Net income	(\$5,714)	(\$1,802)	(\$1,689)	(\$3,912)	(\$113)
Balance Sheet & Other Data:					
Total assets	\$400,620	\$175,249	\$223,841	\$225,371	(\$48,592)
Loans receivable ⁽²⁾	349,992	114,395	138,909	235,597	(24,514)
Assets held for sale	11,360	11,690	12,601	(330)	(911)
Credit Agreement	69,562	49,586	49,489	19,976	97
Participating Debenture	\$330,703	\$125,670	\$172,919	\$205,033	(\$47,249)

- Notes:
- (1) Please see definitions of Average Loan Portfolio Outstanding, Gross Yield, EBITDA and Adjusted EBITDA under the heading "Management's Discussion and Analysis of Financial Results – Description of Non-IFRS Measures". These financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, they may not be comparable to similar measures used by other issuers.
- (2) Loans receivable is net of allowance for loan losses and discounts on loan acquisitions.

Highlights

- The Average Loan Portfolio Outstanding increased sequentially year-over-year from 2011 to 2013. In 2013, the Average Loan Portfolio Outstanding was \$251 million, an increase of \$130 million or 108% from the prior year. In 2012, the balance of \$121 million represented an increase of \$14 million or 13% from 2011.
- Gross Yield in 2013 was 21%, a decrease of 2% from the prior year, primarily due to a reduction in fee income as a percentage of total revenue as a result of prepayment penalties earned on a number of loans that were repaid in the prior year. In 2012 Gross Yield was 23%, an increase of 3% from 2011 which was attributable to an increase in fee income noted above.
- At December 31, 2013, loans receivable was \$350 million, an increase of \$236 million or 207% from the prior year. At December 31, 2012, loans receivable was \$114 million, a decrease of \$25 million or 18% from December 31, 2011. Assets held for sale represent a loan to a borrower for which the Corporation owns 100% of the borrower's common shares. These shares were received in 2011 as part of a larger loan portfolio acquisition from a competitor.
- In 2013, the provision for loan losses increased \$4 million to \$6 million while write-offs were nil. In 2012, the provision for loan losses decreased \$1 million to \$2 million.

Results of Operations

Net income

Table 2 – Condensed Consolidated Statement of Net Income (Loss)

For the years ended December 31

(\$ 000s)	2013	2012	2011	Change	
				2013vs2012	2012vs2011
Interest	\$47,102	\$21,451	\$18,720	\$25,651	\$2,731
Fees and other	6,222	6,070	3,095	152	2,975
Total revenue	53,324	27,521	21,815	25,803	5,706
Salaries and wages	4,248	3,004	2,379	1,244	625
Stock options	5,152	-	-	5,152	-
Provision for loan losses	5,976	2,030	3,199	3,946	(1,169)
General and administrative and other	1,585	1,745	1,547	(160)	198
	16,961	6,779	7,125	10,182	(346)
EBITDA ⁽¹⁾	36,363	20,742	14,690	15,621	6,052
Add: employee stock options	5,152	-	-	5,152	-
Adjusted EBITDA ⁽¹⁾	\$41,515	\$20,742	\$14,690	\$20,773	\$6,052
Adjusted EBITDA margin	78%	75%	67%		

Reconciliation of non-IFRS measures:					
Adjusted EBITDA ⁽¹⁾	\$41,515	\$20,742	\$14,690	\$20,773	\$6,052
less: employee stock options	5,152	-	-	5,152	-
EBITDA ⁽¹⁾	36,363	20,742	14,690	15,621	6,052
Interest expense and participation fees pursuant to the Participating Debenture	37,494	17,870	14,074	19,624	3,796
Interest pursuant to the Credit Agreement	4,414	4,307	3,245	107	1,062
Foreign exchange (gain) / loss	1,363	433	(940)	930	1,373
	43,271	22,610	16,379	20,661	6,231
Loss before income taxes	(6,908)	(1,868)	(1,689)	(5,040)	(179)
Current and deferred income taxes (recovery)	(1,194)	(66)	-	(1,128)	(66)
Net income (loss)	(\$5,714)	(\$1,802)	(\$1,689)	(\$3,912)	(\$113)

Notes:

(1) Please see definitions of EBITDA and Adjusted EBITDA under the heading “Management’s Discussion and Analysis of Financial Results – Description of Non-IFRS Measures”. These financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, they may not be comparable to similar measures used by other issuers.

2013 vs 2012

Interest income increased \$26 million from the prior year, as a result of (i) an increase in the Average Loan Portfolio Outstanding from \$121 million in 2012 to \$251 million in 2013, and (ii) an increase in the interest yield from 18% in 2012 to 19% in 2013. During 2013, Callidus originated \$184 million in new loans, advanced \$81 million to the existing Loan Portfolio, and was fully repaid a total of \$17 million.

Fee income, consisting of facility, standby, maintenance and extension fees (“**Fee Income**”), remained relatively consistent with the prior year at \$6 million, as a result of the growth of the Loan Portfolio offset partially by a \$1 million or 72% decrease in other income. The decrease in other income was attributable to a non-recurring gain recorded in the prior year from the settlement of certain loans that were acquired as part of a distressed loan pool purchase from a competitor.

2012 vs 2011

Interest income increased \$3 million from the prior year, as a result of (i) an increase in the Average Loan Portfolio Outstanding from \$107 million in 2011 to \$121 million in 2012. During 2012, Callidus originated \$110 million in new loans and was fully repaid a total of \$132 million.

Fee Income increased by \$3 million or 96% to \$6 million as a result of (i) fees earned on early repayment for several loans and (ii) as discussed above, net proceeds realized on certain loans acquired as part of a distressed loan pool purchase from a competitor.

Further discussion of operating and other expenses follows below.

Table 3 – Loan Loss Provision

For the years ended December 31

(\$ 000s)	2013	2012	2011	Change	
				2013vs2012	2012vs2011
Individual loan loss provisions	\$5,000	-	\$2,500	\$5,000	(\$2,500)
Interest accrual on non-performing loans	976	1,700	-	(724)	1,700
Write-offs	-	330	699	(330)	(369)
Total	\$5,976	\$2,030	\$3,199	\$3,946	(\$1,169)

The Corporation conducts a detailed assessment of the Loan Portfolio to assess whether there is objective evidence of impairment at the (i) individual loan and (ii) collective levels. As a result of the Corporation’s high degree of interaction with each borrower through regular reporting requirements, which include submission of weekly borrowing base calculations and quarterly field audits, management believes that it is able to assess for impairment on a timely basis and put in place the appropriate measures to mitigate and limit loan losses.

The total loan loss provision increased \$4 million to \$6 million in 2013 primarily as a result of a provision required in one loan that was in the process of being restructured during the fourth quarter of 2013. Refer to Note 20 – Subsequent Events of the Financial Statements for further detail.

Interest accrual on non-performing loans was approximately \$1 million in 2013, a decrease of \$0.7 million from the prior year. Under IFRS, the Corporation continues to record loan interest and income on impaired loans at the original effective interest rate and provides for the loan interest and income in instances where timely collection of interest and principal is unlikely.

The total loan loss provision decreased \$1 million or 37% from 2011 to 2012 attributable to a decrease in individual loan loss provisions, partially offset by an increase in interest accrual on non-performing loans.

The assessment of impairment and determination of the loan loss provision requires judgment and consequently, there is measurement uncertainty and actual results may differ from estimates. Management considers the loan loss provision to be adequate.

Table 4 - Operating and Other Expenses

For the years ended December 31 (\$ 000s)	2013	2012	2011	Change	
				2013vs2012	2012vs2011
Salaries and benefits	\$4,248	\$3,004	\$2,379	\$1,244	\$625
Stock options	5,152	-	-	5,152	-
General and administrative	2,036	1,745	1,287	291	458
Foreign exchange gain / loss	1,363	433	(940)	930	1,373
Other	(451)	-	-	(451)	-
Total	\$12,348	\$5,182	\$2,726	\$7,166	\$2,456

Operating and Other Expenses

Salaries and wages and stock options

Salaries and benefits increased \$1 million or 41% to \$4 million in 2013, primarily as a result of a number of net new hires in 2013 in anticipation of and to accommodate growth in the Loan Portfolio and an increase in cash compensation for the Corporation's employees.

In 2013, the Corporation recognized a \$5 million option expense as a result of implementation of the Stock Option Plan. IFRS requires recognizing option expense under the graded vesting approach, which gives rise to an accelerated compensation expense.

Salaries and benefits increased \$1 million or 26% to \$3 million in 2012, primarily as a result of an increase in cash compensation for the Corporation's employees.

Foreign exchange gain / loss

Certain of the Corporation's loans receivable and amounts due to the Catalyst Funds are denominated in US dollars, and accordingly, the Corporation is exposed to foreign exchange risk. To mitigate the foreign exchange risk, the Corporation enters into foreign exchange forward contracts with a number of select financial institutions in an amount offsetting the net balance sheet exposure at a cost dependent on the forward premium at the transaction date.

Refer to Note 15 - Derivatives held for risk management in the Financial Statements for further information.

Income Taxes

Historically, the Corporation's income tax expense has been less than \$0.1 million as a result of participating interest amounts paid to the Catalyst Funds. However, going forward, subsequent to the Closing Date, the Corporation considers it probable that future taxable profits will be generated that will be taxed at the appropriate enacted rate, which was 26.5% in 2013 and 2012. Additionally, such future taxable profits will be available, against which deductible temporary differences can be used. As a result, the Corporation recognized a \$1 million deferred tax asset in 2013.

For further detail of participating interest amounts, see discussion of Related Party Transactions below.

Financial Position

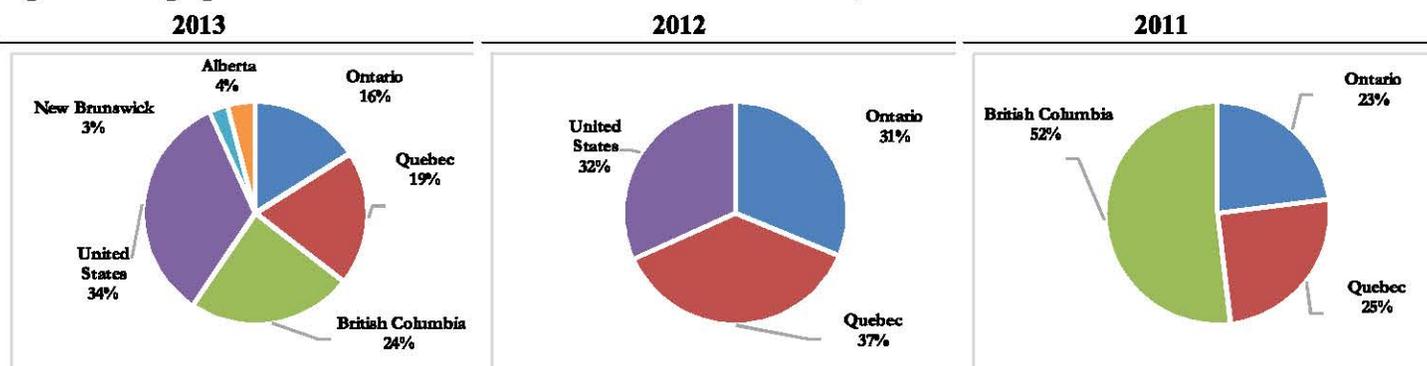
Table 5 – Condensed Consolidated Balance Sheets

For the years ended December 31 (\$ 000s)	2013	2012	2011	Change	
				2013vs2012	2012vs2011
Cash and cash equivalents	\$38,014	\$49,127	\$71,996	(\$11,113)	(\$22,869)
Loans receivable	349,992	114,395	138,909	235,597	(24,514)
Assets held for sale	11,360	11,690	12,601	(330)	(911)
Deferred tax asset	1,228	-	-	1,228	-
Other assets	26	37	335	(11)	(298)
Total	\$400,620	\$175,249	\$223,841	\$225,371	(\$48,592)
Credit Agreement	\$69,562	\$49,586	\$49,489	\$19,976	\$97
Accounts payable and accrued liabilities	788	949	2,463	(161)	(1,514)
Deferred facility fees & other	4,265	3,180	1,304	1,085	1,876
Participating Debenture	330,703	125,670	172,919	205,033	(47,249)
Shareholders' equity	(4,698)	(4,136)	(2,334)	(562)	(1,802)
Total	\$400,620	\$175,249	\$223,841	\$225,371	(\$48,592)

Total assets at December 31, 2013 were \$401 million, an increase of \$225 million, or 129% from the prior year. The increase in total assets was attributable primarily to a \$236 million or 206% increase in loans receivable from \$114 million to \$350 million. In 2011, the Corporation received 100% of the common shares of a borrower, as part of an acquisition of a distressed loan portfolio from a competitor. The entity is being classified as held for sale in the Statement of Financial Position and is being recorded at the lower of (i) carrying value and (ii) fair value less cost to sell.

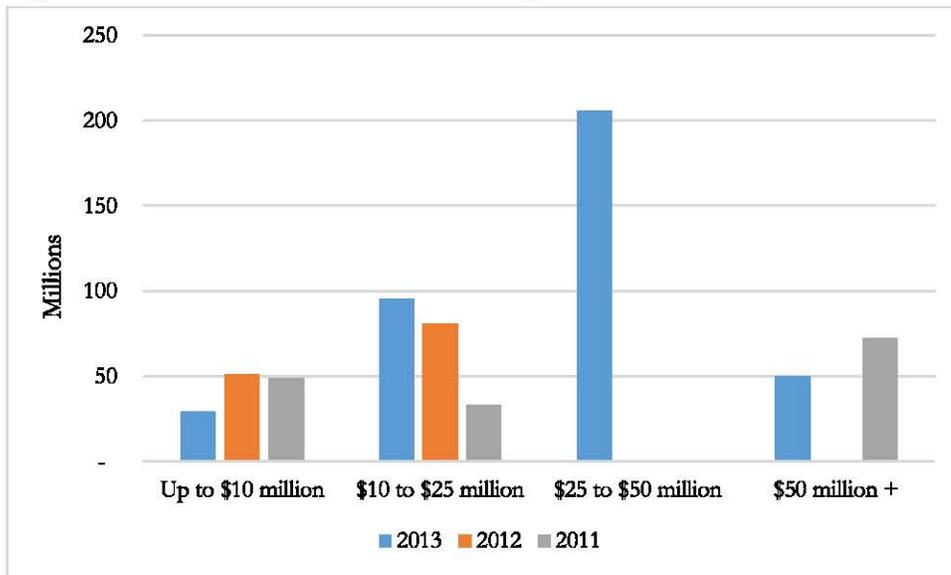
Total assets at December 31, 2012 were \$175 million, a decrease of \$49 million, or 22% from the prior year. The decrease in total assets was attributable primarily to a \$25 million decrease in loans receivable from \$139 million to \$114 million as the Corporation was repaid on a \$73 million loan to a helicopter services company in October 2012.

Figure 1 - Geographic Distribution of the Loan Portfolio as at December 31,



As at December 31, 2013, the Loan Portfolio was distributed 66% in Canada and 34% in the United States. Within Canada, 7% of the loans were to companies based in Alberta and New Brunswick, provinces that are relatively new to Callidus and that it intends to continue to service as it establishes and builds presence in western and eastern Canada.

Figure 2 - Distribution of the Loan Portfolio by Funded Loan Size



As at December 31, 2013, 67% of the Loan Portfolio consisted of loans greater than \$25 million. With the exception of one loan in 2011, to a helicopter services company, the Loan Portfolio as at Dec 31, 2011 and 2012, consisted entirely of loans of up to \$25 million.

Impaired Loans Receivable

Callidus engages in a high degree of monitoring of the collateral securing the Loan Portfolio and regular interaction with its borrowers. The Corporation's experienced team of finance professionals actively monitors each loan on a daily, weekly or monthly basis, as appropriate depending on the risks. Callidus' extensive system of collateral monitoring and management contact mitigates risk by acting as an early warning system of potential credit issues. However, there are instances where loans may not perform as originally underwritten.

Management assesses each loan to determine whether an indication of impairment exists, focusing on collateral values supporting the loan. Independent, recognized appraisal firms are engaged in determining collateral values. In instances where the carrying value of the loan exceeds the collateral value securing the loan, a loan loss provision is determined.

The loan loss provision is calculated as the difference between (i) the carrying value of the loan and (ii) the present value of estimated net proceeds on disposal using the interest rate of the loan as the discount rate. The extent of estimates and judgment applied in determining a loan's impaired value leads to significant measurement uncertainty, and the ultimate value realized from such security may be materially different than that estimated by management. Additionally, monetizing certain impaired loans or their underlying security may not occur on a timely basis, given the nature of the security or its location.

Off Balance Sheet Arrangements

The Corporation has no off balance sheet arrangements.

Liquidity and Capital Resources

The Corporation's primary sources of short-term liquidity are cash and cash equivalents and undrawn committed credit facilities. As at December 31, 2013 total liquidity was \$99 million, consisting of \$38 million of cash and cash equivalents, and \$61 million in undrawn credit facilities.

The Corporation's primary liquidity needs include: funding of new and existing loans, debt service and principal repayment obligations, payments related to financial instruments, specifically foreign currency contracts, and ongoing operating costs. The Corporation's contractual obligations are summarized in Table 8 below.

As discussed further in "Exposures to Selected Financial Instruments", the Corporation enters into financial instruments, specifically foreign currency contracts that require it to make payments based on the value of the contracts, either as collateral or to

settle the contract. The Corporation monitors potential liquidity requirements to ensure that they can be readily funded by its sources of short-term liquidity.

The Corporation considers its current and contemplated sources of liquidity sufficient to meet requirements for the purposes of short term and long term operations and growth.

See “Risk Factors – Risks Relating to Callidus’ Operations – Adequacy of Provision for Credit Losses”, “Risk Factors – Risks Relating to Callidus’ Operations - Collateral Securing Callidus’ Loans” and “Risk Factors – Risks Relating to Callidus’ Operations - Foreign Currency and Hedging Transactions”.

Financing Strategy

One of the primary objectives of Callidus’ financing strategy is to achieve an efficient cost of capital on a risk adjusted basis for its shareholders. A key element to Callidus’ capital strategy is to limit borrowings to levels that would be considered investment-grade (based on discussions with rating agencies if necessary), which management believes is between 40% and 50% of the Loan Portfolio. This provides the Corporation with the flexibility required to fund ongoing operations, limit financial covenants and performance requirements and reduce risk of early payment requirements under the Credit Facilities.

To date, the Corporation has advanced its financing strategy on a measured and deliberate basis. As the business has grown, the Corporation has added additional external financing sources. See “Asset-Based Lending – Liquidity and Capital Resources – Capitalization” discussion below for further detail.

Capitalization

Since the Corporation’s inception, the Catalyst Funds have been the principal sources of liquidity and capital resources. CCGI has provided funding through the Catalyst Funds by way of a participating secured grid debenture dated as of July 1, 2012, issued by Callidus in favour of Catalyst Fund III and Catalyst Fund IV (the “Participating Debenture”). The Participating Debenture is secured by a subordinated security interest in the Corporation’s assets. The Participating Debenture will be repaid as part of the Pre-Closing Transactions and the Catalyst Funds will release the security held by the Catalyst Funds against the Corporation upon receipt of the foregoing payments on the Closing Date. See “Pre-Closing Transactions”. At December 31, 2013, the committed amount of the Participating Debenture was US \$350 million of which approximately US \$292 million was outstanding.

In addition, Callidus is party to the Credit Agreement, which provides for a \$40 million Revolving Facility and a \$50 million Term Loan, as well as a \$7.5 million facility for the establishment of foreign exchange forward contracts. Callidus has also entered into an agreement providing for an aggregate of approximately US\$167 million of Class A Loans and approximately US\$33 million of Class B Loans. See “Funding Arrangements”.

Financial Covenants, Restrictions and Events of Default

The Credit Agreement contains financial covenants and other restrictions with which the Corporation must comply in order to maintain access to the credit facilities and avoid default. The Revolving Facility is subject to a borrowing base calculation dependent upon the aggregate principal amount owing in respect of the loans in the Loan Portfolio. As at December 31, 2013, \$19.9 million was outstanding under the Revolving Facility and \$20.1 million remained available. See “Funding Arrangements – Credit Agreement”.

The Corporation was in compliance with its financial covenants at December 31, 2013.

Cash Flow Summary

The following table summarizes the consolidated statement of cash flows in the Financial Statements:

Table 7 – Cash Flow Summary

For the years ended December 31

(\$ 000s)	2013	2012	2011	Change	
				2013vs2012	2012vs2011
Operating activities	(\$236,025)	\$24,380	(\$43,009)	(\$260,405)	\$67,389
Financing activities	224,912	(47,249)	87,801	272,161	(135,050)
Increase in cash and cash equivalents	(\$11,113)	(\$22,869)	\$44,792	\$11,756	(\$67,661)

Operating Activities

Cash flow from operating activities consists of net income, less non-cash items such as amortization of transaction fees, employee stock option expense and provision for credit losses and includes funding/repayment of loans. Cash flow from operating activities represented an outflow of \$236 million, inflow of \$24 million, and outflow of \$43 million in 2013, 2012 and 2011 respectively. The movement in cash flow from operating activities was attributable primarily to amounts advanced or received as part of ongoing lending activities, which represented an outflow of \$241 million, inflow of \$22 million, and outflow of \$42 million in 2013, 2012, and 2011 respectively.

Financing Activities

During 2013, financing activities generated \$225 million of cash flow, compared to an outflow of \$47 million in the prior year. In 2013, Callidus drew \$20 million and \$205 million on the Revolving Facility and Participating Debenture, respectively, to fund Loan Portfolio growth. In 2012, Callidus repaid \$47 million of the Participating Debenture to fund Loan Portfolio growth. In 2011, Callidus drew \$38 million on the Participating Debenture and \$49 million on the Term Loan to fund Loan Portfolio growth.

Contractual Obligations

The following table summarizes Callidus' contractual obligations at December 31, 2013 and payments due for each of the next five years and thereafter:

Table 8 – Summary of Contractual Obligations

For the years ended December 31

(\$ 000s)	2014	2015	2016	2017	2018&After	Total
Accounts payable and accrued liabilities	\$788					\$788
Borrower deposits	235					235
Revolving Facility				19,879		19,879
Term Loan				49,683		49,683
Participating Debenture ⁽¹⁾					330,703	330,703
Derivative liabilities	329					329
Total	\$1,352	\$-	\$-	\$69,562	\$330,703	\$401,617

Notes:

(1) Upon completion of the Pre-Closing Transactions, the Participating Debenture will be repaid in full. See "Pre-Closing Transactions".

Related Party Transactions

As noted previously, Catalyst Fund III and Catalyst Fund IV committed up to US\$350 million to finance asset-based loans made by the Corporation. Catalyst Fund II and Catalyst Fund III own 100% of the issued and outstanding Common Shares of Callidus and charge interest on amounts drawn on the Participating Debenture at a rate of 8% per annum plus a commitment fee of 1%, plus additional interest determined by a formula based on the net income of the Corporation. The amounts due to Catalyst Fund III and Catalyst Fund IV are secured by a subordinated security interest over the Corporation's assets. The Participating Debenture will be repaid as part of the Pre-Closing Transactions and the Catalyst Funds will release the security held by such Catalyst Funds against the Corporation upon receipt of the foregoing payments on the Closing Date. See "Pre-Closing Transactions".

Total amounts paid to Catalyst Fund III and Catalyst Fund IV were \$37 million, \$18 million, and \$14 million during 2013, 2012 and 2011. The increase year-over-year was primarily attributable to an increase in the amounts outstanding under the Participating Debenture.

Refer to Note 9 of the Financial Statements for further detail.

Exposures to Selected Financial Instruments

Certain of the Corporation's loans receivable and amounts due to the Catalyst Funds pursuant to the Participating Debenture are denominated in foreign currencies, primarily the US dollar, and accordingly the Corporation is exposed to foreign exchange risk. To mitigate this foreign exchange risk, the Corporation enters into foreign exchange forward contracts with a number of financial institutions.

At December 31, 2013, the Corporation had outstanding obligations to buy an aggregate US\$148.9 million at an average rate of CAD 1.06 per USD maturing January 13, 2014 through foreign exchange forward contracts. All foreign currency gains or losses to December 31, 2013 have been recognized in other income in net income (loss) for the period and the fair value of these instruments at December 31, 2013 was a net liability of \$0.3 million (December 31, 2012 - \$nil) which is recognized on the Consolidated Statement of Financial Position. A net gain of \$5.6 million was recognized on contracts which were settled in the year ended December 31, 2013 (2012 – net loss \$1.8 million), which was included in other income in net income (loss) for the period.

Critical Accounting Estimates

The Corporation's accounting policies are integral to understanding and interpreting the financial results reported. Note 3 to the Financial Statements summarizes the significant accounting policies used in preparing the Corporation's Financial Statements. Certain of these policies require management to make estimates and subjective judgments that are difficult, complex, and often relate to matters that are inherently uncertain. The policies discussed below are considered to be particularly important to the presentation of the Corporation's financial position and results of operations, because changes in the judgments and estimates could have a material impact on the Corporation's Financial Statements. These estimates are adjusted in the normal course of business to reflect changing underlying circumstances. Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements include the allowance for loan losses, the Corporation's assessment of consolidation of certain of its borrowers and income taxes.

Allowance for Loan Losses

Collectability is regularly evaluated by assessing the realizable values of the assets securing the loans and viability of the underlying business. At each reporting date, the Corporation assesses whether there is objective evidence that loan receivable is impaired. A loan is impaired when objective evidence demonstrates that a loss event has occurred and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Corporation on terms that the Corporation would not consider otherwise; and
- indications that a borrower or issuer will enter bankruptcy.

The Corporation considers evidence of impairment for loans at both a specific asset and a collective level. All individually significant loans are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified, where the loans have similar risk characteristics. Impairment losses are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

The total allowance for loan losses as at December 31, 2013, was \$10.2 million, an increase of \$6 million from a year earlier. The increase was primarily due to a loan that was in the process of being restructured during the fourth quarter of 2013. Refer to Note 20 – Subsequent Events of the Financial Statements for further detail. Information on the Corporation's loan losses can be found in Note 6 to the Financial Statements.

Consolidation

The Corporation consolidates any entities which it controls. Control is established when the Corporation has the power over the entity, exposure or rights to variable returns from its involvement, and the ability to exercise power to affect the amount of returns. The Corporation assesses individual loans for control at each reporting date. Under IFRS, there is significant judgment required in the assessment of control of an underlying borrower.

When the Corporation concludes that consolidation is required, the Corporation classifies the loan as assets held for sale as the intention is not to operate the acquired entity on an on-going basis. At December 31, 2013, 2012 and 2011 the assets held for sale represent a loan to a borrower for which the Corporation owns 100% of the borrower's common shares. These shares were received in

2011 as part of a larger loan portfolio acquisition from a competitor. Information on the asset held for sale can be found in Note 17 to the Financial Statements.

Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transaction recorded in the Corporation's consolidated statements of comprehensive income. In determining the provision for income taxes, the Corporation interprets tax legislation and makes assumptions about the expected timing of the reversal of the deferred tax asset. If the Corporation's interpretations differ from those of the tax authorities or if the timing of reversals is not as expected, the Corporation's provision for income taxes could increase or decrease in future periods. The amount of any such increase or decrease cannot be reasonably estimated. Information on the Corporation's income taxes can be found in Note 11 to the Financial Statements.

Standards Issued But Not Effective

The Corporation actively monitors developments and changes in standards from the IASB. The IASB issued a number of new or revised standards which are effective for annual periods beginning after January 1, 2014 and have not been applied in preparing these consolidated financial statements.

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued by the IASB in November 2009 to provide guidance on classification and measurement of financial assets.

Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. In 2010, the IASB released an updated version that introduces additional changes relating to financial liabilities. In 2013, the IASB issued a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. On November 19, 2013, IFRS 9 was formally amended to remove the January 1, 2015 effective date, in line with the decision made in the July 2013 IASB meeting. The IASB also tentatively decided at its November 2013 meeting that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after January 1, 2018.

The Corporation continues to monitor all of these developments and continues to assess the impact thereof on the Corporation's financial statements.

Amendments to IAS 32, Offsetting Financial Assets and Liabilities

In December 2011 the IASB published IAS 32, Offsetting Financial Assets and Financial Liabilities. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively. The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The Corporation is assessing the impact thereof on its financial statements.

Risk Factors

Callidus operates in a dynamic environment that involves various risks, many of which are beyond Callidus' control and which could have an effect on Callidus' business, revenues, operating results and financial condition. See "Risk Factors".

Outlook

The following information has been prepared by the Corporation to provide a reasonable estimate of the potential earnings of the current Loan Portfolio, subject to (among other things) the assumptions and risks discussed below and in this prospectus, and

should not be relied upon for any other purpose. Some of the information may be considered to be a financial outlook within the meaning of Canadian securities laws, but is not a forecast or projection of future results. Callidus believes that the following information has been prepared on a reasonable basis, reflecting management's best estimates and judgment.

As of April 10, 2014, Callidus had \$471 million in Gross Loans Receivable on a consolidated basis. Management estimates that on Closing, Callidus will have approximately \$471 million in Gross Loans Receivable on a consolidated basis (with approximately \$387 million after derecognition for the 18% participation interest of the Catalyst Funds in the Loan Portfolio ("Derecognition")).

Over the fiscal years ended December 31, 2011, 2012 and 2013, the Corporation's loan assets generated a Gross Yield of greater than 20% and, over this same period, Callidus experienced an increase in Adjusted EBITDA margin from 67.3% to 77.9%, reflecting an increase in the Loan Portfolio and the related benefits of operating scale.

In addition, as described under the headings "Pre-Closing Transactions" and "Funding Arrangements", there will be a new capital structure in place on Closing, including the existence of New Senior Debt. On Closing, management expects Callidus to have the following leverage:

- approximately \$50 million of Term Loan on a consolidated basis at an interest rate of approximately 8.4%; and
- approximately \$139 million of New Senior Debt on a consolidated basis at an anticipated effective rate of LIBOR plus 333 basis points (indicative rate of 3.58%).

Management also estimates that the Corporation will incur approximately \$1 million in public company costs on an ongoing basis, including, but not limited to, expenses associated with ongoing financial reporting and disclosure, public company listing fees, increased directors' fees and related directors' and officers' insurance costs, investor relations and annual shareholders' meetings.

Callidus does not have any fixed-asset depreciation. In 2013, Callidus recorded amortization of debt issuance costs of approximately \$0.1 million (as of December 31, 2013, no New Senior Debt was in place).

Callidus also expects to have an effective tax rate substantially similar to the statutory tax rate, which is currently 26.5%.

Based on the foregoing estimates, expectations and assumptions, taken together, management estimates net income of approximately \$38 million after Derecognition, had the consolidated weighted average Gross Loans Receivable of approximately \$471 million been outstanding for a full year, such figure having been adjusted by a Gross Yield of approximately 20.25%, an Adjusted EBITDA margin of approximately 78% and certain costs including in respect of interest, financing fees, and taxes. This estimate of implied annualized net income is also impacted by certain key assumptions, including: (i) the loan commitments to borrowers being drawn at a percentage similar to historical levels; (ii) the Gross Yield on the Loan Portfolio remaining consistent with historical levels, on both a base interest rate and fee revenue basis; (iii) limited incremental overhead relating to the addition of new loan assets to the Loan Portfolio; (iv) LIBOR rates similar to those as at Closing, being the base rate for interest on the New Senior Debt; (v) loan loss provisions similar to historical amounts, as a percentage of Gross Loans Receivable; (vi) the continued effectiveness of both the Corporation's exchange rate hedging strategy and the ability to draw funds in both Canadian and U.S. dollars under the New Senior Debt facility; and (vii) the ability of borrowers, in aggregate, to continue to meet interest and fee commitments to Callidus at levels consistent with historical levels on the Loan Portfolio, as a whole. Any variation in the foregoing factors could cause the actual net income generated by a portfolio of approximately \$471 million to differ materially from the amount estimated herein. See "Forward-Looking Statements" and "Risk Factors".

Disclosure of Outstanding Share Data

As at April 14, 2014, 2014, there are 100 Common Shares and Options to acquire 5 Common Shares issued and outstanding. The Corporation expects to effect the Pre-Closing Transactions prior to or concurrently with Closing, at which time the Corporation will have 28,042,732 Common Shares and Options to acquire 1,028,689 Common Shares issued and outstanding.

DESCRIPTION OF SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of Common Shares, of which 28,042,732 will be outstanding after giving effect to the Pre-Closing Transactions and prior to giving effect to the Offering. Prior to Closing, the Corporation intends to amend its articles to authorize the issuance of an unlimited number of Preferred Shares, issuable in series, of which none will be outstanding after giving effect to the Pre-Closing Transactions and prior to giving effect to the Offering. While the Corporation has no

current intention of issuing any Preferred Shares, the Preferred Shares are being created to provide Callidus with the flexibility for future funding requirements.

Common Shares

The holders of Common Shares are entitled to receive notice of, and to cast one vote per share at, every meeting of shareholders of the Corporation, to receive such dividends as the Board may declare and to share equally in the assets of Callidus remaining upon the liquidation of Callidus after the creditors of Callidus have been satisfied, subject to prior rights of holders of Preferred Shares.

Preferred Shares

The Preferred Shares will be issuable in series, with each series consisting of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the Board prior to the issuance thereof. With respect to the payment of dividends and the 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 and any other shares ranking junior to the Preferred Shares and may also be given such other preference over the Common Shares and any other shares ranking junior to the Preferred Shares as may be determined at the time of creation of each series.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of Callidus: (i) as at December 31, 2013; (ii) as at December 31, 2013 after giving effect to the Pre-Closing Transactions; and (iii) as at December 31, 2013 after giving effect to the Pre-Closing Transactions and the Offering. The table below should be read together with “Prospectus Summary – Summary of Selected Financial Information”, “Management’s Discussion and Analysis of Financial Results”, “Use of Proceeds” and Callidus’ historical financial statements and related notes included elsewhere in this prospectus.

	Authorized	Outstanding as at December 31, 2013 (C\$ thousands)	Outstanding as at December 31, 2013 after giving effect to the Pre-Closing Transactions ⁽⁷⁾ (C\$ thousands)	Outstanding as at December 31, 2013 after giving effect to the Pre-Closing Transactions and Offering ⁽⁷⁾⁽⁸⁾ (C\$ thousands)
Cash and cash equivalents.....	—	\$38,014	\$16,042	\$125,552
Total Debt.....	—	\$400,594	\$283,063	\$158,063
Participating Debenture ⁽¹⁾	—	\$330,703	\$—	\$—
Promissory notes ⁽²⁾	—	\$—	\$125,000	\$—
Credit Agreement ⁽³⁾				
Revolving Facility.....	—	\$19,879	\$—	\$—
Term Loan.....	—	\$49,683	\$41,596	\$41,596
FX Facility.....	—	\$329	\$329	\$329
Second Credit Agreement ⁽⁴⁾				
Class A Loans.....	—	—	\$96,782	\$96,782
Class B Loans.....	—	—	\$19,356	\$19,356
Share Capital ⁽⁵⁾				
Common Shares ⁽⁶⁾	unlimited	\$1 (100 Common Shares)	\$104,563 (28,042,732 Common Shares)	\$339,073 (46,042,732 Common Shares)
Preferred Shares.....	unlimited	\$— (nil Preferred Shares)	\$— (nil Preferred Shares)	\$— (nil Preferred Shares)
Shareholders’ Equity.....	—	(\$4,699)	\$99,864	\$334,374

Notes:

- (1) The Participating Debenture will be repaid as part of the Pre-Closing Transactions. See “Pre-Closing Transactions”.
- (2) The promissory notes will be issued as part of the Pre-Closing Transactions. See “Pre-Closing Transactions”.
- (3) The Credit Agreement provides for a \$40 million Revolving Facility and a \$50 million Term Loan, as well as a \$7.5 million FX Facility. See “Funding Arrangements”.
- (4) The Second Credit Agreement provides for an aggregate of approximately US\$167 million of Class A Loans and approximately US\$33 million of Class B Loans. See “Funding Arrangements”.
- (5) At Closing, the Corporation’s authorized share capital will consist of an unlimited number of Common Shares and an unlimited number of Preferred Shares, issuable in series. No series of Preferred Shares will be issued as at Closing. See “Description of Share Capital”.
- (6) This table does not reflect Options outstanding to purchase Common Shares. See “Executive Officers and Directors Compensation – Incentive Plan Awards – Narrative Discussion of Incentive Plans – Incentive Plan”.
- (7) Prior to or concurrently with Closing, the Corporation will complete the Pre-Closing Transactions. See “Pre-Closing Transactions”.
- (8) The net proceeds to the Corporation from the Offering (assuming no exercise of the Over-Allotment Option) are estimated to be \$234,510,000, based on the issuance of 18,000,000 Offered Shares for aggregate gross proceeds of \$252,000,000 less the Underwriting Fee of \$14,490,000 and expenses of the Offering estimated to be \$3,000,000.

PRE-CLOSING TRANSACTIONS

Prior to or concurrently with Closing, the Corporation will undertake the following transactions:

Stock Split

Prior to the Closing of the Offering, the Corporation will split its Common Shares on the basis that each currently issued and outstanding Common Share will be split into 205,739.31 post-split Common Shares (the “**Share Split**”). The number of Common Shares issuable pursuant to outstanding Option grants will be adjusted to reflect the Share Split. See “Executive Officers and Directors Compensation”. Any references to Common Shares or security based compensation in this prospectus reflect the Share Split unless otherwise indicated. The Corporation’s audited financial statements included in this prospectus and disclosure under the heading “Management’s Discussion and Analysis of Financial Results” do not reflect the Share Split.

Repayment of Participating Debenture

The Corporation is currently indebted to Catalyst Fund III and Catalyst Fund IV pursuant to the Participating Debenture.

Prior to the closing of the Offering, the Corporation will enter into the debenture repayment agreement (the “**Debenture Repayment Agreement**”) with Catalyst Fund III and Catalyst Fund IV pursuant to which the Corporation will agree to repay to Catalyst Fund III and Catalyst Fund IV on the Closing Date an aggregate of approximately \$389 million, representing all of the principal plus accrued but unpaid interest and fees owing to Catalyst Fund III and Catalyst Fund IV under the Participating Debenture.

The repayment of the Participating Debenture will be satisfied as follows: (i) as to approximately \$105 million, by the issuance of 5,939,431 Common Shares to Catalyst Fund III and 1,529,371 Common Shares to Catalyst Fund IV at a price per Common Share equal to the Offering Price; (ii) as to \$50 million, by granting to Catalyst Fund IV an approximately 18% undivided participation interest in the Initial Portfolio in accordance with the Participation Agreement, as such participation interest may be adjusted in accordance with the terms of the Participation Agreement; (iii) as to approximately \$125 million, by issuance of promissory notes of approximately \$67 million to Catalyst Fund III and approximately \$58 million to Catalyst Fund IV (such promissory notes to be repaid from the proceeds of the Offering); and (iv) as to the balance of approximately \$109 million, by payment of approximately \$50 million to Catalyst Fund III and approximately \$59 million to Catalyst Fund IV from cash on hand and funding pursuant to the Second Credit Agreement. Catalyst Fund III and Catalyst Fund IV will release the security held by them against the Corporation upon receipt of the foregoing payments on the Closing Date.

The Debenture Repayment Agreement will provide that the parties will enter into the Participation Agreement to set forth their respective rights with respect to their interests in the Loan Portfolio. See “Funding Agreements - Participation Agreement”.

The Debenture Repayment Agreement will contain representations and warranties by Catalyst Fund III and Catalyst Fund IV typical of those contained in agreements for similar acquisitions negotiated between sophisticated parties acting at arm’s length, certain of which will be qualified as to knowledge and materiality and subject to reasonable exceptions relating to Catalyst Fund III and Catalyst Fund IV (including, among other things, representations and warranties as to organization and status, power and authorization, authorized and issued capital, compliance with laws, matters related to the Loan Portfolio, financial information, outstanding indebtedness and guarantees, outstanding liens, absence of undisclosed liabilities, material agreements, tax matters, environmental matters, litigation matters and employment matters). Catalyst Fund III and Catalyst Fund IV will also provide a representation and warranty that this prospectus contains full, true and plain disclosure of all material facts and does not contain any misrepresentation (as that term is defined in the *Securities Act* (Ontario)), subject to an exception for portions of this prospectus purporting to be made on authority of an expert or purporting to be an extract from a report, opinion or statement of an expert. Such representations and warranties will survive for a period of two years from Closing; provided, however, that representations regarding organization and status, and power and authorization shall survive indefinitely, representations regarding tax matters and

environmental matters shall survive for the applicable limitation periods, and the prospectus representation shall survive for a period of three years from Closing.

Each of Catalyst Fund III and Catalyst Fund IV will also indemnify Callidus for any breach of the representations and warranties in the Debenture Repayment Agreement. The maximum liability of Catalyst Fund III and Catalyst Fund IV, collectively, under such indemnity will be limited to an amount equal to the net proceeds of the Offering and no claim on this indemnity may be made until the aggregate losses exceed \$100,000 and the threshold dollar amount for each claim for the purposes of a breach of the representations and warranties is \$25,000. Neither fund will be liable for an amount greater than the net proceeds received by it under the Debenture Repayment Agreement.

There can be no assurance of recovery by Callidus from Catalyst Fund III and Catalyst Fund IV for any breach of the representations and warranties to be made by it under the Debenture Repayment Agreement, as there can be no assurance that such funds' assets will be sufficient to satisfy such obligations and that the aggregate amount of any claims will not exceed the limits of liability identified above. Only Callidus will be entitled to bring a claim or action for misrepresentation or breach of contract under the Debenture Repayment Agreement and purchasers of Offered Shares under this prospectus will not have any contractual rights under the Debenture Repayment Agreement. Purchasers will only have certain statutory rights of action against Callidus and the Underwriters under applicable securities laws. See "Purchasers' Statutory Rights".

Catalyst Fund III and Catalyst Fund IV will agree in the Debenture Repayment Agreement that, in the event that Realization Proceedings have been initiated in connection with any loan included in the Loan Portfolio on the Closing Date or any such proceedings are initiated in connection with such a loan prior to its approved renewal at the next scheduled credit review for that loan (generally one year after the initial advance or the last extension), even if the loss on the loan is not realized until a later time, Catalyst Fund III and Catalyst Fund IV, collectively, will pay to Callidus an amount equal to the difference between the amounts advanced by Callidus to the borrower under that loan and the amounts actually received by Callidus in connection with that loan, whether by way of proceeds of realization or repayment of principal. Catalyst Fund III and Catalyst Fund IV will also agree to pay to Callidus an amount equal to the difference between the amounts advanced by Callidus to the borrower under certain specified loans and the amounts actually received by Callidus in connection with those loans, regardless of whether they are renewed. Any such amounts paid by Catalyst Fund III or Catalyst Fund IV will be considered an asset of the Initial Portfolio and not Growth Capital.

Following completion of the transactions contemplated by the Debenture Repayment Agreement, Callidus will not be responsible for, or entitled to, any of the risks or rewards in connection with Catalyst Fund IV's 18% participation interest in the Initial Portfolio, representing a 18% undivided beneficial ownership interest in the principal and income of each of the loans in that Initial Portfolio. Catalyst Fund IV's interest in the Initial Portfolio will be derecognized from Callidus' balance sheet for the purposes of IFRS. Callidus and Catalyst Fund IV will bear the risk of loan losses with respect to loans for which Realization Proceedings have not been initiated prior to their renewal in accordance with their respective interests in the Initial Portfolio.

The Debenture Repayment Agreement will be a contract of Callidus and will be available electronically on SEDAR under Callidus' issuer profile following Closing. A purchaser of Offered Shares should refer to the terms of the Debenture Repayment Agreement for a complete description of the representations, warranties and indemnities being provided in favour of Callidus, and related limitations under the Debenture Repayment Agreement.

FUNDING ARRANGEMENTS

The Corporation's primary sources of funding for loans will be: (i) Debt Capital; (ii) Growth Capital; and (iii) funds received from the Catalyst Funds pursuant to the Participation Agreement.

Participation Agreement

As at the closing of the Offering, Callidus, the Catalyst Funds and CCGI will enter into the Participation Agreement with respect to the Catalyst Funds' 18% undivided participation interest in the Loan Portfolio existing as of the Closing Date. The Loan Portfolio together with any replacements, substitutions and additions thereto comprise the "Initial Portfolio". The Participation Agreement will also provide that, in addition to the Initial Portfolio, Callidus will establish and maintain a number of different loan portfolios, creating a new loan portfolio concurrent with the establishment of a new Catalyst Fund. Future Catalyst Funds will be entitled to participate in future loan portfolios established and maintained by Callidus. It is currently anticipated that the earliest a new Catalyst Fund will be established is the second half of 2015.

Initial Portfolio

As at the closing of the Offering, Catalyst Fund IV will have an 18% undivided participation interest in the Initial Portfolio. The remaining 82% undivided participation interest in the Initial Portfolio will be held by Callidus.

No Catalyst Fund will be entitled to fund any growth in the Initial Portfolio. Any such funding will be provided by Callidus, either by way of Debt Capital or the use of Growth Capital, as determined by Callidus in its sole discretion. In the event growth is funded through Growth Capital, the Corporation's undivided participation interest in the Initial Portfolio will increase and, correspondingly, Catalyst Fund IV's participation interest will decrease.

Subsequent Loan Portfolios

A new loan portfolio will be established on each date of the first closing of a new Catalyst Fund, which depends on the decision of CCGI to create such new fund. See "Risk Factors – Conflicts of Interest", "Risk Factors – CCGI and the Catalyst Funds Exercise Significant Control over Callidus" and "Risk Factors – Callidus' Equity Participation in the Loan Portfolio May Decrease as the Size of the Loan Portfolio Increases". Once a new loan portfolio is established it will be the "Active Portfolio" and any then existing loan portfolio will be considered a "Passive Portfolio". No further growth will be permitted in any Passive Portfolio, other than advances under, or extensions, increases in commitments and other amendments to, existing loans, or new loans with an Existing Borrower, in any Passive Portfolio. No Catalyst funds will be entitled to fund any growth in the Passive Portfolio. Any such funding will be provided by Callidus, either by way of Debt Capital or the use of Growth Capital, as determined by Callidus in its sole discretion. In the event growth is funded through Growth Capital, the Corporation's undivided participation interest in the Passive Portfolio will increase and, correspondingly, any applicable Catalyst Fund's participation interest will decrease.

Any new loans with new borrowers entered into from and after the date of establishment of that new Active Portfolio will form part of the Active Portfolio until such time as a subsequent new Active Portfolio is established.

Callidus will determine in its sole discretion when additional funding is required for the Active Portfolio. If Callidus determines that such funding is required, it will notify CCGI of that determination and offer CCGI the opportunity to participate in such funding. Upon receipt of such notice, CCGI will advise Callidus if it wishes to participate in such funding and, if so, the amount of leverage it wishes to allocate to its funding. Callidus will then determine whether the required funding will be funded entirely by Debt Capital or in whole or in part by New Equity Funding. In the event the required funding is to be funded entirely by Debt Capital, the Catalyst Funds will have no entitlement to provide additional funding. If the required funding is to be funded in whole or in part by New Equity Funding, Callidus will then offer CCGI the opportunity to participate in the New Equity Funding up to an amount determined in accordance with the Funding Formula. See "Funding Arrangements – Participation Agreement – Funding Formula". The portion of the New Equity Funding to be funded by Callidus may be funded by way of cash on hand or through the proceeds of an offering of securities (either on a private placement basis or pursuant to a prospectus) or both.

The relative interests of any Catalyst Fund and Callidus in the Loan Portfolio will be adjusted following any New Equity Funding to reflect the additional capital contributed to the Loan Portfolio.

At any given time, the undivided participation interest of the applicable Catalyst Fund, on the one hand, and Callidus, on the other hand in any Passive Portfolio or Active Portfolio, will be proportionate to the aggregate net funding of that portfolio, including respective New Equity Funding, plus respective leverage allocated to such funding less any return of capital. The economic interest will be proportionate to the aggregate amounts actually funded other than by Debt Capital less any return of capital.

The participation interest of the Catalyst Funds in a Loan Portfolio represents an undivided beneficial ownership interest in the principal and income of each of the loans in that Loan Portfolio and the applicable Catalyst Fund will assume all of the risks and rewards in connection with its participation interest. The Loan Portfolio will be derecognized from Callidus' balance sheet for the purposes of IFRS to the extent of the Catalyst Funds' interest therein.

New Equity Funding

"New Equity Funding" is defined as any incremental capital, other than Debt Capital required by Callidus in its sole discretion at any given time for the purpose of funding Loan Portfolios. Callidus has sole discretion in determining when New Equity Funding is required and the amount of New Equity Funding required, provided that any amount is subject to the Funding Formula (except where the Floor is applied as described below). At the time of any New Equity Funding, Callidus and the applicable Catalyst Fund will determine the target leverage for their respective participation interests in the Loan Portfolio subject only to, in the case of the Catalyst Funds, the Leverage Cap (if applicable). The degree of leverage so allocated will impact the participation interest in the Loan Portfolio acquired by each of Callidus and the Catalyst Funds as part of the New Equity Funding.

Limitation on Leverage

If (i) the dollar amount of Callidus' participation interest in the Active Portfolio at the end of any particular quarter is lower than it was at the end of the immediately preceding quarter as a result of repayments and funding of new loans; or (ii) Callidus' audit & risk committee reasonably expects the dollar amount of Callidus' participation interest to decline in the then current quarter as compared to the end of the most recently completed quarter, Callidus will limit the leverage applied to the portion of loans funded by the Catalyst Funds' New Equity Funding to 25% of the amount to be funded by the Catalyst Fund (the "Leverage Cap").

Additionally, the Catalyst Funds' ability to allocate leverage to New Equity Funding is subject to the restriction that the leverage applied to the portion of the loans funded by the Catalyst Funds may not exceed the leverage applied to those loans by Callidus without Callidus' consent and further that the leverage applied by the Catalyst Funds to all funding in a Loan Portfolio may not exceed the leverage applied by Callidus to that Loan Portfolio.

Option to Acquire Participation Interest

Callidus has been granted an option to acquire any participation interest in the Loan Portfolio that any Catalyst Fund seeks to sell. In the event any Catalyst Fund seeks to dispose of all or part of its participation interest in the Loan Portfolio, such Catalyst Fund will notify Callidus in writing of such intention and Callidus will have the option to either (i) acquire such offered interest for an amount equal to the aggregate funded amount of the interest in the Loan Portfolio being sold plus such Catalyst Fund's entitlement to undistributed interest and fees on the applicable Loan Portfolio; or (ii) allow the Catalyst Fund to sell its interest to a third party without restriction.

Loan Loss Mitigation

In connection with the sale to Callidus of any participation interest of a Catalyst Fund in the Loan Portfolio, the applicable Catalyst Fund will agree that in the event any Realization Proceedings have been initiated with respect to any of the loans in the Loan Portfolio at the time of the sale, or if any such proceedings are initiated in connection with any such loan prior to its approved renewal at the next scheduled credit review for that loan (generally one year after the initial advance or the last extension), the applicable Catalyst Fund will make a payment to Callidus in an amount equal to the loss on that loan. That amount will be calculated as the difference between the amounts advanced by Callidus to the borrower under that loan and the amounts actually received by Callidus in connection with that loan, whether by way of proceeds of realization or repayment of principal. Any such amounts will be considered an asset of the Loan Portfolio and not Callidus Growth Capital for the purposes of the Participation Agreement. The Catalyst Funds will not be required to make any payments related to losses on interest income.

Funding Formula

The respective entitlements of Callidus and the Catalyst Funds to participate in any growth of the Loan Portfolio that is not to be funded entirely by Debt Capital will be determined in accordance with a formula (the "Funding Formula") to be set out in the Participation Agreement. The right of Callidus and the applicable Catalyst Fund to contribute funding to the Active Portfolio will be determined based on the Available Capital of Callidus and the Available Capital of the Catalyst Fund as follows:

The "Available Capital of Callidus" at the relevant time is the greater of (i) \$100 million; and (ii) the sum of (A) cash on hand, plus (B) the amount of undrawn availability under the Credit Facilities up to such amount that, if drawn, would result in a leverage ratio of 40% on the aggregate participation interest of Callidus in the Loan Portfolios, less (C) amounts held for the benefit of a Catalyst Fund pursuant to the Participation Agreement.

The "Available Capital of the Catalyst Fund" at the relevant time is an amount equal to 20% of the aggregate capital committed to the applicable Catalyst Fund by its limited partners (or other securityholders) at the calculation date; less the aggregate amount invested by such Catalyst Fund in Common Shares or other securities of Callidus and in the Loan Portfolio on such date, or such lesser amount that CCGI determines is available for investment by the Catalyst Fund in the Loan Portfolio. At no time can the aggregate capital invested in the Loan Portfolio by all Catalyst Funds taken together be greater than \$300 million.

When there is a new funding requirement, the maximum amount attributable to the applicable Catalyst Fund will be determined using the following formula:

$$\frac{A_{CF}/(1 - L_{CF})}{A_{CF}/(1 - L_{CF}) + A_{CL}/(1 - L_{CL})}$$

Where: A_{CF} is the Available Capital of the Catalyst Fund

A_{CL} is the Available Capital of Callidus

L_{CF} is the leverage ratio the Catalyst Fund has elected to allocate to its funding

L_{CL} is the leverage ratio Callidus has elected to allocate to its funding

Callidus has the right to provide 100% of New Equity Funding to an Active Portfolio up to an aggregate investment in the Loan Portfolio of \$230 million (the "Floor"), being the amount of funding provided by the Corporation to the Loan Portfolio as of the Closing Date. Any New Equity Funding required after the Floor has been met will be subject to the Funding Formula described above.

The result of the Funding Formula is that as new Catalyst Funds are raised and capital is committed to such funds, the proportion of loans to new borrowers funded by the Catalyst Funds may increase and Callidus' aggregate funded amount in the Loan Portfolio could decrease which may have an adverse effect on Callidus' net income. The Catalyst Funds' entitlement to fund New Equity Funding in a Loan Portfolio could be as high as 75% of the growth in a Loan Portfolio, with the result that Callidus may only be entitled to fund 25% of such growth and would therefore only receive 25% of such growth.

The actual amount of growth to be funded by the Catalyst Funds is subject to the limitation that the aggregate capital invested in the Loan Portfolio by all Catalyst Funds taken together cannot be greater than \$300 million and Callidus' right to provide 100% of New Equity Funding to an aggregate investment in the Loan Portfolio of \$230 million with the result that the Catalyst Funds' proportion of the overall funding of the Loan Portfolio will not exceed 57%. The amount that may be funded by the Catalyst Funds is further limited by the requirement that the leverage allocated by the Catalyst Funds to a particular Loan Portfolio may not exceed the leverage allocated to that portfolio by Callidus and the further restriction that, with respect to any particular funding of growth, the leverage allocated by the Catalyst Funds may not exceed the leverage allocated to that funding by Callidus without Callidus' consent.

By way of example, if we assume:

- Prior to the New Equity Funding, the Active Portfolio has \$100 million of funding, and the participation interests of Callidus and the Catalyst Fund are 40% and 60%, respectively
- Callidus' participation interest of \$40 million has a leverage ratio of 40%, or \$16 million of allocated debt
- Catalyst's participation interest of \$60 million has a leverage ratio of 40%, or \$24 million of allocated debt
- Callidus subsequently has a new \$50 million funding requirement that will be funded at least in part through New Equity Funding
- the applicable Catalyst Fund has commitments from its investors for \$1 billion, which, together with \$36 million of funding already deployed, results in Available Capital of the Catalyst Fund of \$164 million and, assuming a Leverage Cap, funds its share of the New Equity Funding with 25% leverage
- Callidus has cash on hand and availability under the Credit Facilities (subject to the 40% limit) of less than \$100 million, resulting in Available Capital of Callidus of \$100 million and elects to fund its share of the funding requirement with 40% leverage

The maximum proportion of the New Equity Funding that the Catalyst Fund would be entitled to fund would be:

$$\frac{\$164M/(1-0.25)}{\$164/(1-0.25) + 100/(1-0.40)} = 56.7\%$$

If the funding requirement is \$50 million, the Catalyst Fund would be entitled to fund up to \$28.4 million, of which 75% or \$21.3 million would be funded by New Equity Funding, and 25% or \$7.1 million would be funded by the Credit Facilities. The \$7.1 million funded by the Credit Facilities toward the Catalyst Fund's participation interest would be allocated to the Catalyst Fund.

This would result in an Active Portfolio with \$150 million of funding. The Catalyst Fund would then have a participation interest of 58.9%, or \$88.4 million. Callidus would have a participation interest of 41.1%, or \$61.6 million.

Decisions as to participation amounts and leverage ratios may lie with the directors and officers of Callidus that are also the directors and officers of CCGI. See “Risk Factors – Conflicts of Interest” and “Risk Factors – CCGI and the Catalyst Funds Exercise Significant Control over Callidus”.

As a particular Catalyst Fund reaches the stage where 50% of its capital is committed, CCGI intends to make less capital available for investment in the Loan Portfolio, thereby decreasing such Catalyst Fund’s relative participation in the growth of the Loan Portfolio and its aggregate dollars invested in the Loan Portfolio. Ultimately, each Catalyst Fund will be required to dispose of the entirety of its interest upon the termination of that fund, which will generally occur within 7 - 10 years of its inception. Pursuant to the Participation Agreement, Callidus has the option to acquire such interest in those circumstances at the funded amount plus such Catalyst Fund’s entitlement to undistributed interest and fees on the applicable Loan Portfolio, thereby capturing the growth in the Loan Portfolio that had previously been allocated to that Catalyst Fund. See “Risk Factors – Callidus’ Equity Participation in the Loan Portfolio May Decrease as the Size of the Loan Portfolio Increases”.

Participation Fee

Pursuant to the Participation Agreement, the Catalyst Funds will pay to Callidus a participation fee with respect to the expenses of the Corporation that are not directly related to the Loan Portfolio and which are attributable to the Catalyst Funds, including interest and fees on debt that are not subject to Derecognition, salaries and wages, and general and administrative expenses.

Assignment

In connection with the Second Credit Agreement, Callidus will transfer all or a portion of the Loan Portfolio to a securitization vehicle. The rights and obligations of each of Callidus and each of the Catalyst Funds under the Participation Agreement will continue notwithstanding such transfer.

Credit Agreement

The Credit Agreement provides for a \$40 million revolving credit facility and a \$50 million term loan, each as further described below, as well as a \$7.5 million facility for the establishment of foreign exchange forward contracts (the “FX Facility”). All obligations under the Credit Agreement are secured by a first-priority charge on all the present and future assets of Callidus, including the Loan Portfolio and any other loans owned by Callidus. The Credit Agreement provides for a term to March 31, 2017. If Callidus sells certain assets, including some loans, it is required to apply the proceeds from such sale toward the revolving facility. Notwithstanding the stated termination date, the Senior Lenders may refuse to make further advances and accelerate the payment of all obligations under the Credit Agreement upon the occurrence of an event of default under the Credit Agreement.

The Credit Agreement contains customary representations, warranties, covenants, conditions to funding and events of default. In particular, the Credit Agreement contains restrictive covenants with respect to certain business matters, including among others:

- (a) restrictions on the payment of dividends if such payment would cause the financial covenants set out in the Credit Agreement to not be met. Such financial covenants include, among others, the maintenance of an asset coverage ratio of at least 1:00:1:00, a senior debt service coverage ratio of at least 2:00:1:00 and a total debt service coverage ratio of at least 1:00:1:00; and
- (b) restrictions limiting the additional debt that Callidus may incur to: (i) debt under the Credit Agreement; (ii) debt in respect of purchase money security interests granted by Callidus in an amount not to exceed \$1 million in the aggregate and any renewal or refinancing of such debt; (iii) foreign exchange forward contracts permitted by the Credit Agreement; and (iv) debt ranking junior in priority and fully subordinated and postponed to debt incurred pursuant to the Credit Agreement.

In addition, the Credit Agreement defines certain events of default with reference to Newton Glassman’s continued involvement with Callidus and CCGI’s ownership stake in Callidus and provides that events of default under the Credit Agreement include, among others, (i) the ownership of more than 35% of the voting equity of Callidus by a person other than a person in CCGI; or (ii) certain events of bankruptcy with respect to CCGI.

Upon the occurrence of an event of default and subject to any required notice and grace periods, payment of amounts owed by Callidus pursuant to the Credit Agreement may be accelerated and outstanding advances will incur additional interest at a rate of 2.00% per annum.

Callidus has received consent to enter into the Second Credit Agreement. Prior to the completion of the Offering, Callidus intends to enter into an amended Credit Agreement to eliminate the Revolving Credit Facility.

Revolving Credit Facility

The Credit Agreement provides for a revolving credit facility in the maximum principal amount equal to the lesser of (i) the borrowing base amount and (ii) \$40 million (the “**Revolving Facility**”) to Callidus pursuant to the terms of the Credit Agreement. As at April 14, 2014, the total amount owing by Callidus under the Revolving Facility was \$36,550,440.

The Revolving Facility may be made available by way of bankers' acceptances or equivalent loans which are subject to certain margins and prime-based rate loans which will bear interest at the reference rate described in the Credit Agreement plus 2.50% per annum, payable monthly in arrears (“**Canadian Dollar Prime-Based Loans**”).

Callidus may repay the Revolving Facility (other than bankers' acceptances or equivalent loans) or permanently cancel any unadvanced portion of the Revolving Facility without payment of any premium, penalty or fee.

Term Loan

One of the Senior Lenders has provided a term loan in the principal amount of \$50 million (the “**Term Loan**”) to Callidus pursuant to the terms of the Credit Agreement. As at April 14, 2014, the total amount owing by Callidus under the Term Loan was \$50 million plus accrued interest.

The Term Loan is a secured non-revolving term loan, has a term of six years and matures on March 31, 2017. The Term Loan bears interest at a rate of 8.419% per annum calculated and compounded on a semi-annual basis and payable monthly in arrears. The Term Loan may be repaid in whole or in part prior to maturity upon payment of the principal and accrued and unpaid interest and a make-whole payment calculated as provided in the Credit Agreement.

Second Credit Agreement

The Corporation has entered into an agreement (the “**Second Credit Agreement**”) with a major global financial institution (the “**Structuring Agent**”) and a special purpose vehicle wholly owned by Callidus (the “**Borrower**”) that provides for a revolving credit facility in an amount up to US\$200 million. The facility provides for an aggregate of approximately US\$167 million of Class A loans (the “**Class A Loans**”) and approximately \$US33 million of Class B loans (the “**Class B Loans**”, and together with the Class A Loans, the “**Loans**”), and each of the Loans is subject to a minimum utilization of 50%, measured quarterly.

This revolving credit facility is being extended to the Borrower in order to finance the purchase by the Borrower of certain loans or portions thereof in the Loan Portfolio. Callidus will act as sole servicer to the Borrower.

The Loans are secured by a portion of the Loan Portfolio. The Second Credit Agreement contains customary representations, warranties, covenants, conditions to funding and events of default. The Structuring Agent may terminate the Second Credit Agreement upon the occurrence of an event of default under the Second Credit Agreement.

The Loans are available, at the option of the Borrower, in Canadian dollars or US dollars and are subject to the following rates of interest. For Loans funded via an asset backed commercial paper conduit: (i) in respect of Class A Loans, the sum of the related commercial paper rate and 3%; and (ii) in respect of Class B Loans, the sum of the related commercial paper rate and 5%. For Loans funded other than via an asset backed commercial paper conduit: (i) in respect of Class A Loans, the sum of the 3-month LIBOR and 3%; and (ii) in respect of Class B Loans, the sum of the 3-month LIBOR and 5%. In addition, there is an upfront fee of 1% of each of any Class A Loan amount or Class B Loan amount, as applicable.

The revolving period will be for an initial period of two years (and may be extended upon the mutual agreement of the Borrower and the administrative agent under the Second Credit Agreement) and the amortization period will be for a period of two years following the last day of the revolving period. There will be a ramp-up period ending on the earlier of (i) six months from the commencement of the facility; and (ii) when the portfolio reaches a Moody's Investors Service Inc. diversity score of 10. There is a non-call period to the end of the revolving period, provided that if Callidus has requested an extension to the facility and the Structuring Agent has denied the request, Callidus may pre-pay the facility with no penalty.

The acquisition of any collateral obligation by Callidus must be approved by the Structuring Agent in its sole discretion based on certain information provided by Callidus to the Structuring Agent. Each collateral obligation is subject to a maximum amount of the outstanding balance of the Loans multiplied by the percentage of par determined by the Structuring Agent following the

occurrence of certain reevaluation events, including but not limited to the payment default of interest or principal amount on such collateral obligation or other debt obligation that is senior or *pari passu* to such collateral obligation. The maximum aggregate collateral obligation amount is the sum of all collateral obligation amounts minus amounts in excess of the following limits, among others (expressed as a percentage sum of the aggregate collateral obligation amount of all collateral obligations): (i) for minimum first lien loans: 100%; (ii) for obligor exposures: 10% for the top three obligors, 7.5% for the fourth and fifth largest obligors, and 5% for remaining obligors; and (iii) for industry exposures: 20% for the largest industry, 15% for the second and third largest industry, 12.5% for the fourth largest industry, and 10% for the remaining industries.

The borrowing base will be: (i) for Class A Loans, 50% of the aggregate collateral amount; and (ii) for Class B Loans, 60% of the aggregate collateral amount. The Borrower will maintain a minimum equity amount of the greater of (i) the principal balance of the four largest obligors and (ii) US\$50 million.

The Structuring Agent's consent will be required in connection with any material modification of a collateral obligation included in the borrowing base.

USE OF PROCEEDS

Offering

The net proceeds to be received by Callidus from the Offering are estimated to be \$234,510,000 (\$270,136,500 if the Over-Allotment Option is exercised in full), after deducting the Underwriting Fee of \$14,490,000 million (or \$16,663,500 if the Over-Allotment Option is exercised in full) and the expenses of the Offering, which are estimated to be \$3,000,000.

Principal Purposes

Callidus expects to use the anticipated net proceeds of the Offering of \$234,510,000 as follows: approximately \$125,000,000 will be used to repay to the Catalyst Funds indebtedness incurred by Callidus in order to finance the loans in the existing Loan Portfolio and approximately \$109,510,000 will be held by the Corporation to finance additional loans after the Closing Date.

Pending use of the net proceeds of the Offering, such net proceeds will be invested as determined by the Board.

For the year ended December 31, 2013, Callidus had negative cash flow of \$11.1 million, which included negative net income of \$5.7 million. The negative net income resulted primarily from the payment of approximately \$37.5 million to the Catalyst Funds pursuant to the Participating Debenture. As the Participating Debenture will be repaid as part of the Pre-Closing Transactions, the Catalyst Funds will no longer be entitled to interest and fees thereon. On a pro-forma basis, as at December 31, 2013, after giving effect to the Pre-Closing Transactions and the Offering, Callidus' net income would be \$15.8 million. See "Pro-Forma Financial Statements".

DIVIDENDS

Callidus has not declared or paid any dividends since its inception and does not anticipate paying dividends on the Common Shares in the foreseeable future. The declaration and payment of dividends on the Common Shares is at the discretion of the Board and will be established on the basis of Callidus' earnings, financial requirements for Callidus' operations, the satisfaction of solvency tests imposed by the corporate law for the declaration and payment of dividends, restrictions on dividend payments imposed by the Credit Agreement and other relevant factors. See "Risk Factors".

OPTIONS TO PURCHASE SECURITIES

As of the date of this Prospectus, Callidus has issued options ("Options") to purchase an aggregate of 5 Common Shares (representing 5% of the outstanding Common Shares) prior to completion of the Offering, where one-third of such Options have vested, with a weighted-average exercise price of \$700,000 per Common Share (\$3.40 per Common Share after giving effect to the Pre-Closing Transactions). After giving effect to the Offering, assuming 18,000,000 Common Shares will be issued thereunder, there will be Options to purchase an aggregate of 1,028,689 Common Shares (representing approximately 2.2% of the outstanding Common Shares). Outstanding Options are as described below:

Category	Year of Grant	Prior to Giving Effect to the Pre-Closing Transactions		After Giving Effect to the Pre-Closing Transactions	
		Common Shares Outstanding under Options Granted	Exercise Price (\$)	Common Shares Outstanding under Options Granted	Exercise Price (\$)
Executive officers	2013	1.642	700,000	337,823	3.40
Employees	2013	3.358	700,000	690,866	3.40

No directors have been granted any Options. For a description of the Incentive Plan, please see “Executive Officers and Directors Compensation – Incentive Plan Awards – Incentive Plan”.

PRIOR SALES

Other than in connection with the Pre-Closing Transactions, the Corporation has not issued any Common Shares in the 12-month period prior to the date of this prospectus. See “Pre-Closing Transactions”.

PRINCIPAL SHAREHOLDERS

Other than as set forth below, no person or entity will beneficially own, directly or indirectly, or exercise control or direction over, 10% or more of the outstanding shares of any class of the Corporation upon completion of the Offering.

Following completion of the Pre-Closing Transactions, and prior to Closing, the Catalyst Funds will beneficially own 28,042,732 Common Shares, representing 100% of the outstanding Common Shares (or approximately 96.46% on a fully-diluted basis). Immediately after Closing and assuming the Over-Allotment Option has not been exercised, the Catalyst Funds will beneficially own 28,042,732 Common Shares, representing approximately 60.91% of the outstanding Common Shares (or approximately 59.57% on a fully-diluted basis). The foregoing assumes that the Over-Allotment Option is not exercised, in whole or in part, and that the Catalyst Funds do not acquire any Common Shares pursuant to the Offering.

The Catalyst Funds are managed, controlled and directed by CCGI or its affiliates. Newton Glassman, Executive Chairman, Chief Executive Officer and a director of the Corporation, and Jim Riley, Secretary and a director of the Corporation, are key decision makers of CCGI and the Catalyst Funds and, as such, may be considered to exert direction or control, directly or indirectly, over any Common Shares beneficially owned by the Catalyst Funds.

Additionally, the Corporation has been advised that, pursuant to partnership arrangements with respect to each of the Catalyst Funds, certain affiliates of CCGI in which Mr. Glassman and Mr. Riley have an interest are entitled to a carried interest in the profits of each such fund, pursuant to which CCGI or an affiliate will be entitled to 20% of the profits from the investments of such fund beyond a specified rate of return. In the event the applicable hurdle rates are achieved with respect to Catalyst Fund II and Catalyst Fund III, affiliates of CCGI would be entitled to an aggregate of 3,964,786 of the Common Shares held by the Catalyst Funds as of the closing of the Offering. It is anticipated that certain of those Common Shares will be distributed to employees of CCGI, including Mr. Glassman and Mr. Riley pursuant to their employment arrangements with CCGI. Mr. Glassman exercises control over CCGI.

None of the other directors and executive officers of the Corporation beneficially own, or control or direct, any Common Shares. Accordingly, based on the foregoing, the directors and executive officers as a group beneficially own, or control or direct, 100 Common Shares, representing 100% of the outstanding Common Shares (or 97.62% on a fully-diluted basis) as at the date of this prospectus.

The Catalyst Funds are private equity funds. As with similar funds, each of the Catalyst Funds has a specified period in which it invests committed capital, followed by a period in which it disposes of its investments, distributes proceeds to investors and, ultimately, dissolves. Accordingly, after the termination of their respective investment periods, each of the Catalyst Funds will undertake a process of disposing any interest it may have in Callidus at that time.

The investment period for Catalyst Fund II has terminated and the fund is in the process of disposing of its investments. The current term of the fund expires in April 2014 although CCGI anticipates that the general partner of Catalyst Fund II will extend the

term of Catalyst Fund II to April 2015. If further extensions are necessary to facilitate an orderly disposition of Catalyst Fund II's investments, such extensions can be granted with the approval of investors, however there can be no assurance that any such extension would be approved. Accordingly, Catalyst Fund II, which, as of the closing of the Offering will hold 4,091,710 Common Shares, may be required to dispose of its holdings by April 2015. See "Risk Factors – Risks Related to the Offering – Future Sales of Common Shares by Existing Shareholders".

The terms of Catalyst Fund III and Catalyst Fund IV expire in 2015 and 2017, respectively, although, in each case the applicable general partner has the right to extend the terms for up to two successive one year periods and further extensions may be granted with the approval of investors.

Prior to Closing, CCGI, Catalyst Fund II, Catalyst Fund III and Catalyst Fund IV will enter into lock-up agreements as described under the heading "Plan of Distribution – Restrictions on the Sales of Common Shares – Restrictions on Certain Shareholders".

Also prior to Closing, CCGI, Catalyst Fund II, Catalyst Fund III and entities affiliated with a former executive of Callidus will terminate an existing shareholder agreement relating to Callidus.

INTEREST OF MANAGEMENT AND CCGI IN MATERIAL TRANSACTIONS

Except as described below or as otherwise described in this prospectus (see "Pre-Closing Transactions"), neither CCGI nor any director or executive officer of Callidus, or to the knowledge of Callidus, any of their respective associates or affiliates, has engaged in any transaction with Callidus or its subsidiaries that has materially affected, or that could reasonably be expected to materially affect, Callidus. Callidus has entered into or will enter into, on or about the signing of the Underwriting Agreement, the following agreements with CCGI or entities managed by CCGI:

- (a) the Debenture Repayment Agreement;
- (b) the Participation Agreement; and
- (c) the Management Services Agreement.

See "Pre-Closing Transactions" and "Executive Officers and Directors Compensation – Management Services Agreement".

EXECUTIVE OFFICERS AND DIRECTORS

Summary Information

The following table sets forth certain summary information in respect of the executive officers and directors of the Corporation as at the Closing Date.

Name, City and Country of residence	Position with the Corporation	Date of Appointment⁽¹⁾	Principal Occupation During the Five Preceding Years
Ann Davis (Toronto, Canada)	Director	April 3, 2014	Retired Partner, KPMG LLP
Tibor Donath (Toronto, Canada)	Lead Director	April 3, 2014	Partner, Bench & Donath
Newton Glassman (Toronto, Canada)	CEO; Director; Executive Chairman	January 1, 2013; September 23, 2011; March 11, 2014	Managing Partner, CCGI
Dan Nohdomi (Toronto, Canada)	Vice President and CFO	February 4, 2013	CFO of Callidus; Former CFO of Greypoint Capital Inc.; Former Corporate Treasurer, Western

Name, City and Country of residence	Position with the Corporation	Date of Appointment⁽¹⁾	Principal Occupation During the Five Preceding Years
			Forest Products Inc.
David Reese (Toronto, Canada)	COO	November 25, 2011	Chief Operating Officer of Callidus; President of Reese Management Inc.
Jim Riley (Toronto, Canada)	Director and Secretary	September 23, 2011	Managing Director and Chief Operating Officer of CCGI
David Sutin (Toronto, Canada)	Director	March 11, 2014	Independent Financial Advisor; Former Managing Director, Quest Partners Ltd.

Notes:

(1) The above chart reflects the date an individual was first appointed by Callidus or its predecessor.

Biographies

The following are biographies of the directors and executive officers of Callidus as at the completion of the Offering.

Newton Glassman, Executive Chairman, Chief Executive Officer and Director. Mr. Glassman is the Executive Chairman and Chief Executive Officer of Callidus and is the Founder, Managing Partner and acts as Chief Executive Officer of CCGI. He devotes all of his working time to CCGI, investment funds managed by CCGI and assets held by those investment funds. Mr. Glassman was formerly a director of FrontPoint Partners, LLC. He also serves, or has formerly served, as a director or senior officer of various CCGI portfolio companies, including Gateway Casinos & Entertainment Limited, Cable Satisfaction International Inc./Cabovisão, Natural Markets Restaurants Corp, and Therapure Biopharma Inc. Mr. Glassman was previously a Managing Director at Cerberus Capital Management LP where he was involved in several Canadian restructurings, including Loewen Inc., Livent Corporation of Canada, Inc., Philip Services Corporation, GST Telecommunications, Inc., Pacifica Papers, Inc. and AT&T Canada Inc. CCGI and funds managed by it have, since 2002, been involved in numerous distressed and/or under-valued situations. Mr. Glassman holds an M.B.A. from the Wharton School of the University of Pennsylvania, a law degree from Faculty of Law, University of Toronto and an undergraduate degree from the University of Toronto.

Jim Riley, Secretary and Director. Mr. Riley is a Managing Director and Chief Operating Officer of CCGI and devotes all of his working time to CCGI and Callidus. Prior to joining CCGI in 2011, Mr. Riley was a Partner and Co-Chair of the Banking and Finance Law Group at Goodmans LLP. Prior to joining Goodmans LLP, Mr. Riley was a founding partner of the Toronto office of Ogilvy Renault (now Norton Rose Fulbright Canada) in 1996 and prior to that was a Partner at Stikeman Elliott LLP. Mr. Riley holds a master of law degree from Harvard University and a law degree from the Faculty of Law, University of Toronto.

David M. Reese, Chief Operating Officer. Mr. Reese is the Chief Operating Officer of Callidus. Prior to joining Callidus in June 2011, Mr. Reese spent nearly 30 years developing a strong operational and credit background by working and building business groups focused on asset-based lending, leveraged buyouts and structured credit products. Over his career, he has been involved in arranging senior debt, mezzanine debt and equity in both the public and private markets spanning a broad range of industries. He has worked in both corporate and investment banking with several Canadian and international banks and Securitus Capital, a structured credit boutique that he co-founded. Mr. Reese holds a Masters in Business Administration from the Richard Ivey School of Business, University of Western Ontario and a Bachelor of Arts (Biology) from Queen's University.

Dan Nohdomi, Chief Financial Officer. Mr. Nohdomi is the Chief Financial Officer of Callidus. Prior to joining Callidus in February 2013, Mr. Nohdomi was the CFO of Greypoint Capital Inc., a private debt fund based in Toronto, which he assisted in launching and founding. Prior to joining Greypoint in June 2012, Mr. Nohdomi was also part of Brookfield Asset Management's Special Situations Group from May 2006 until September 2012 and was involved in distressed and stressed investing and lending. Mr. Nohdomi was also the Corporate Treasurer of Western Forest Products Inc., a publicly traded, Brookfield Asset Management portfolio company operating in British Columbia, from January 2010 until May 2012. Mr. Nohdomi is a CPA, CA and holds a Masters in Business Administration from Cornell University and a Bachelor of Arts from Trinity Western University.

Ann Davis, Director. After a 37 year career at KPMG LLP in Canada, Ann Davis retired from KPMG on March 31, 2013 having been a partner in the audit practice for over 25 years with specialization in the financial services sector. Ms. Davis provided audit and audit related services to some of KPMG's largest clients with extensive experience with financial institutions including banking, wealth management, investment banking and brokerage, and funds (alternative and mutual funds). She also led the financial

services audit practice in the Greater Toronto Area and served as National Industry Leader for KPMG's financial services practice. Ms. Davis graduated from Queen's University in Kingston, Ontario in 1976 with a Bachelor of Science (Honours) Degree. She became a Chartered Accountant in 1979 and is a member of the Chartered Professional Accountants of Ontario. In 1997 she was elected a Fellow of the Chartered Professional Accountants of Ontario.

Tibor Donath, Lead Director. Since 1979, Mr. Donath has been a Partner at Bench & Donath, Chartered Accountants — a Toronto accounting firm providing assurance, accounting and income tax consulting services for private entities in various sectors of the economy. Mr. Donath is a member of the Chartered Professional Accountants of Ontario and of the Ordre des Comptables Professionnel Agrees du Québec. Mr. Donath graduated from Sir George William's University (now Concordia University) with a Bachelor of Commerce in 1973, Major in Accounting, Minor in Economics, and was first licensed to practise accounting in 1976. Since July 2006, Mr. Donath has been a member of the Board of Directors, and Chair of the Audit Committee for Counsel Corporation. Mr. Donath also sits on the Investment Committee of a private venture capital firm.

David E. Sutin, Director. From May 2008 until November, 2011, Mr. Sutin was Managing Partner of Quest Partners Ltd., a financial advisory boutique. Since 2001, Mr. Sutin has been an independent financial advisor, private investor and board member of several companies. Until 2001, Mr. Sutin was Executive Vice President of Harrowston Inc., a publicly-traded private equity firm. Mr. Sutin has over 30 years experience in corporate and real estate investment and financing activity. From March 2011 until March 2014, Mr. Sutin was a director of Patheon Inc. Between June 2009 and December 2010, Mr. Sutin was a director of Sun Gro Horticulture Inc., and a trustee of Sun Gro Horticulture Income Fund. From March 2007 to May 2009, Mr. Sutin was a director of Pay Linx Financial Corporation. Mr. Sutin holds a Bachelor of Arts degree and Masters of Business Administration degree from York University.

Common Share Ownership

The directors and executive officers as a group beneficially own, or control or direct, 100 Common Shares, representing 100% of the outstanding Common Shares (or 97.62% on a fully-diluted basis) as at the date of this prospectus. See "Principal Shareholders".

Terms of Directors and Executive Officers

Directors are elected for a term expiring at the conclusion of the next annual meeting of shareholders of the Corporation, or until their successors are duly elected or appointed pursuant to the OBCA and such directors will be eligible for re-election. Executive officers serve at the discretion of the Board.

Corporate Cease Trade Orders and Bankruptcies

To the knowledge of the Corporation, except as described below, no director or executive officer of the Corporation (nor any personal holding company of any such persons) is, as at the date of this prospectus, or was within 10 years before the date of this prospectus, a director, chief executive officer or chief financial officer of any company (including the Corporation), that: (i) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "Order"), and that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Mr. Glassman was installed as a director of Hollinger Inc. in July of 2005 as part of a court order. Hollinger Inc. was a Canadian media company that was listed on the Toronto Stock Exchange. In 2005, Hollinger Inc. was made subject to a management cease-trade order for being in default of its annual filing requirements. In August 2007, Hollinger Inc. made application for a Court-supervised restructuring under the *Companies' Creditors Arrangement Act* (Canada) and a similar proceeding in the United States pursuant to Chapter 15 of the U.S. *Bankruptcy Code*. Mr. Glassman ceased to be a director in the Spring of 2007, and in August of 2008 the shares of Hollinger Inc. were delisted from the Toronto Stock Exchange.

To the knowledge of the Corporation, except as disclosed below, no director or executive officer of the Corporation (nor any personal holding company of any such persons), or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation: (i) is, as at the date of this prospectus, or has been within the 10 years before the date of this prospectus, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement, or compromise with creditors or had

a receiver, receiver manager or trustee appointed to hold its assets; or (ii) has, within the 10 years before the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Newton Glassman was appointed as a director of Snowbear Limited on March 11, 2005, following the acquisition of Snowbear Limited by Catalyst Fund I. In 2012, an application was made by Catalyst Fund I for an order pursuant to section 243(1) of the *Bankruptcy and Insolvency Act* and section 101 of the *Courts of Justice Act* appointing PricewaterhouseCoopers Inc. as receiver, without security, of all of the assets, undertakings and properties of Snowbear Limited. On May 2, 2012, the Ontario Superior Court of Justice granted the motion made by PricewaterhouseCoopers Inc. to approve an auction services agreement entered into between PricewaterhouseCoopers Inc. and Century Services Inc., and vesting Snowbear Limited's rights, title and interests in and to the assets described in such auction services agreement in the purchasers thereof free and clear of all claims.

Dan Nohdomi purchased certain US real estate assets in 2004. As a result of non-performance of these assets, the lender appointed a receiver and sold the assets in 2005 to a local real estate management company.

Penalties and Sanctions

To the knowledge of the Corporation, no director or executive officer of the Corporation (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Other than as disclosed in this prospectus (including the disclosure below), to the best of the Corporation's knowledge, there are no existing or potential material conflicts of interest among the Corporation and a director or officer of the Corporation at the date of this prospectus.

Messrs. Glassman and Riley serve as executive officers of CCGI and will be paid by and continue to devote a majority of their time to CCGI, Messrs. Glassman and Riley have fiduciary and other obligations to CCGI and the Catalyst Fund's equity owners. As a result of these relationships, conflicts of interest will arise in the future between Callidus (and its shareholders, other than the Catalyst Funds) and CCGI (and its owners and affiliates, including the Catalyst Funds). Messrs. Glassman and Riley will have fiduciary and other obligations to Callidus by virtue of the Management Services Agreement and applicable law. In particular, decisions relating to funding by the Catalyst Funds under the Participation Agreement will be made by Messrs. Glassman and Riley and such decisions may negatively impact shareholders of Callidus. See "Risk Factors – Conflicts of Interest".

Certain directors and officers of the Corporation serve as directors and officers of other entities or private equity firms or are, and may continue to be, involved in the private equity industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of Callidus. Accordingly, conflicts of interest may arise which could influence these persons in evaluating potential opportunities or acquisitions or in generally acting on behalf of the Corporation. While the majority of the loan opportunities considered by the Corporation are initially developed by Callidus' origination professionals, in some instances opportunities for asset-based loans may be brought to the attention of an officer or director of the Corporation who is also an officer or director of CCGI or another entity or private equity investment business.

In the case of CCGI, Callidus believes that the likelihood of any conflict is reduced given the differences in the business of Callidus and the Catalyst Funds. Whereas Callidus is in the business of asset-based lending, the Catalyst Funds are in the business of control and/or influence investments in distressed and/or under-valued Canadian entities. This often entails the Catalyst Funds purchasing debt of an entity with the primary objective of gaining control or influence of such entity either through converting debt to equity or through a restructuring process. Callidus believes that the Catalyst Funds' investment objectives are distinct from Callidus' business as a conventional finance asset based lender. In addition, CCGI has agreed in the Management Services Agreement to certain non-competition covenants in favour of the Corporation. See "Executive Officers and Directors Compensation – Management Services Agreement".

The Corporation's directors and officers are required by law to act honestly and in good faith with a view to the best interests of the Corporation and to disclose any conflicts to the Corporation if and when they arise. Prior to Closing, the Corporation will enter into indemnification agreements with each of its directors and executive officers. The indemnification agreements will generally

require that the Corporation indemnify and hold the indemnitees harmless to the greatest extent permitted by law for liabilities arising out of the indemnitees' service to the Corporation as directors and executive officers, provided that the indemnitees acted honestly and in good faith with a view to the best interests of the Corporation and, with respect to criminal and administrative actions or proceedings that are enforced by monetary penalty, the indemnitees had reasonable grounds to believe that his or her conduct was lawful. The indemnification agreements will also provide for the advancement of defense expenses to the indemnitees by the Corporation.

EXECUTIVE OFFICERS AND DIRECTORS COMPENSATION

The following discussion describes the significant elements of the Corporation's executive compensation program upon Closing, with particular emphasis on the process for determining compensation payable to the Corporation's CEO, CFO, and, other than the CEO and the CFO, each of the three most highly compensated executive officers of the Corporation or any of its subsidiaries, or the three most highly compensated individuals acting in a similar capacity whose total compensation was, individually, more than \$150,000 for the most recently completed financial year (collectively, the "Named Executive Officers" or "NEOs").

The NEOs are Newton Glassman, Dan Nohdomi and David Reese.

Compensation Discussion and Analysis

The following information does not apply to the compensation of the current Executive Chairman and CEO, whose compensation is determined in accordance with the Management Services Agreement. See "Executive Officers and Directors Compensation – Management Services Agreement".

Compensation Philosophy

The Corporation's executive compensation program to be adopted following Closing will be designed to reinforce a strong link between pay and performance in order to:

1. attract leading talent;
2. retain and motivate top performers who can further Callidus' progress in becoming the premier Canadian distressed asset based lender;
3. promote a pay for performance culture with an emphasis on variable compensation, specifically annual incentives; and
4. position Callidus' compensation at the median of a target comparator group for good performance and above median for superior performance, with exceptions based on individual contribution and importance of each individual's role at various points in time.

Market Positioning

The Compensation and Governance Committee will identify a comparator group of Canadian companies for benchmarking purposes in determining compensation for executive officers after the closing of the Offering. The composition of the comparator group will be reviewed by the Compensation and Governance Committee on an annual basis for its suitability for the purposes of the Corporation's compensation practices. The use of comparative market data will be just one of the factors used in setting compensation for the NEOs. An NEO's compensation could be higher or lower than suggested by the comparator data as a result of personal performance, skills, specific role or experience.

Compensation Consultants

Callidus may use compensation consultants to provide market data on executive compensation and technical analysis of the market data in light of the Corporation's compensation plans and practices. Decisions made by the Compensation and Governance Committee, however, may reflect factors and considerations other than the information and recommendations provided by compensation consultants.

Components of Total Compensation

Callidus' executive compensation program consists primarily of the following elements with the purposes set forth below:

Compensation Element	Purpose of Element
Base Salary	To provide stable and competitive income.
Annual Incentives	To motivate and reward short-term behaviours, actions and results that drive long-term value creation.
Long-Term Incentives	To encourage executives to maximize long-term shareholder value (provided in the form of Options, deferred share units of the Corporation (“DSUs”) and deferred bonuses).

To accomplish both its short-term and long-term objectives, the compensation program emphasizes pay-for-performance, with two variable components. These variable components include annual and long-term incentives which are used to align each component of incentive compensation with the Corporation’s short and long-term business objectives. Specifically, the relative mix of total direct compensation at target performance for 2013 for the NEOs was as follows:

Title	Percentage of Target Total Direct Compensation ⁽¹⁾			
	Base Salary	Annual Incentives Target	Long-term Incentives Target (Options, DSUs, and deferred bonuses)	Percentage of Pay at Risk
Executive Chairman and CEO	100% ⁽²⁾	-	-	-
CFO	35%	40%	25%	65%
COO	20%	45%	35%	80%

Notes:
(1) Total Direct Compensation is the sum of base salary, annual incentives and long-term incentives, and reflects the pay for performance philosophy decisions made by the Compensation and Governance Committee. It excludes other compensation that is one-time in nature such as signing bonuses and awards.
(2) See “Executive Officers and Directors Compensation – Management Services Agreement”.

As discussed below, a significant portion of variable compensation for executives is deferred in the form of DSUs, stock options and deferred bonuses to maintain the focus of the executives on sustained long-term performance.

As well, the Corporation has adopted a policy which prohibits executives and members of the Board from purchasing financial instruments that are designed to hedge or offset a decrease in the market value of equity securities granted as compensation.

Listed below are the various components of compensation that executives (including the NEOs) may receive, depending on the executive’s role within the organization:

Base Salary

Salaries for all employees, including executive officers, are based on each individual’s responsibilities, performance and relevant competitive market data. The salaries for executive officers have been established within competitive ranges taking into account the Corporation’s size and position in the industry. Adjustments to base salary will generally be considered on an annual basis taking into account the executive’s overall performance, experience and values for comparable roles in the market place within a comparator group to be identified by the Compensation and Governance Committee after Closing. Any 2014 salaries which have been finalized as of the date hereof were finalized without consideration of a comparator group.

Annual Bonus

The annual bonus is intended to reward contribution and performance for the relevant fiscal year. The range of potential annual bonus is based on a percentage of base salary and is reviewed annually, taking into account all compensation elements. For executive officers, specific annual performance and annual bonus amounts are determined based on whether pre-determined annual financial performance objectives and key business objectives are met. Depending on the role, bonus targets vary ranging from 125% to 300% of base salary while the actual bonus incentive awards can range from zero to one and a half times the target award.

In 2014, the Corporation will introduce an annual bonus program for its executives that better aligns program payouts with financial and strategic priorities achievements through a matrix approach. For this portion of the bonus program (75% of the total annual bonus payout), 50% of the payout multiplier is based on financial results and 50% is based on achieving strategic priorities. The remaining 25% of the annual bonus payout is based on the achievement of individual goals.

At the beginning of each year, performance objectives along with a payout multiplier range associated with performance achievement levels are set for each NEO for the financial, strategic, and individual components of the incentive plan. For 2014, the performance objectives for determination of annual bonus awards will be based on the financial achievement of the Corporation's earnings before interest and taxes ("EBIT") and achievement of strategic and key departmental objectives such as operational efficiency, risk management, sales growth, and strategies to create and sustain a high performance organization (for example, talent management and leadership strategies). Each performance achievement level is mapped to a corresponding position in a matrix generating a multiplier for 75% of the incentive payout. An additional 25% of each NEO's annual bonus is determined by their achievement of individual objectives set at the beginning of the year.

The following table outlines the performance measures and weightings for each NEO for the fiscal year ending December 31, 2014:

	Executive Chairman and CEO	CFO	COO
EBIT Objectives	n/a	75%	75%
Individual Objectives	n/a	25%	25%

Bonus Deferral

Any bonus in excess of \$50,000 payable to a Callidus employee is subject to the deferral mechanics described in this paragraph. Deferred amounts accrue interest at a rate equivalent to that earned on the Loan Portfolio and accrued interest is payable to such individual quarterly. The principal amount of the deferred bonus will be paid to such individual in two equal installments at 12 months and 24 months from the time of deferral. The individual must be employed by Callidus to receive his or her principal amount of bonus and interest thereon. These bonus deferral arrangements will be phased in over a two-year period of escalating deferral percentages, as set out in the chart below. A portion of the deferred bonus could be cancelled if loan losses increase beyond an acceptable level as determined by the Compensation and Governance Committee.

Amount of bonus	2-year phase-in	
	Percentage of bonus deferred in 2013	Percentage of bonus deferred in 2014 and years thereafter
up to 1x salary	20%	40%
>1x salary	25%	50%

For example, in 2013, if an employee earned an annual salary of \$100,000 and was awarded a bonus of \$120,000, then the deferred amount of such bonus for 2013 would be \$25,000 (the aggregate of 20% of \$100,000 and 25% of \$20,000).

Incentive Plan

Historically, Callidus has granted Options to purchase Common Shares pursuant to a stock option plan effective as of January 1, 2013 (the “**Old Option Plan**”). As of the date hereof, 5 Options remain outstanding under the Old Option Plan. The Board has ceased granting Options under the Old Option Plan. Effective April 11, 2014, the Board approved an amended and restated incentive plan (the “**Incentive Plan**”), thereby amending the Old Option Plan to comply with TSX listing requirements and to allow for the issuance of DSUs. All existing Options granted under the Old Option Plan and all new Options that will be granted under the Incentive Plan will be governed by the Incentive Plan.

The Incentive Plan is intended to provide the Corporation with share-related mechanisms to attract, retain and motivate qualified directors, employees, officers and consultants (“**Eligible Persons**”), to reward such of those Eligible Persons as may be granted equity-based compensation under the Incentive Plan by the Board from time to time for their contributions toward the long term goals and success of the Corporation, and to enable and encourage such directors, employees and consultants to acquire Common Shares as long term investments in the Corporation. The Incentive Plan will permit both Options and DSUs to be granted (collectively, the “**Grants**”). Previous Grants are taken into account when considering new Grants.

Options

The Board may from time to time authorize grants of Options upon such terms and conditions as it may determine in accordance with the terms of the Incentive Plan. The exercise price of all Options will be as set forth in an option certificate in respect of such Option and will not be less than the market value of the shares as at the date the Option was granted (which, if the Common Shares are traded on the TSX, will be the closing price of the Common Shares on the last trading day immediately preceding the date the option was awarded). In no case will the market value be less than the minimum prescribed by each of the organized trading facilities as would apply to the award date in question.

The vesting schedule for any Option outstanding under the Incentive Plan shall be determined by the Board, provided that the Option will vest over a certain period of time or upon the occurrence of certain events (for example, the Board may determine that a particular Option shall be only exercisable after a triggering event).

Unless otherwise determined by the Board or in the case of death, disability, or ceasing to be an Eligible Person, all Options outstanding under the Incentive Plan shall expire on the date so fixed by the Board at the time the particular Option is granted, provided that such date will be no later than the tenth anniversary of the date the Option was awarded pursuant to the Incentive Plan. If the expiry date for an Option falls within a blackout period or within ten business days after the date the blackout period expires, the expiry date will be the date which is ten days after the blackout period expiry date.

DSUs

The Board may from time to time authorize grants of DSUs upon such terms and conditions as it may determine in accordance with the terms of the Incentive Plan. In addition, independent directors may elect to receive up to 50% of their compensation as DSUs. Only independent directors will be eligible to receive director’s DSUs under the Incentive Plan. Each grant will constitute an agreement to deliver Common Shares, cash or other consideration to the participant in the future in consideration of the performance of services after the participant’s term of directorship ends. During the deferral period, the participant will not have any right to transfer the rights associated with the DSUs and will have no ownership or voting rights with respect to the DSU or the underlying shares associated with DSUs.

Key Features of the Incentive Plan

The key features of the Incentive Plan are as follows:

- **Issuances**
 - Subject to adjustment as provided for in the Incentive Plan, and any subsequent amendment to Incentive Plan, the number of Common Shares reserved for issuance and which will be available for purchase pursuant to Grants under the Incentive Plan shall be 10% on a rolling basis. If any Grant expires or otherwise terminates for any reason without having been exercised in full, or is exercised in full, the number of Common Shares in respect of which such Grant expired, terminated, or was exercised in full, as the case may be, will again be available for the purposes of the Incentive Plan.
 - In no case will the Grant under the Incentive Plan, together with any proposed or previously existing security based compensation arrangement, result in (in each case, as determined on the grant date): (i) the number of Common Shares reserved for issuance pursuant to Grants to insiders exceeding 10% of the Corporation's issued and outstanding Common Shares (on a non-diluted basis) and (ii) the issue to insiders, within any one-year period, of a number of Common Shares exceeding in the aggregate 10% of the Corporation's issued and outstanding Common Shares (on a non-diluted basis).
 - The number of Common Shares reserved for issuance to non-employee Directors under the Incentive Plan shall not exceed (i) for all non-employee directors, in the aggregate, a maximum of 1% of the number of outstanding Common Shares; and (ii) on an individual non-employee director basis, Grants per non-employee director in any one calendar year having a maximum aggregate value of \$100,000 at the time of the Grants (other than Grants under the Incentive Plan to a non-employee director in the year of his or her initial appointment to the Board).
- **Termination**
 - With cause: any Grant held by such person will expire on the date on which he or she ceased to be an Eligible Person.
 - Without cause: the expiry date for any vested Option or portion of an Option will be the earlier of the date fixed by the Board at the time of the issuance of the Option, and 60 days following the date that the person ceased to be an Eligible Person, provided that no such Option may be exercised past its original expiry date. All DSUs previously granted to such person will become vested and will be redeemed and paid out.
 - Death/disability: In the event of the death or permanent disability of an Eligible Person prior to the expiry time of an Option, any vested Option or portions of an Option will expire on the date that is one year after the date of the Option holder's death or permanent disability, as applicable, provided that no such Option may be exercised past its original expiry date. The expiry date for any unvested portion of the Option will be, in the case of death, the date of death, and in the case of permanent disability, unless the Board determines otherwise, the date on which the option holder is no longer able to perform his or her duties by reason of the disability. All DSUs previously granted to such person will become vested on death or permanent disability and will be redeemed and paid out.
 - Except in the case of death, the expiry date for any unvested portion of any Option held by an Eligible Person will be the date such person ceases to be an Eligible Person.
- **Other**
 - Prior to the Closing of the Offering, the Board, certain regulatory authorities, the TSX, or the Underwriters may require that some or all of the Grants be cancelled, repriced upwards or otherwise revised, in which case the Board may deal with the Grants in the manner it deems fair and reasonable. Each Grant holder will enter into all such escrow, pooling or other agreements as are required by any regulatory authorities, the TSX, or the Underwriters in connection with the Offering.
 - Grants are not transferable or assignable.

Amendments to the Incentive Plan

The following amendments to the Incentive Plan require the approval of shareholders of the Corporation:

- any change to the maximum number of Common Shares issuable, either as a fixed number or a fixed percentage of the Corporation's outstanding Common Shares;
- any amendment which reduces the exercise price of any Option, other than an adjustment pursuant to the Incentive Plan;
- any amendment which would change the number of days in respect of the blackout period of the Incentive Plan with respect to the extension of the expiration date of Options expiring during or immediately following a blackout period;
- any amendment which extends the expiry date of an Option other than as then permitted under the Incentive Plan;
- any amendment which cancels any Option and replaces such Option with an Option which has a lower exercise price, other than an adjustment pursuant to the Incentive Plan;
- any amendment which would permit Options to be transferred or assigned;
- any amendment to increase the limits on Grants that may be issued to insiders; and
- any amendment in respect of the amending provision of the Incentive Plan.

Benefits

It is the Corporation's policy to provide all employees with an above average basket of benefits to provide for health care. NEOs are eligible to participate in this group benefit program.

Executive Share Ownership Guidelines

To ensure that the interests of executives are aligned with the interests of shareholders, the Corporation will be adopting a Common Share ownership guideline for its executives in 2014. The Common Share ownership guidelines will provide that the value of Common Shares (including those issuable upon the exercise of Options) held by Callidus executives, excluding the Executive Chairman and CEO, should equal a multiple of their base salary. New executives are required to meet the requirements within five years following the commencement of their employment as an executive of the Corporation. The new Common Share ownership requirements for the NEOs who are subject to the minimum Common Share ownership requirements are set out below:

Minimum Common Share Ownership Requirements for Named Executive Officers			
Named Executive Officer	Minimum Ownership Requirement (as multiple of base salary)	Minimum Ownership Requirement	Requirement Met?
David Reese COO	3 times	\$1,500,000	Yes
Dan Nohdomi CFO	3 times	\$630,000	Yes

Assessment of Future Performance

Each year, performance objectives for the CEO will be established by the Compensation and Governance Committee and approved by the Board. Performance objectives for other NEOs are established by the CEO.

The Compensation and Governance Committee evaluates the performance of the CEO. This performance evaluation is based upon the CEO achieving objectives related to the Corporation's financial and strategic objectives. The CEO evaluates the performance of each of the other NEOs based upon the achievement of their objectives as set out in their 2014 business plans, which are approved by the Board. The CEO recommends the other NEOs' annual incentive awards to the Compensation and Governance Committee. The Compensation and Governance Committee reviews the CEO's recommendations, and the Board approves the annual incentive awards for NEOs who are not directors. Independent directors of the Board approve the annual incentive awards for all management directors.

Compensation of Named Executive Officers

Summary Compensation Table – NEOs – Expectations for 2014

The following table sets forth, for each NEO, information regarding the compensation anticipated to be paid by the Corporation to the NEOs in 2014 following Closing.

Name and principal position	Year	Salary	Share-based awards	Option-based awards ⁽²⁾	Non-equity incentive plan compensation		Pension value	All other compensation	Total compensation
					Annual incentive plans	Long-term incentive plans			
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Newton Glassman Executive Chairman, CEO and Director ⁽¹⁾	2014	-	-	-	-	-	-	-	-
Dan Nohdomi Vice President and CFO	2014	210,000	•	•	•	•	•	•	•
David Reese COO	2014	500,000	•	•	•	•	•	•	•

Notes:

- (1) Mr. Glassman will not receive any compensation from the Corporation for his services in his capacities as a director or officer of the Corporation and none of the compensation paid to Mr. Glassman by CCGI is, directly or indirectly, attributable to such services. As a result, no compensation has been set out in the above table. He will, however, have an alignment of economic interest with Callidus through his economic interest in CCGI. See "Principal Shareholders".
- (2) See "Executive Officers and Directors Compensation – Incentive Plan Awards – Narrative Discussion of Incentive Plans – Incentive Plan".

Incentive Plan Awards – Value Vested or Earned During the Year

Based on information available at the date hereof, the following table sets forth, for each NEO, information regarding all awards that are anticipated to be outstanding as at December 31, 2014.

Name and principal position	Option-based awards ⁽¹⁾			Share-based awards ⁽¹⁾			Market or payout value of vested share-based awards not paid out or distributed
	Number of securities underlying unexercised Options	Option exercise price	Option expiration date	Value of unexercised in-the-money options	Number of Common Shares that have not vested (#)	Market or payout value of share-based awards that have not vested	
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Newton Glassman Executive Chairman, CEO and Director	-	-	-	-	-	-	-
Dan Nohdomi Vice President and CFO	•	•	•	•	•	•	•
David Reese COO	•	•	•	•	•	•	•

Notes:

- (1) Any awards in 2014 have not been determined but will be determined in accordance with the Corporation's compensation program and policies. See "Executive Officers and Directors Compensation – Compensation Discussion and Analysis".

Management Services Agreement

Pursuant to the terms of a management services agreement to be entered into between CCGI and Callidus at or prior to the closing of the Offering (the “**Management Services Agreement**”), CCGI agrees to: (a) provide Callidus with the services of Mr. Glassman, as Executive Chairman and Chief Executive Officer of the Corporation, and Mr. Riley, as Secretary of the Corporation, or such other persons to perform those functions as may be acceptable to Callidus, acting reasonably; and (b) provide Callidus with access to CCGI’s senior management, analysts and research library, as required.

As shared executives of both Callidus and CCGI, Messrs. Glassman and Riley will not devote all of their time to the business of the Corporation. It is expected that each of Mr. Glassman and Mr. Riley will devote approximately 25% of his working time to Callidus, in each case subject to change as is necessary in carrying out their executive responsibilities and fiduciary duties. Mr. Glassman and Mr. Riley have advised the Corporation that they estimate that they have spent approximately 25% of their respective working time in connection with Callidus over the last three years. In the event that Callidus appoints a full-time chief executive officer, it shall be at Callidus’ expense.

The Management Services Agreement provides that the compensation to be paid to any directors, officers or employees of CCGI or its affiliates made available to Callidus thereunder, including the Executive Chairman, Chief Executive Officer and the Secretary of the Corporation, shall be paid by CCGI and Callidus will pay to CCGI a nominal sum in consideration for making available the services of the Executive Chairman and Chief Executive Officer of the Corporation and the Secretary of the Corporation. All other expenses incurred by CCGI in carrying out its obligations under the Management Services Agreement, including the services provided by the Executive Chairman and Chief Executive Officer and the Secretary of Callidus in their capacities as executive officers of the Corporation, will be for the account of the Corporation. Except for the nominal sum referenced in this paragraph and amounts payable to a Catalyst Fund in connection with a participation interest it holds pursuant to the Participation Agreement, the Corporation does not pay any fees or other amounts to CCGI, the Catalyst Funds, or any other related entity. Except for the services rendered by Messrs. Glassman and Riley, all transactions between CCGI and the Corporation are contemplated at fair values which would be consistent with arms length transactions.

CCGI and each of its directors, officers and employees are indemnified by the Corporation to the fullest extent permitted by law for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against CCGI, or any of its officers, directors or employees, in the exercise of its duties pursuant to the Management Services Agreement, except those resulting from the following actions by CCGI or its directors, officers or employees: willful misconduct, bad faith, negligence, breach of such person’s standard of care under the Management Services Agreement or material breach or default of such person’s obligations under the Management Services Agreement (collectively, the “**Material Breaches**”). The Corporation and each of its directors, officers and employees are indemnified by CCGI to the fullest extent permitted by law for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against the Corporation, or any of its officers, directors or employees, resulting from Material Breaches.

If, upon the request of the independent directors of the Board, CCGI renders services to the Corporation that are outside of the scope of services required to be rendered pursuant to the provisions of the Management Services Agreement, such additional services will be compensated for separately and shall be on such terms that are no less favourable to the Corporation than those available from arm’s length parties.

The management services to be provided by CCGI under the Management Services Agreement are not exclusive to the Corporation and nothing in the Management Services Agreement prevents CCGI from providing similar management services to other companies or from engaging in other activities (other than as set out in the Management Services Agreement). See also “Executive Officers and Directors – Conflicts of Interest”.

Pursuant to the Management Services Agreement, CCGI has agreed that for a period ending on the later of (a) five years from the Closing Date, and (b) two years after the termination of the Management Services Agreement, neither CCGI nor its affiliates will (i) engage in; (ii) establish or manage any fund or other entity that engages in; or (iii) invest in any other fund or entity that engages principally in the asset-based lending business as carried on by Callidus. In addition, CCGI has agreed that during the term of the Management Services Agreement any opportunities within such business description that are made available to CCGI or its affiliates will first be offered to Callidus. CCGI and its affiliates will not be restricted from entering into lending transactions with one of the Catalyst Funds’ portfolio companies or from making or acquiring loans as part of an overall investment objective of acquiring control or influence over an entity (other than an entity that engages principally in the asset-based lending business as carried on by Callidus).

The Management Services Agreement will remain in force until the earlier of (i) the date on which the Corporation and CCGI mutually agree in writing to terminate the Management Services Agreement; and (ii) the date on which CCGI gives written notice of the termination of the Management Services Agreement, provided that such notice may not be given for so long as any Catalyst Fund

holds Common Shares or holds a direct participation interest in any Loan Portfolio. No additional fees will be payable by Callidus to CCGI on termination of the Management Services Agreement.

Employment and Consulting Contracts

David Reese

David Reese acts as COO of the Corporation and currently is paid \$500,000 per annum. In addition, Mr. Reese is eligible to receive benefits and participate in annual bonus and option incentive programs. Mr. Reese is entitled to a severance payment in the event of termination without cause of up to six months' compensation. The estimated payment that would have been triggered from a termination without cause would have totaled up to approximately \$650,000 as at December 31, 2013.

Dan Nohdomi

In October 2013, the Corporation entered into an employment agreement with Dan Nohdomi. The agreement contains provisions with respect to base salary (which is currently \$210,000 per annum), eligibility for benefits and annual bonus and option incentives. The agreement also provides for a severance payment in the event of termination without cause of up to six months' salary. The agreement also contains non-competition, non-solicitation and confidentiality provisions binding on Mr. Nohdomi. The estimated payment that would have been triggered from a termination without cause would have totaled up to approximately \$105,000 as at December 31, 2013.

Compensation of Directors

Summary Compensation Table – Directors – Expectations for 2014

The following table sets forth information regarding the compensation anticipated to be due by the Corporation to its directors in 2014.

Name	Fees earned	Share-based awards ⁽²⁾	Option-based awards	Non-equity incentive plan compensation	Pension value	All other compensation	Total compensation
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Ann Davis	35,000	25,000	-	-	-	-	60,000
Tibor Donath	35,000	25,000	-	-	-	-	60,000
Newton Glassman ⁽¹⁾	-	-	-	-	-	-	-
Jim Riley ⁽¹⁾	-	-	-	-	-	-	-
David Sutin	35,000	25,000	-	-	-	-	60,000

Notes:

- (1) Messrs. Glassman and Riley will not receive any compensation from the Corporation for their services in their capacities as directors and officers of the Corporation and none of the compensation paid to Messrs. Glassman and Riley by CCGI is, directly or indirectly, attributable to such services. As a result, no compensation has been set out in the above table. Each of them will, however, have an alignment of economic interest with Callidus through their economic interests in CCGI. See "Principal Shareholders".
- (2) See "Executive Officers and Directors Compensation – Incentive Plan Awards – Narrative Discussion of Incentive Plans – Incentive Plan".

Narrative Discussion

The Corporation will pay the following director fees to independent directors: (i) an annual base fee of \$60,000; and (ii) a fee of \$2,500 per meeting of the board or any committee thereof that such independent director attends, to a maximum of \$2,500 per day. Directors may accept up to 50% of their compensation in DSUs. No additional fees will be payable to a committee chair for acting in such capacity.

AUDIT & RISK COMMITTEE AND CORPORATE GOVERNANCE

General

Following completion of the Offering, the Board will establish the Audit & Risk Committee and the Nominating, Compensation and Corporate Governance Committee (the "Compensation and Governance Committee"). It will also adopt new Board and committee charters, review its charter and the charters of its committees, modify such charters and adopt new charters,

position descriptions and corporate governance principles and practices that are intended to meet or exceed the independence and other governance standards and guidelines as set out in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, National Instrument 52-110 – *Audit Committees* (“NI 52-110”), National Policy 58-201 – *Corporate Governance Guidelines* and National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

Board of Directors

Independence

Upon Closing, the Board will be comprised of five directors, of which three directors will be independent. Pursuant to NI 52-110, an independent director is one who is free from any direct or indirect material relationship with the Corporation which could, in the view of the Board, be reasonably expected to interfere with a director’s independent judgment. Certain types of relationships are by their nature considered to be material relationships. As the Executive Chairman and Chief Executive Officer of the Corporation and as an executive officer of CCGI, Newton Glassman is not considered to be an independent director. Jim Riley is a Managing Director and Chief Operating Officer of CCGI and is not considered to be an independent director. The Board is expecting to have three independent directors upon completion of the Offering, being Ann Davis, Tibor Donath and David Sutin.

The following is a list of the directors as at the Closing Date, who are presently directors of other issuers that are reporting issuers (or the equivalent):

<u>Name</u>	<u>Name of Reporting Issuer</u>
Tibor Donath	Counsel Corporation

After Closing, the Board intends to hold in-camera independent director meetings through the Corporate Governance Committee at every scheduled Board meeting, and otherwise as deemed necessary and upon the request of independent directors.

Mandate of the Board of Directors

The Board has responsibility for the supervision of the management of the business and affairs of the Corporation and, generally through management, to pursue the best interests of the Corporation in conducting the day to day business of the Corporation. The Board discharges this responsibility directly and indirectly through the delegation of specific responsibilities to committees of the Board, the Executive Chairman, the independent directors and the officers of the Corporation, all as more particularly described in the Board Mandate which will be approved by the Board prior to completion of the Offering, a copy of which is attached to this prospectus as Appendix “B”. The Board Mandate provides that the Board’s fundamental objectives are to enhance and preserve long-term shareholder value, to ensure the Corporation meets its obligations on an ongoing basis and that the Corporation operates in a reliable and safe manner. In performing its functions, the Board also considers the legitimate interests its other stakeholders such as employees, customers and communities may have in the Corporation. In broad terms, the stewardship of the Corporation involves the Board in strategic planning, financial reporting, risk management and mitigation, senior management determination, communication planning and internal control integrity.

As described below, the Board will establish the Audit & Risk Committee and the Compensation and Governance Committee and adopt charters defining the responsibilities of these committees.

Orientation and Continuing Education

The orientation and continuing education of the directors will be the responsibility of the Compensation and Governance Committee of the Board. The details of the orientation of new directors will be tailored to their needs and areas of expertise and will include the delivery of written materials and participation in meetings with management and the Board. The focus of the orientation program will be on providing new directors with (i) information about the duties and obligations of directors, (ii) information about the Corporation’s business and operations, (iii) the expectations of directors (including, in particular, expected time commitments), (iv) opportunities to meet with management, and (v) access to documents from recent Board meetings.

The directors have all been chosen for their specific level of knowledge and expertise. All directors will be provided with materials relating to their duties, roles and responsibilities. In addition, the directors will be kept informed as to matters impacting, or which may impact, the Corporation’s operations through reports and presentations by internal and external presenters at meetings of the Board and during periodic strategy sessions held by the Board. Directors may periodically take part in visits to the Corporation’s office to observe for themselves the Corporation’s operations.

Position Descriptions

Executive Chairman

Newton Glassman is the Executive Chairman of the Corporation and, as Managing Partner of CCGI, Mr. Glassman is not considered to be an independent director. The Board will adopt a written position description for the Executive Chairman prior to completion of the Offering which will set out the Executive Chairman's key responsibilities, which include facilitating communication between the Board and management, assessing management's performance, managing Board members, acting as chair of Board meetings and meetings of the Corporation's shareholders and managing relations with shareholders, other stakeholders and the public. The Compensation and Governance Committee, with input from all Board members, will review this position description at least annually or, where circumstances warrant, at such shorter intervals as is necessary, to determine if further additions, deletions or amendments are required.

Lead Director

The Board intends to appoint Tibor Donath as Lead Director prior to or concurrent with Closing. The Board will adopt a written position description for the Lead Director who will be responsible for, among other things, setting the agenda of Board meetings in conjunction with the Executive Chairman. This Lead Director, if and when appropriate, will have the power to call, set the agenda for and chair meetings of the independent directors and chair in-camera sessions of the Board without management so as to give the directors an opportunity to fully and frankly discuss issues and provide feedback and direction to management.

Chair of the Audit & Risk Committee

The Board intends to appoint Ann Davis as chair of the Audit & Risk Committee on or following Closing. The Board will adopt a written position description for the chair of the Audit & Risk Committee prior to completion of the Offering which will set out the chair's key responsibilities, which include duties relating to leadership of the committee, fostering ethical and responsible decision making, overseeing committee structure and composition, acting as chair and establishing the agenda for committee meetings, reporting to the Board, facilitating communication between the committee and management, evaluating the performance of the committee members and retaining the necessary resources and advisors to assist the committee. The Compensation and Governance Committee, with input from all Board members, will review this position description at least annually or, where circumstances warrant, at such shorter intervals as is necessary, to determine if further additions, deletions or amendments are required.

Chair of the Compensation and Governance Committee

The Board intends to appoint David Sutin as chair of the Compensation and Governance Committee on or following Closing. The Board will adopt a written position description for the chair of the Compensation and Governance Committee prior to completion of the Offering which will set out the chair's key responsibilities, which include duties relating to leadership of the committee, fostering ethical and responsible decision making, overseeing the committee structure and composition, chairing and establishing the agenda for committee meetings, reporting to the Board, facilitating communication between the committee and management, evaluating the performance of the committee members and retaining necessary resources and advisors to assist the committee. The Compensation and Governance Committee, with input from all Board members, will review this position description at least annually or, where circumstances warrant, at such shorter intervals as is necessary, to determine if further additions, deletions or amendments are required.

Chief Executive Officer

The CEO of the Corporation is Newton Glassman. The Board will adopt a position description for the CEO prior to completion of the Offering which will set out the CEO's key responsibilities, which include providing leadership and vision, developing, in concert with the Board, the Corporation's strategic direction, tactics and business plan necessary to realize organizational objectives and manage the overall business of the Corporation, ensuring strategic and business plans are effectively implemented, results are monitored and reported to the Board and financial and operational objectives are attained. The Compensation and Governance Committee, with input from all Board members, will review this position description at least annually or, where circumstances warrant, at such shorter intervals as is necessary, to determine if further additions, deletions or amendments are required.

Code of Conduct and Ethics

The Corporation will adopt a written Code of Conduct and Ethics (the "Code of Conduct") prior to completion of the Offering that will apply to all directors, officers, employees, contractors and consultants. The Code of Conduct will encourage and

promote a culture of ethical business conduct and will guide personnel in managing business situations and allow the Corporation to conduct business in a responsible and ethical manner, treating all those with whom the Corporation deals with fairness and respect. The Code of Conduct will address compliance with applicable laws and regulations, conflicts of interests, confidentiality and disclosure, employment practices, health, safety and environment, use of Callidus' property and resources, retention of documents and records, reporting financial transactions, compliance and enforcement and non-compliance reporting.

As part of the Corporation's Code of Conduct, any person subject to the Code of Conduct will be required to avoid or fully disclose interests or relationships that are harmful or detrimental to the Corporation's best interests or that may give rise to real, potential or apparent conflicts of interest. The Board or the persons or committee appointed pursuant to the Code of Conduct will have the ultimate responsibility for the Code of Conduct.

All persons subject to the Code of Conduct will be required to provide, upon request, Code of Conduct and Ethics Certification, confirming compliance with all laws, rules and regulations of the jurisdictions where they carry out their duties and where the Corporation is conducting its business activities, as well as compliance with all Callidus policies, which includes the confidentiality and insider trading policy adopted by the Board prior to completion of the Offering.

In addition to the steps taken by the Board to encourage independence discussed elsewhere in this prospectus, the Compensation and Governance Committee will assist with advising the Board on related party transactions and other matters involving conflicts of interest. Further, the Board takes steps to encourage independence when directors have conflicting interests in transactions. These steps may include, among other things, excusing interested directors from voting or taking any other action that may impact the outcome of an activity of business transaction to ensure that such directors are not involved in voting or otherwise having an influence in respect of transactions when there is a conflict or potential conflict of interest.

The Code of Conduct will be filed with the Canadian securities regulatory authorities through SEDAR and will be available at www.sedar.com.

Related Party Transaction Policy

The Corporation will adopt a written related party transaction policy (the "Related Party Policy") that will provide guidance as to how directors, officers, and employees of the Corporation identify potential related party transactions with the goal of avoiding potential or actual conflicts of interest. Potential related party transactions will be evaluated using enumerated factors including a valuation review. The evaluation will be carried out by the Compensation and Corporate Governance Committee unless the related party is CCGI or an investment fund established and managed by CCGI or its affiliates, in which case the Audit Committee will carry out the review. The Related Party Policy will accord with applicable corporate and securities laws and applicable stock exchange requirements, including those set out in the OBCA and Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("MI 61-101"). Pursuant to the Related Party Policy, directors and officers also will be required to disclose to the Corporation any interest that they have in a material contract or transaction.

Conflicts of Interest

As described above under the heading "Executive Officers and Directors – Conflicts of Interest", certain officers and directors of the Corporation are also officers and/or directors of CCGI. See also "Executive Officers and Directors Compensation – Management Services Agreement" and "Risk Factors – Conflicts of Interest".

Nomination of Directors

The responsibility for proposing new nominees for the Board will fall within the mandate of the Compensation and Governance Committee. New candidates for nomination to the Board will be identified and selected having regard to the strengths and constitution of the Board and the needs of the Board and its committees. The Compensation and Governance Committee will also develop and determine the appropriate size of the Board from time to time and determine its composition, identify the competencies and skills required by the Board to discharge its oversight responsibilities, organize the process for recruiting potential candidates and provide orientation to such members. The Compensation and Governance Committee is expected to consist of all independent directors.

Compensation of Directors and Chief Executive Officer

Subject to the terms of the Management Services Agreement, the Board will determine and review the form and amount of compensation to directors on the recommendation of the Compensation and Governance Committee. It is intended that the Compensation and Governance Committee will annually assess and make a recommendation to the Board with regard to the

competitiveness and appropriateness of compensation to the CEO, all other officers and key employees of the Corporation. See “Executive Officers and Directors Compensation” and “Executive Officers and Directors Compensation – Management Services Agreement”.

Committees of the Board Of Directors

On or following completion of the Offering, the Board will establish the Audit & Risk Committee and the Compensation and Governance Committee as committees of the Board. These committees are discussed in greater detail below.

Audit & Risk Committee

On Closing, the members of the Audit & Risk Committee will be Ann Davis, Tibor Donath and David Sutin. All members of the Audit & Risk Committee will be “independent” and “financially literate” for the purposes of NI 52-110. The Audit & Risk Committee will meet at least once each financial quarter to fulfill its mandate. The Audit & Risk Committee will provide a report to the Board outlining the results of the Audit & Risk Committee’s activities and any reviews it has undertaken.

The Corporation expects that each member of the Audit & Risk Committee will have extensive business experience and/or education which provide him or her with the skills and background necessary to discharge his or her responsibilities as a member of the Audit & Risk Committee.

The specific responsibilities of the Audit & Risk Committee are set out in the Audit & Risk Committee Charter, a copy of which is attached to this prospectus as Appendix “C”. The Audit & Risk Committee’s primary role is to assist the Board in fulfilling its oversight responsibilities regarding the Corporation’s internal controls, financial reporting and risk management processes.

The primary responsibilities of the Audit & Risk Committee will include: (i) identifying and monitoring the management of the principal risks that could impact the financial reporting of the Corporation; (ii) monitoring the integrity of the Corporation’s financial reporting process and system of internal controls regarding financial reporting and accounting compliance; (iii) monitoring the independence and performance of the Corporation’s external auditors; (iv) dealing directly with the external auditors to approve external audit plans, other services (if any) and fees; (v) overseeing the external audit process and results; (vi) providing an avenue of communication among the external auditors, management and the Board; (vii) ensuring that there is an appropriate standard of corporate conduct relating to the internal controls and financial reporting of the Corporation; (viii) ensuring that an effective “whistle blowing” procedure exists to permit stakeholders to express any concerns regarding accounting or financial matters to an appropriately independent individual; and (ix) ensuring that an appropriate Code of Conduct is in place and understood by employees and directors of the Corporation. The Audit & Risk Committee will have the ability to retain external advisors to assist in fulfilling its mandate as necessary.

The Catalyst Funds, which are managed, controlled and directed by CCGI or its affiliates, will beneficially own 28,042,732 Common Shares following the completion of the Offering and, therefore, CCGI and the Catalyst Funds will be a related party to the Corporation. As a result, any transaction between Callidus and CCGI and the Catalyst Funds will be subject to the Corporation’s corporate governance policies and the review, consideration and prior approval of the Audit & Risk Committee. The Audit & Risk Committee will have the ability to consult with those executive officers and operating personnel of the Corporation who do not have economic interests in CCGI, as well as other external advisors that the Audit & Risk Committee deems appropriate, in connection with reviewing a transaction with CCGI. In addition, in some cases, transactions between the Corporation and CCGI will be related party transactions for the purposes of MI 61-101. MI 61-101 provides, among other things, that in certain circumstances a transaction between an issuer and a related party of the issuer is subject to formal valuation and minority shareholder approval requirements.

The Audit & Risk Committee will be responsible for directly overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services, including the resolution of significant financial reporting issues between the external auditor and management. The external auditor will report directly to the Audit & Risk Committee. The Audit & Risk Committee will pre-approve all non-audit services undertaken by the external auditor.

Compensation and Governance Committee

On Closing, the members of the Compensation and Governance Committee will be Ann Davis, Tibor Donath and David Sutin. All members of the Compensation and Governance Committee will be “independent” for the purposes of NI 52-110. The Board will adopt a written charter for the Compensation and Governance Committee that sets out its areas of responsibility.

The Compensation and Governance Committee will be responsible for annual reviews of the Corporation’s mission and strategic direction. The Compensation and Governance Committee will provide an assessment of the effectiveness of the Board as a

whole, each committee of the Board, and the contribution of each individual director. The Compensation and Governance Committee will oversee the nominations to the Board and corporate governance practices of the Corporation.

The responsibilities of the Compensation and Governance Committee will include assisting the Board in fulfilling its responsibilities in relation to: (i) the selection of senior management; (ii) professional development for senior management; (iii) the Corporation's overall approach to governance; (iv) the size, composition and structure of the Board and its committees; (v) orientation and continuing education for directors; (vi) related party transactions and other matters involving conflicts of interest unless such matters fall within the mandate of the Audit & Risk Committee; (vii) the Corporation's Code of Conduct and Ethics; (viii) the Corporation's written whistleblower policy, disclosure policy and insider trading and confidentiality policy; and (ix) any additional matters delegated to the committee by the Board.

The Compensation and Governance Committee will also establish and oversee policies with respect to compensation of the senior management of the Corporation and the Board. These responsibilities will include assisting the Board in fulfilling its responsibilities in relation to: (i) the retention and compensation of senior management; (ii) the compensation of the Board and its committees; and (iii) any additional matters delegated to the committee by the Board. The Corporation and the Board believe that the interests of the Compensation and Governance Committee are aligned with the interests of shareholders to ensure that the compensation process is objective and that the Corporation's practices are designed to retain, motivate and reward senior management for performance and contribution to the Corporation's long term success.

Assessment of the Board and Board Committees

The members of the Board will collectively assess the performance of the Board as a whole and its individual members, as well as the effectiveness and contributions of each Board committee. Such assessment will occur annually with an emphasis on the overall effectiveness and contributions made by the Board as a whole and each committee of the Board. Evaluations will include the completion of written effectiveness surveys by directors and interviews with each director by the Lead Director of the Board. The results of such assessments and surveys will be presented by the Compensation and Governance Committee to the full Board.

External Auditor Service Fees

Callidus has accrued the following fees for services rendered in respect of the audits by KPMG LLP for the two fiscal years ended December 31, 2013 and December 31, 2012.

External Auditor Service Fees	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2012
	(\$)	(\$)
Audit Fees ⁽¹⁾	80,000	60,000
Audit Related Fees ⁽²⁾	-	-
Tax Fees ⁽³⁾	5,000	5,000
All Other Fees ⁽⁴⁾	-	-

- Notes:
- (1) "Audit Fees" include fees necessary to perform the annual audit of the consolidated financial statements.
 - (2) "Audit Related Fees" include fees for assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the Corporation's financial statements other than those included in "Audit Fees".
 - (3) "Tax Fees" include fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees for tax compliance, tax advice and tax planning.
 - (4) "All Other Fees" include fees for products and services provided by the auditor other than those included above.

RISK FACTORS

An investment in the Common Shares is highly speculative. The Offering is suitable only for those purchasers who are able to risk a loss of their entire investment. Purchasers should consult with their own professional advisors to assess the legal, financial and other aspects of an investment in the Common Shares. In addition to the other information contained in this prospectus, prospective purchasers should carefully consider the following risk factors.

The risks and uncertainties described herein are not the only risks and uncertainties that Callidus faces. Additional risks and uncertainties of which Callidus is not currently aware or that Callidus currently believes to be immaterial may also materially

adversely affect Callidus' business, assets, liabilities, financial condition, results of operations, prospects, cash flows and the value or future trading price of the Common Shares (one or more of the foregoing, a "Material Adverse Effect"). The occurrence of any of the possible events and risks described below and elsewhere in this prospectus could have a Material Adverse Effect and prospective purchasers could lose all or part of their investment in the Common Shares.

This prospectus also contains forward-looking statements that involve risks and uncertainties. Callidus' actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described below and elsewhere in this prospectus. See "Cautionary Note Regarding Forward-Looking Statements".

Risks Relating to Callidus' Operations

Lending to Small and Mid-Sized Companies

The Loan Portfolio consists primarily of loans to small and medium sized, privately-owned companies, most of which do not publicly report their financial condition and are not subject to the same accounting rules and securities laws that govern disclosure and financial controls of public companies. Compared to larger, publicly-traded companies, loans to these types of companies may carry more inherent risk. See also "Risk Factors – Risks Relating to Callidus' Operations – Creditworthiness of Borrowers". The companies that Callidus finances generally have limited access to capital and higher funding costs, are in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks. Small and medium-sized companies also typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tends to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns. Additionally, because most of Callidus' customers do not publicly report their financial condition and may not have sophisticated financial controls and oversight, Callidus is more susceptible to a borrower's misrepresentation, which could cause Callidus to suffer losses on its portfolio. See also "Risk Factors – Risks Relating to Callidus' Operations – Fraud by a Borrower". The failure of a borrower to accurately report its financial position could result in Callidus providing loans that do not meet its underwriting criteria, defaults on loan payments, the loss of some or all of the principal of a loan, or non-compliance with loan covenants. Accordingly, loans made to these types of companies involve higher risk than loans made to companies that have larger businesses, greater financial resources or are otherwise able to access traditional credit sources.

Creditworthiness of Borrowers

Callidus' business depends on the creditworthiness of its borrowers and their ability to fulfill their obligations to Callidus. Although Callidus intends to originate loans only with borrowers which it believes to be creditworthy, there can be no assurance that borrowers will not default and that Callidus will not sustain a loss on its loans as a result. See "Risk Factors – Risks Relating to Callidus' Operations – Default by and Bankruptcy of a Borrower". Callidus will also rely on representations made by borrowers in their loan documentation. However, there can be no assurance that such representations will be accurate or that Callidus will have any recourse against the borrower in the event a representation proves to be untrue. See also "Risk Factors – Risks Relating to Callidus' Operations – Fraud by a Borrower".

Default by and Bankruptcy of a Borrower

A borrower's failure to satisfy its borrowing obligations, including any covenants imposed by Callidus, could lead to defaults and the termination of the borrower's loans and enforcement against its assets. In order to protect and recover its investments, Callidus may be required to bear significant expenses (including legal, accounting, valuation and transaction expenses) to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting borrower. In certain circumstances, a borrower's default under one loan could also trigger cross-defaults under other agreements and jeopardize that borrower's ability to meet its obligations under a loan agreement it may have with Callidus.

Should a borrower become insolvent, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale of all of a borrower's collateral will be sufficient to satisfy the loan obligations secured by the collateral, or that sufficient assets will remain after priority creditors have been repaid. See also "Risk Factors – Risks Relating to Callidus' Operations – Collateral Securing Callidus' Loans".

Adequacy of Provision for Credit Losses

Callidus maintains a provision for credit losses that reflects management's judgment of the risk of losses inherent in the Loan Portfolio. Callidus periodically reviews its provisions for credit losses to ensure they are adequate and will consider factors such as economic conditions and trends, collateral values, credit quality indicators, past charge-off experience, levels of past due loans, past

due loan migration trends, and non-performing assets when performing its analysis. Determining the appropriate level of the provision for credit losses is an inherently uncertain process and therefore the determination of this provision may prove to be inadequate to cover losses in connection with the Loan Portfolio. Factors that could lead to the inadequacy of a provision for credit losses may include the inability to appropriately underwrite credit risk of new loans, to effectively manage collections, to anticipate adverse changes in the economy or the occurrence of discrete events that adversely affect specific borrowers, industries, markets or geographic areas. For these reasons, Callidus cannot provide assurance that its provisions for credit losses will be adequate to cover credit losses in the Loan Portfolio and such provisions may not keep pace with changes in the creditworthiness of borrowers or in collateral values.

If the credit quality of borrowers declines, if the risk profile of a market, industry, or group of borrowers changes significantly, or if a market for the collateral against which Callidus has secured its loans deteriorates significantly, Callidus' previous estimates of the appropriate level of reserves for credit losses may be inadequate. Losses from loans that exceed Callidus' expectations could have a Material Adverse Effect on the Corporation.

Callidus has and will continue to provide for credit losses based on industry specific historical losses considering the categories, segmentation and distribution of the assets being financed and its customer base.

Performance of the Loan Portfolio

Callidus maintains a Loan Portfolio of \$471 million as at April 10, 2014. The past performance of Callidus has been based on a comparable loan portfolio of a smaller size. For example, as at December 31, 2011, the size of Callidus' loan portfolio was approximately \$140 million. There can be no assurance that the same types of earnings can be made on the current Loan Portfolio or additional loans.

Collateral Securing Callidus' Loans

While all of Callidus' loans are secured by a lien on specified collateral of the borrower (particularly inventory, receivables and tangible fixed assets), there is no assurance that Callidus has obtained or properly perfected its liens, or that the value of the collateral securing any particular loan will protect Callidus from suffering a partial or complete loss if the loan becomes non-performing and Callidus moves to enforce against the collateral. In such event, Callidus could suffer loan losses that could have a Material Adverse Effect on the Corporation. In addition, when underwriting a loan, Callidus makes an estimate of the value of the collateral under a distressed disposition generally using liquidation analysis. A decrease in the market value of collateral assets at a rate greater than the rate projected by Callidus may adversely affect the current realization values of such collateral. The degree of realization risk varies by the business of the borrower and the nature of the security.

Reliance on Certain Individuals and the Management Services Agreement

The success of Callidus will depend in large part upon the skill and expertise of Messrs. Glassman, Reese and Riley and other Callidus professionals referred to under "Executive Officers and Directors". There is no assurance that all of Callidus' current management team, including Messrs. Glassman, Reese and Riley, will continue to be employed by or available to the Corporation. There can also be no assurance that Callidus' asset-based lending strategy will continue to be successful in the absence of any one or all of Messrs. Glassman, Reese or Riley, or that Callidus will be able to attract and retain suitable candidates to replace these individuals. See also "Risk Factors – Risks Relating to Callidus' Operations – Management and Employees".

In addition, in the event that the Management Services Agreement is terminated, the Corporation will be required to establish replacement arrangements for certain of its management and related resources. There can be no assurance that replacement arrangements will be available on terms and conditions similar to or as favourable as those currently in place with CCGI, or at all. Further, any such arrangements will result in significantly increased fees, costs and expenses to the Corporation which, in turn, may have an adverse impact on the Corporation and its business, operations and financial condition. The failure of CCGI to perform its obligations pursuant to and in accordance with the Management Services Agreement or the termination of the Management Services Agreement could have a Material Adverse Effect on the Corporation.

Conflicts of Interest

Certain of the Corporation's directors and officers are, and may continue to be, involved in the private equity industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of Callidus. Situations may arise in connection with potential opportunities or acquisitions where the other interests of these directors and officers may conflict with Callidus' interests. Directors and officers of the Corporation with conflicts of interest will be subject to and follow the procedures set out in applicable corporate and securities legislation, regulations, rules and policies.

The officers and directors of CCGI have a fiduciary duty to manage its business in a manner beneficial to its owners and, in connection with fulfilling this duty, CCGI's ownership and management may compete with Callidus for the time and focus of Messrs. Glassman and Riley or for employment of other talented individuals, or may develop CCGI's business plan in a manner that is incompatible with the Corporation's objectives, any of which might result in Callidus' failure to realize the full benefits of the current relationship with CCGI and jeopardize the Corporation's ability to execute its growth plan. If conflicts arise in allocating the services or functions of these officers, a reduction in the services or function of such persons could have a Material Adverse Effect on the Corporation. See also "Risk Factors – Risks Relating to Callidus' Operations – Reliance on Certain Individuals and the Management Services Agreement" and "Risk Factors – Risks Relating to Callidus' Operations – Management and Employees".

Other than with respect to the non-competition provisions in the Management Services Agreement, CCGI will not be restricted from competing with the Corporation and Callidus cannot ensure that CCGI's business focus will not change over time. See "Executive Officers and Directors Compensation – Management Services Agreement".

CCGI and the Catalyst Funds Exercise Significant Control over Callidus

Immediately after Closing, the Catalyst Funds, which are managed, controlled and directed by CCGI or its affiliates, will beneficially own approximately 60.91% of the outstanding Common Shares and may subsequently acquire additional Common Shares. Messrs. Glassman and Riley are executive officers of CCGI. As a result, CCGI and the Catalyst Funds will exercise significant control over Callidus, giving it the ability to, among other things, approve significant corporate transactions or potentially delay or prevent transactions that could otherwise be beneficial to other shareholders. CCGI and the Catalyst Funds may have the ability to control the outcome of matters submitted for the vote or consent of Callidus' shareholders. In some cases, the interests of CCGI and the Catalyst Funds may not be the same as those of the Corporation's other shareholders, and conflicts of interest may arise from time to time that may be resolved in a manner detrimental to the Corporation or its other shareholders. See "Risk Factors – Conflicts of Interest".

Callidus' Equity Participation in the Loan Portfolio May Decrease as the Size of the Loan Portfolio Increases

The Catalyst Funds have the right under the Participation Agreement to participate in the funding of the growth in a Loan Portfolio. The amount that the Catalyst Funds are entitled to fund will be determined based on the Funding Formula and the leverage the Catalyst Funds elect to allocate to their participation. In certain circumstances, this could result in a Catalyst Fund having the right to fund growth that is in excess of that Catalyst Fund's then current participation interest. In that case, the Catalyst Fund's proportionate participation interest in the Loan Portfolio would increase and Callidus' proportionate participation interest would decrease, notwithstanding the increase in size of the Loan Portfolio.

The amount of available capital for each of Callidus and the Catalyst Funds is calculated by using different methods, and the terms of the Participation Agreement may permit the Catalyst Funds to increase their participation interest in the Loan Portfolio to a level that is higher or lower than their participation interest on the Closing Date. There can be no assurance that Callidus will experience an increase in its participation in the Loan Portfolio should Loan Portfolio assets increase, or that Callidus' earnings from the Loan Portfolio will increase as Loan Portfolio assets increase. Furthermore, it may be difficult to accurately predict the level of Callidus' participation in future Loan Portfolio growth, or the proportion of Loan Portfolio returns to which Callidus investors will be entitled.

Decisions with respect to funding of the Loan Portfolio will be made by CCGI on behalf of the Catalyst Funds subject to the Funding Formula. Newton Glassman, the Executive Chairman and Chief Executive Officer of Callidus, is also the Managing Partner of CCGI. See "Risk Factors – Conflicts of Interest," "Risk Factors – CCGI and the Catalyst Funds Exercise Significant Control over Callidus."

Loan Concentration

Callidus specializes in certain broad industry segments, including technology and hardware, industrials, forestry, consumer goods, financials, energy distribution and agriculture. Currently, the largest industry sectors represented in the Loan Portfolio as at December 31, 2013 are: technology and hardware, representing 37% of Gross Loans Receivable, and industrials, representing 30% of Gross Loans Receivable. Together, these two sectors represent approximately 67% of Gross Loans Receivable. Callidus does not have fixed guidelines for diversification and lending could potentially be concentrated in relatively few industries or markets. Callidus relies on its Credit Committee to assess various risks, including those relating to concentration, on a case by case basis. As a result, Callidus' Loan Portfolio currently has concentrations of risk exposure related to the above-mentioned industry segments, and additional concentrations may develop. If industry segments in which Callidus has a concentration of investments experience adverse economic or business conditions, the delinquencies, default rate and charge-offs in those segments may increase and could have a Material Adverse Effect on the Corporation.

In addition, as of December 31, 2013, the Loan Portfolio contained two loans with a funding commitment in excess of \$50 million. The largest loan provides a US\$75 million funding commitment to a wireless service provider, and the second largest loan provides a \$65 million funding commitment to a company in the mining and construction industry. As of December 31, 2013, these two loans represent approximately 20% of the funding commitments of the Loan Portfolio. A default by either borrower on its loan may result in Callidus failing to be repaid outstanding principal and interest owed to it, and could have a Material Adverse Effect on the Corporation.

Loan Prepayment

Callidus' term loans are prepayable by the borrowers, subject to prepayment penalties. Callidus is unable to predict if or when a borrower will prepay a loan. Typically, a borrower's decision to prepay depends on its continued positive economic performance and the existence of favourable financing market conditions that permit the borrower to replace its existing financing with less expensive capital. As market conditions change frequently, it is very difficult to predict if or when a borrower may deem market and business conditions to be favourable for prepayment. Prepayment of a loan by a borrower may have the effect of reducing the achievable yield of the loan to a level below that which was anticipated by Callidus. Such a reduction may occur when Callidus is unable to invest the funds prepaid by the borrower in other transactions with an expected yield greater than or equal to the yield Callidus expected to receive from the prepaying borrower.

Quarterly Financial and Operational Results

Callidus' quarterly net income and results of operations are difficult to forecast. Callidus may experience substantial fluctuations in net income and results of operations from quarter to quarter. Investors should not rely on Callidus' results of operations in any prior reporting period to be indicative of its performance in future reporting periods. Many different factors could cause Callidus' results of operations to vary from quarter to quarter, including:

- the success of Callidus' origination activities;
- credit losses and default rates;
- Callidus' ability to enter into financing arrangements;
- funding decisions made by the Catalyst Funds pursuant to the Participation Agreement;
- competition;
- seasonal fluctuations in Callidus' business, including the timing of transactions;
- costs of compliance with regulatory requirements;
- the timing and effect of any future acquisitions;
- personnel changes;
- changes in accounting rules;
- changes in prevailing interest rates;
- general changes to the Canadian, United States and global economies; and
- political conditions or events.

Callidus bases its current and future operating expense levels and its lending and investment plans on estimates of future net income, origination activity and rates of growth. Callidus expects that its expenses will increase in the future, and Callidus may not be able to adjust its spending quickly enough to compensate for net income that falls short of Callidus' expectations. Any shortfalls in Callidus' net income, origination activity, or in its expected growth rates, could have a Material Adverse Effect on the Corporation.

Change in Interest Rates

As at the date of this prospectus, all of the loans in the Loan Portfolio had fixed interest rates. Changes in market interest rates may cause the fair value or future cash flows of a financial instrument to fluctuate.

Additional Indebtedness of Borrowers

Callidus' lending criteria is based on the making of demand loans on a first lien (senior secured), collateralized basis. Callidus does, however, seek to provide flexible and innovative loan structuring and, to the extent a borrower is permitted to incur other debt secured by certain assets that ranks equally with, or senior to, the loans made by Callidus, such debt instruments may provide that the senior holders are entitled to receive payment of interest or principal on or before the dates on which the Callidus debt is serviced. The rights Callidus may have with respect to the collateral securing the loans it provides may also be limited pursuant to the terms of one or more intercreditor agreements with the holders of senior debt. Typically, an intercreditor agreement will provide various rights and remedies to the holder of a first priority lien during the time it is outstanding, which may result in Callidus failing to be repaid outstanding principal and interest owed to it and could have a Material Adverse Effect on the Corporation.

Fraud by a Borrower

While Callidus makes every effort to verify the accuracy of information provided to it when making a decision on whether to underwrite a loan, and has implemented systems and controls to assist in protecting itself against fraud, a borrower may fraudulently misrepresent information relating its financial health, operations, or compliance with the terms under which Callidus has advanced funds. In cases of fraud, it is difficult and often unlikely that Callidus will be able to collect amounts owing under loan or realize on collateral, which could have a Material Adverse Effect on the Corporation.

Control over Borrowers

Callidus is generally not in a position to exercise control over its borrowers or prevent decisions by the management or shareholders of a borrower that may affect the value of the collateral securing the Callidus loan, or otherwise affect the ability of the borrower to repay its obligations to Callidus. Furthermore, Callidus does not intend to take controlling equity positions in its borrowers. The lack of liquidity of debt positions that Callidus typically holds in its borrowers results in the risk that Callidus may not be able to dispose of its exposure to the borrower in the event that Callidus disagrees with the actions of that company. This could have a Material Adverse Effect on the Corporation.

Securities of Borrowers

Callidus lends almost exclusively to private companies. The securities issued by these companies will be subject to legal and other restrictions on resale or will be otherwise less liquid than publicly traded securities. To the extent Callidus receives, or takes security in, any form of securities issued by private companies, it may be difficult for Callidus to dispose of such holdings if the need arises. Furthermore, if Callidus is required to liquidate all or a portion of the securities it holds in an illiquid company, it may realize significantly less than the value at which it had previously recorded its holdings. In addition, Callidus may face restrictions on its ability to liquidate any securities it may hold in a borrower to the extent it has material non-public information regarding such borrower.

Monitoring, Enforcement and Liquidation Procedures

From time to time, Callidus will be required to take enforcement proceedings with respect to non-performing loans and may be required to liquidate a borrower's assets. Enforcement and liquidation proceedings can be time consuming and, if a sufficient number of loans require enforcement, management's attention may be diverted from the day to day operations or from pursuing its growth strategy and the Corporation may incur significant expenses that cannot be recovered.

In connection with managing and monitoring the Loan Portfolio, Callidus has established a "watch list" system whereby borrowers with a deteriorating financial condition, or that otherwise meet certain criteria, are closely monitored by Callidus with a view to Callidus taking a proactive approach to ensuring the borrower's compliance with the terms and obligations of its loan and managing the risk of default. There can be no assurance that Callidus' watch list procedures will successfully identify borrowers at risk of defaulting on, or failing to comply with, their obligations under a loan, or that enhanced scrutiny by Callidus of borrowers on the watch list will be sufficient to prevent a borrower's default on its loan obligations.

At any given time borrowers, including but not necessarily limited to those placed on a watch list by management, may represent a risk of a loss to Callidus. Such situations could arise where the collateral of the borrower falls below the outstanding loan balance, or where the borrower has otherwise failed to comply with its obligations. In appropriate cases, management will take a loan loss provision to reflect the potential loss on the loan that could be expected through a workout situation or a liquidation scenario (see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Table 3 – Loan Loss Provision"). Borrowers on the watch list or loans subject to a loan loss provision may be, and often are, still performing for Callidus with respect to their contractual monthly interest payments.

Credit Facilities

Callidus currently has a \$40 million Revolving Facility, of which \$19.9 million is outstanding as at December 31, 2013, and a \$50 million Term Loan, of which \$50 million plus accrued interest is outstanding as at December 31, 2013. In addition, Callidus intends to enter into the Second Credit Agreement, which provides for an aggregate of approximately US\$167 million of Class A Loans and approximately US\$33 million of Class B Loans. If Callidus' cash flow and capital resources are insufficient to service amounts owed under its Credit Facilities or any future indebtedness, Callidus may be forced to reduce or delay funding of new loans, dispose of assets, issue equity, or incur additional debt to obtain necessary funds. Alternatively, Callidus may be required to restructure its debt, all of which could have a Material Adverse Effect on the Corporation. In addition, Callidus cannot guarantee that it would be able to carry out any of the foregoing on terms acceptable to Callidus (or at all), that such actions would be permitted under the terms of the Credit Facilities, or that such actions would enable Callidus to continue to satisfy its capital requirements.

In addition, Callidus has not yet determined whether it will renew, extend or replace the Credit Facilities upon their respective maturities, or whether such a renewal, extension or replacement will be available on terms that are as favourable as the current Credit Facilities. Callidus' ability to renew, extend or replace the Credit Facilities may be constrained by the then-current economic conditions affecting credit markets. A failure by Callidus to renew, extend or replace the Credit Facilities at their maturity dates could have a Material Adverse Effect on the Corporation.

The Credit Facilities also contain financial and non-financial covenants (See "Funding Arrangements – Credit Agreement" and "Funding Arrangements – Second Credit Agreement"). Complying with such covenants may at times necessitate that Callidus forego other favourable business opportunities, such as granting additional loans. Moreover, Callidus' failure to comply with any of these covenants may constitute a default under some or all of the Credit Facilities and could result in the acceleration of some or all of Callidus' then outstanding indebtedness. Such an acceleration could have a Material Adverse Effect on the Corporation.

In the event of default by Callidus' under the Credit Facilities, Callidus' secured creditors (and their agents) will be contractually entitled to direct sales of Callidus' assets and investments, and may be expected to do so in a manner that prefers the interests of the secured and priority creditors over the interests of the Corporation's shareholders. Holders of Common Shares will incur losses if the proceeds from a sale by Callidus' secured and priority creditors, after payment in full of amounts due to such creditors (together with any associated costs and expenses), are insufficient to repay the respective amounts invested by each shareholder. As a result, investors in the Common Shares could experience a total loss of their investment.

See also "Risk Factors – Risks Relating to Callidus' Operations – Use of Leverage".

Lack of Funding

Callidus is dependent upon its ability to secure funding for its loans and to fund its existing obligations. While Callidus actively pursues new sources of funding, there can be no assurance that such additional financing will be obtained. In the past, Callidus has obtained the cash required for its operations through a combination of funding from the Catalyst Funds and debt. Callidus intends to fund new loans using (i) Debt Capital; (ii) Growth Capital; and (iii) funds received from the Catalyst Funds pursuant to the Participation Agreement. As at December 31, 2013, Callidus had liquidity of \$99 million available to fund new loans.

Concentration of Debt Financing Sources

Callidus has obtained debt financing from a limited number of financial institutions. Callidus' reliance on such entities for a significant amount of its funding exposes it to funding concentration risks. If the limited number of entities acting as lender to Callidus decide to terminate the Credit Facilities, such termination could have a Material Adverse Effect on the Corporation.

Use of Leverage

Callidus makes use of borrowed money to fund part of its loan origination and to pay various other operational expenses. The use of leverage magnifies the potential gains and losses from an investment and increases the risk of loss of capital. To the extent that income generated by the Loan Portfolio is greater than the cost of servicing the Corporation's debt, Callidus' net income will be greater than if borrowing had not been used. Conversely, if income from lending activities financed with borrowed funds is insufficient to cover the cost of borrowing, Callidus' net income will be less. The ability of Callidus to service any of its current or future outstanding debt depends largely on its financial performance and is subject to prevailing economic conditions and competitive pressures. The amount of leverage that Callidus employs at any particular time will depend on its assessments of market and other factors at the time of any proposed borrowing.

As a result of Callidus' use of leverage:

- the Common Shares may be exposed to incremental risk of loss and a decrease in the value of its Loan Portfolio would have a greater negative impact on the value of the Common Shares than if Callidus did not use leverage;
- adverse changes in interest rates could reduce or eliminate the incremental income Callidus receives from the proceeds of any leverage;
- Callidus and, indirectly, its shareholders, bear the entire cost of paying interest and repaying any borrowed funds;
- Callidus' ability to pay dividends on its Common Shares may be restricted by covenants or other restrictions imposed by the its lenders. See "Funding Arrangements" and "Risk Factors – Risks Relating to Callidus' Operations – Credit Facilities";
- Callidus' ability to amend its organizational documents or other agreements may be restricted if such amendments would result in a material adverse effect on its lenders; and
- Callidus may, under some circumstances, be required to dispose of its loan assets under unfavourable market conditions in order to maintain its leverage, thus causing Callidus to recognize a loss that might not otherwise have occurred.

The extent to which the gains and losses associated with leveraged investing are increased will generally depend on the degree of leverage employed. Callidus currently expects to maintain a leverage ratio of less than 50% debt to total loan assets.

Changes in Market and General Economic Conditions

A weak economy could impact the quality of the loans available to Callidus. Adverse economic conditions also may decrease the estimated value of the collateral securing Callidus' loans. Further or prolonged economic slowdowns or recessions could lead to financial losses in the Loan Portfolio and a decrease in Callidus' net finance income, net income and book value. Any of these events, or any other events caused by turmoil in global financial markets, could have a Material Adverse Effect on the Corporation.

Competitive Business Environment

Callidus' ability to originate new asset-based loans could be significantly affected by the activities of other industry participants. New competitors may enter the Canadian asset-based loan market or current market participants may significantly increase their activities in this area. There can be no assurance that Callidus will be able to compete effectively with its current and future competitors in connection with the origination of new loans. If these or other competitors were to engage in aggressive pricing policies, Callidus may have difficulty originating new loans or could be forced to offer lower rates, both of which could have a Material Adverse Effect on the Corporation. Some of Callidus' competitors offer a broader range of financial and lending services than Callidus and can leverage their existing customer relationships to offer and sell services that compete directly with Callidus' services. Further, Callidus' competitors may have greater financial, technical, marketing, origination and other resources, and may have greater access to lower cost capital. As a result of competition, Callidus may not be able to attract new customers, retain existing customers, or sustain the rate of growth that Callidus has experienced to date. As a result, Callidus' ability to profitably expand its Loan Portfolio may decline. If Callidus' existing customers choose to use competing sources of credit to refinance their debt, Callidus' Loan Portfolio could be adversely affected.

Entering New Markets

The Corporation plans to expand 'Callidus Lite' and to further expand in the United States ABL industry. The United States is a different lending market with different competitive dynamics and therefore presents distinct and substantial risks. The Corporation will face competition from significantly larger lenders in the United States. If the expansion of the 'Callidus Lite' product or the growth in the United States does not develop as currently anticipated, or if Callidus is unable to penetrate them successfully, such result could have a Material Adverse Effect on the Corporation.

Inability to Realize Potential Benefits from Growth

Callidus' inability to realize the potential benefits from its growth strategy may adversely impact its operating results. Callidus' ability to realize such benefits will be based on its management of growth and will require it to continue to build its operational, financial and management controls, human resource policies, and reporting systems and procedures. Callidus' ability to manage its growth will depend in large part upon a number of factors, including the ability of Callidus to rapidly:

- secure additional sources of funding to fund new loans, while maintaining a prudent capital structure for Callidus;
- significantly expand Callidus' internal operational and financial controls so that it can maintain control over operations and provide support to other functional areas as the number of personnel and size of its business increases;
- attract and retain qualified personnel in order to continue to develop Callidus' origination platforms and provide services that respond to evolving customer needs; and
- develop support capacity for customers as sales increase, so that Callidus can provide post-sales support without diverting resources from origination efforts.

Callidus' inability to achieve any of these objectives could have a Material Adverse Effect on the Corporation.

Management and Employees

Callidus' success and ability to compete is dependent on its continuing ability to identify, attract, hire, train, retain and motivate highly qualified management and employees with relationships and referral sources, an understanding of the ABL businesses, and knowledge of the industries in which Callidus' borrowers operate. Many of the financial institutions with which Callidus competes for experienced personnel may be able to offer more attractive terms of employment. If any of Callidus' key origination personnel were to cease their employment with Callidus, Callidus' origination volume may decline or cease. In addition, Callidus invests significant time and expense in training its employees, which increases their value to competitors who may seek to recruit them, and increases the costs of replacing them. These factors could have a Material Adverse Effect on the Corporation. See also "Risk Factors – Risks Relating to Callidus' Operations – Reliance on Certain Individuals and the Management Services Agreement".

Litigation

From time to time in the ordinary course of its business, Callidus may become involved in various legal proceedings, including commercial, employment, class action and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause Callidus to incur significant expenses. Furthermore, the results of any such actions could have a Material Adverse Effect on the Corporation.

Operating Policies and Strategies

The Board of Callidus has the authority to modify or waive certain of the Corporation's operating policies and strategies without prior notice and without the approval of Callidus shareholders. Callidus cannot predict the effect that changes to its current operating policies and strategies would have on its business, operating results or share price. Changes to the Callidus' operating policies and strategies could have a Material Adverse Effect on the Corporation.

Foreign Currency and Hedging Transactions

The results of operations and cash flows of Callidus may be affected by changes in the Canadian dollar exchange rate relative to the currencies of other countries. Currently, Callidus' Loan Portfolio contains exposure to loans denominated in U.S. dollars. Accordingly, a decrease in the value of the U.S. dollar relative to the Canadian dollar may have a negative effect on the financial performance of Callidus. Callidus currently employs hedging techniques to minimize currency exchange rate risks. Callidus is unable to offer any assurance that its hedging strategies will successfully reduce the risk they were designed to mitigate. Callidus' use of hedging transactions exposes it to risks associated with such transactions. Hedging against a decline in the values of its portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. Moreover, it may not be possible to hedge against an exchange rate fluctuation that is so generally anticipated that Callidus is not able to enter into a hedging transaction at an acceptable price.

Callidus makes use of certain derivative instruments, including forward contracts and swaps to facilitate its currency hedging activities. The use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in the underlying securities and other traditional investments. Callidus' use of derivative instruments involves certain inherent risks, including, but not limited to:

- the risk of default on amounts owing to Callidus by the counterparties with which Callidus has entered into such transactions;

- the risk that Callidus has entered into a derivative position that cannot be closed out quickly, by either liquidating such derivative instrument or by establishing an offsetting position; and
- the risk that, in respect of certain derivative products, an adverse change in market prices for currencies or interest rates will result in Callidus incurring an unrealized mark-to-market loss in respect of such derivative products.

Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index.

Failure of Computer and Data Processing Systems

Callidus is dependent upon the successful and uninterrupted functioning of its computer and data processing systems to monitor the Loan Portfolio, conduct its day-to-day operations, and identify new business opportunities. The failure of these systems could interrupt operations or materially impact Callidus' ability to originate and service its Loan Portfolio and conduct its day-to-day business operations.

Cyber-Security

Callidus maintains confidential information regarding its borrowers, business plans, strategy and potential origination opportunities in its computer systems. Callidus also maintains an internet website. Despite the implementation of network security measures, this infrastructure may be subject to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. A security breach of computer systems could disrupt operations, damage reputation, result in legal or regulatory liability, and could have a Material Adverse Effect on the Corporation.

Material Non-Public Information

Callidus' management or employees, and their respective affiliates, may serve as directors of, or in a similar capacity with, its borrowers. In the event that material non-public information is obtained with respect to its borrowers, such persons may become subject to trading restrictions under the internal trading policies of those companies or as a result of applicable law or regulations. As a result, Callidus could be prohibited for a period of time from selling the securities of a borrower, to the extent it owns any, and such a prohibition could have a Material Adverse Effect on the Corporation.

Payment In Kind Interest

Some of the loans made by Callidus contain a PIK interest provision. Loans with a PIK provision carry additional risk as the Corporation will not receive cash until such time as the "cash payment date" is reached (unless a portion of such loan is sold). If a borrower whose loan contains a PIK provision defaults, Callidus may obtain no return on its investment.

Lack of Regulation

Currently, there are no regulatory capital requirements on asset-based lenders that would impede their ability to extend credit, unlike the major commercial banks that are subject to the provisions of the *Bank Act* (Canada) and Basel III. Any changes to the regulation of the asset-based lending industry could have a Material Adverse Effect on the Corporation.

Risks Relating to the Offering

No Prior Public Market for Common Shares

Prior to the Offering, there has been no public trading market for the Common Shares, and Callidus cannot offer assurances that one will develop or be sustained after the Offering. Callidus cannot predict the prices at which the Common Shares will trade. The Offering Price was determined through negotiations among Callidus and the Underwriters, and may not bear any relationship to the market price at which it will trade after the Offering, or to any other established criteria of Callidus' value. Shares of companies often trade at a discount to the initial offering price due to sales loads, underwriting discounts and related offering expenses. Therefore, the Common Shares should not be treated as a trading vehicle.

Investment of Net Proceeds of the Offering

Callidus will have significant flexibility in applying the net proceeds of the Offering. Investors in Callidus will not have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding any investments or lending

activity undertaken by Callidus after the Offering. Callidus may pay operating and other expenses, such as costs associated with due diligence activities in connection with potential new investments, from the net proceeds of this Offering. The Corporation's ability to achieve its investment objectives may be limited to the extent that net proceeds of the Offering, pending full investment, are used to pay expenses rather than to make investments. Furthermore, no assurance can be given that Callidus will be successful in investing the net proceeds of the Offering in investments or lending activities that will achieve its business objectives.

Delays in Deploying Net Proceeds of the Offering

Callidus currently anticipates that a portion of the net proceeds of the Offering will be used in accordance with its investment objectives and underwriting criteria within six to twelve months following completion of the Offering. Callidus cannot offer any assurance that it will be able to locate a sufficient number of suitable investment opportunities to allow it to successfully deploy the net proceeds of the Offering within that timeframe. To the extent Callidus is unable to do so, Callidus' investment income, and in turn its results of operations, will likely be adversely affected.

Portfolio Investment Opportunities not yet Identified

Callidus has not yet identified all of the potential portfolio investments into which it will direct a portion of the net proceeds of the Offering. Portfolio investments will be selected by Callidus subsequent to the Closing, and Callidus' shareholders will have no input with respect to such investment decisions. These factors increase the uncertainty, and thus the risk, of investing in the Common Shares.

Loss of Entire Investment

An investment in the Offered Shares is speculative and may result in the loss of an investor's entire investment. Only potential investors who are experienced in high risk investments and who can afford to lose their entire investment should consider an investment in the Corporation.

Market Price of the Common Shares

The market price for the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond Callidus' control, including the following:

- actual or anticipated fluctuations in Callidus' quarterly results of operations, including changes in earnings or variations in operating results;
- changes in the value of Callidus' portfolio of investments;
- recommendations by securities research analysts;
- operating performance and, if applicable, share price performance of Callidus' competitors;
- addition or departure of Callidus' management and other key personnel;
- expiration of lock-up or other transfer restrictions on outstanding Common Shares;
- sales of additional Common Shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Callidus or its competitors;
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related industry and market issues;
- funding decisions by the Catalyst Funds pursuant to the Participation Agreement; and
- loss of a major funding source.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities and that have often been unrelated to the operating performance, underlying asset values or business prospects. Accordingly, the market price of the Common Shares may decline even if Callidus' operating results, underlying asset

values or business prospects have not changed. There can be no assurance that continuing fluctuations in share price and volume will not occur, which could have a Material Adverse Effect on the Corporation.

Dividend Policy

Callidus has not declared or paid any dividends since its inception and does not anticipate paying dividends on the Common Shares in the foreseeable future. The declaration and payment of dividends on the Common Shares is at the discretion of the Board. The amount and timing of any future dividends will be at the discretion of the Board after taking into account such factors as the Corporation's financial condition, results of operations, current and anticipated cash needs, the satisfaction of solvency tests imposed by the corporate law for the declaration and payment of dividends, restrictions on dividend payments imposed by the Credit Facilities, the requirements of any future financing agreements and other factors that the Board may deem relevant. See "Dividend Policy".

Future Capital Requirements and Dilution

Callidus may need to raise additional funds through public or private debt or equity financings in order to:

- fund ongoing operations;
- take advantage of opportunities, including more rapid expansion of Callidus' business or the acquisition of complementary businesses; or
- respond to competitive pressures.

Any additional capital raised through the sale of equity will dilute Callidus' existing shareholders' percentage ownership of Common Shares. Capital raised through debt financing would require Callidus to make periodic interest payments and may impose restrictive covenants on the conduct of Callidus' business. Furthermore, additional financings may not be available on terms favourable to Callidus, or at all. A failure to obtain additional funding could prevent Callidus from making expenditures that may be required to implement Callidus' growth strategy and grow or maintain Callidus' operations.

While Callidus believes that its capacity to expand the existing Credit Facilities and access the equity markets will be sufficient to fund future originations and its normal operating and capital expenditures, as Callidus grows, this ability to access necessary capital cannot be assured.

Future Sales of Common Shares by Existing Shareholders

Sales of a substantial number of Common Shares in the public market could occur at any time. These sales, or the market perception that the holders of a large number of Common Shares intend to sell Common Shares, could reduce the market price of the Common Shares. If this occurs and continues, it could impair Callidus' ability to raise additional capital through the sale of securities.

100% of the Common Shares issued and outstanding prior to completion of this Offering are subject to a post-Closing lock-up period of (a) with respect to the CCGI Shares, until the later of (i) two years after the Closing Date; and (ii) the date on which CCGI or its affiliates would become entitled to such Common Shares pursuant to the provisions of the partnership agreement of the applicable Catalyst Fund (or, if CCGI does not become entitled to such Common Shares with respect to a particular Catalyst Fund, on the date such fund has disposed of substantially all of its investments); and (b) with respect to all other Common Shares held beneficially by the Catalyst Funds, 180 days after the Closing Date. Upon expiration of such lock-up period, such Common Shares will be freely tradable in the public market, subject to the provisions of applicable securities laws. See "Plan of Distribution".

The Catalyst Funds are private equity funds. As with all similar funds, each of the Catalyst Funds has a specified period in which it invests committed capital, followed by a period in which it disposes of those investments, distributes proceeds to investors and, ultimately, dissolves. Accordingly, after the termination of their respective investment periods, each of the Catalyst Funds will undertake a process of disposing of any interest it may have in Callidus at that time. The investment period for Catalyst Fund II has terminated and the fund is in the process of disposing of its investments. The current term of the fund expires in April 2014 although CCGI anticipates that the general partner of Catalyst Fund II will extend the term of Catalyst Fund II to April 2015. If further extensions are necessary to facilitate an orderly disposition of Catalyst Fund II's investments, such extensions can be granted with the approval of investors, however there can be no assurance that any such extension would be approved. Accordingly, Catalyst Fund II, which, as of the closing of the Offering will hold 4,091,710 Common Shares, may be required to dispose of its holdings by April 2015. The terms of Catalyst Fund III and Catalyst Fund IV expire in 2015 and 2017, respectively, although, in each case the applicable general partner has the right to extend the terms for up to two successive one year periods and further extensions may be granted with the approval of investors. See "Principal Shareholders".

Inaccurate or Unfavourable Research

The trading market for Common Shares relies in part on the research and reports that securities analysts and other third-parties choose to publish about Callidus. Callidus does not control these analysts or other third-parties. The price of the Common Shares could decline if one or more securities analysts downgrade Callidus or if one or more securities analysts or other third-parties publish inaccurate or unfavourable research about Callidus or cease publishing reports about Callidus.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement between the Corporation, Catalyst Fund II, Catalyst Fund III, Catalyst Fund IV, and the Underwriters, the Corporation has agreed to issue and sell, and the Underwriters have severally agreed to purchase, as principals, on the Closing Date or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than a date that is 42 days after the date of the receipt for this prospectus, 18,000,000 Offered Shares at the Offering Price for a total consideration of \$252,000,000, subject to compliance with all of the applicable legal requirements and to the terms and conditions contained in the Underwriting Agreement.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint. The Underwriters are, however, severally obligated to take up and pay for all of the Offered Shares if any of the Offered Shares are purchased under the Underwriting Agreement. The Underwriters are not required to take up or pay for Common Shares covered by the Over-Allotment Option described below. The obligations of the Underwriters under the Underwriting Agreement are conditional and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Corporation, Catalyst Fund II, Catalyst Fund III, and Catalyst Fund IV have agreed to indemnify the Underwriters, their directors, executive officers, employees and agents, against certain liabilities, including civil liabilities under applicable securities legislation or will contribute to payments the Underwriters may be required to make in respect thereof.

The Offering is being made in each of the provinces and territories of Canada (the “Offering Jurisdictions”). Offered Shares will be offered in each of the Offering Jurisdictions through those Underwriters or their affiliates who are registered to offer Offered Shares in such provinces and territories and such other registered dealers as may be designated by the Underwriters. Subject to applicable law and the provisions of the Underwriting Agreement, the Underwriters may offer the Offered Shares outside of Canada. There is currently no market through which Common Shares may be sold and prospective purchasers may not be able to resell Common Shares purchased under this prospectus.

The TSX has conditionally approved the listing of the Common Shares, subject to the Corporation fulfilling all of the listing requirements of the TSX on or before July 8, 2014.

The Offering Price and other terms of the Offering were determined by negotiation among the Corporation, Catalyst Fund II, Catalyst Fund III, Catalyst Fund IV, and the Underwriters. The Corporation has agreed to pay the Underwriters, in consideration for the services provided in connection with the Offering, an Underwriting Fee of \$0.805 per Offered Share.

Subscriptions for Offered Shares will be received subject to rejection or allotment, in whole or in part, and the Underwriters reserve the right to close the subscription books at any time without notice. Closing is expected to occur on the Closing Date, or such other date as the Corporation and the Underwriters may agree, but in any event no later than the date that is 42 days after the date of the receipt for this prospectus.

Offered Shares will be delivered electronically through the non-certificated inventory (“NCI”) system of CDS Clearing and Depository Services Inc. (“CDS”). On the Closing Date, the Corporation, via its transfer agent, will electronically deliver the Offered Shares registered to CDS or its nominee. Transfers of ownership of Offered Shares in Canada must be effected through a CDS participant, which includes securities brokers and dealers, banks and trust companies. All rights of shareholders who hold Offered Shares in CDS must be exercised through, and all payments or other property to which such shareholders are entitled, will be made or delivered by CDS or the CDS participant through which the shareholder holds such Offered Shares. A holder of an Offered Share participating in the NCI system will not be entitled to a certificate or other instrument from the Corporation or the Corporation’s transfer agent evidencing that person’s interest in or ownership of Offered Shares, nor, to the extent applicable, will such holder be shown on the records maintained by CDS, except through an agent who is a CDS participant. The ability of a beneficial owner of Offered Shares to pledge such Offered Shares or otherwise take action with respect to such owner’s interest in such Offered Shares (other than through a CDS participant) may be limited due to the lack of a physical certificate.

The Offered Shares offered hereby have not been, and will not be, registered under the U.S. Securities Act or any state securities laws, and may not be offered or sold within the United States absent registration or an applicable exemption from the

registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Underwriters have agreed that they will not offer or sell Offered Shares within the United States, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriting Agreement provides that the Underwriters, acting through its U.S. registered broker-dealer affiliate, may re-offer and re-sell the Offered Shares that they have acquired pursuant to the Underwriting Agreement to “qualified institutional buyers” as defined in, and in accordance with the exemption from the registration requirements of, Rule 144A under the U.S. Securities Act, and in compliance with similar exemptions under applicable state securities laws. The Underwriting Agreement also provides that the Underwriters may offer and sell the Offered Shares outside the United States in accordance with Regulation S under the U.S. Securities Act. The Offered Shares that are sold in the United States will be restricted securities within the meaning of Rule 144 under the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Offered Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act, unless such offer is made pursuant to an exemption from registration under the U.S. Securities Act.

Over-Allotment Option

The Corporation has granted the Underwriters the Over-Allotment Option, exercisable in whole or in part at any time and from time to time, for a period of 30 days following Closing, to purchase up to an additional 2,700,000 Common Shares (representing approximately 15% of the Offered Shares offered pursuant to the Offering) solely to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total price to the public, the Underwriting Fee and the net proceeds to the Corporation will be \$289,800,000, \$16,663,500, and \$273,136,500, respectively. This prospectus qualifies the grant of the Over-Allotment Option and the distribution of Common Shares upon exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Underwriters’ over-allocation position acquires those Common Shares under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Price Stabilization, Short Positions and Passive Market Making

In connection with the Offering, the Underwriters may over-allocate or effect transactions which stabilize, maintain or otherwise affect the market price of Common Shares at levels other than those which otherwise might prevail on the open market, including: stabilizing transactions; short sales; purchases to cover positions created by short sales; imposition of penalty bids; and syndicate covering transactions.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of Common Shares while the Offering is in progress. These transactions may also include making short sales of Common Shares, which involve the sale by the Underwriters of a greater number of Common Shares than they are required to purchase in the Offering. Short sales may be “covered short sales”, which are short positions in an amount not greater than the Over-Allotment Option, or may be “naked short sales”, which are short positions in excess of that amount.

The Underwriters may close out any covered short position either by exercising the Over-Allotment Option, in whole or in part, or by purchasing Common Shares in the open market. In making this determination, the Underwriters will consider, among other things, the price of Common Shares available for purchase in the open market compared with the price at which they may purchase Common Shares through the Over-Allotment Option. The Underwriters must close out any naked short position by purchasing Common Shares in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of Common Shares in the open market that could adversely affect purchasers who purchased in the Offering.

In addition, in accordance with rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period of distribution, bid for, or purchase, Offered Shares. The foregoing restriction is, however, subject to exceptions where the bid or purchase is not made for the purpose of creating actual or apparent active trading in, or raising the price of, Common Shares. These exceptions include a bid or purchase permitted under the by-laws and rules of applicable regulatory authorities and the Toronto Stock Exchange, including the Universal Market Integrity Rules for Canadian Marketplaces, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution.

As a result of these activities, the Underwriters may effect transactions which stabilize or maintain the market price for the Common Shares, and the price of Common Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. The Underwriters may carry out these transactions on any stock exchange on which Common Shares are listed, in the over-the-counter market, or otherwise.

The Underwriters propose to offer Offered Shares initially at the Offering Price specified on the cover page of this prospectus. After the Underwriters have made their best effort to sell all of the Offered Shares at the price specified on the cover page, the Offering Price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by prospective purchasers for Offered Shares is less than the gross price paid by the Underwriters to the Corporation. Any such reduction in price will not affect the proceeds received by the Corporation.

Restrictions on the Sales of Common Shares

Restrictions on the Corporation

Pursuant to the Underwriting Agreement, the Corporation has agreed that without the prior written consent of the Lead Underwriter, it will not, during the period ending 180 days after the Closing Date: (i) offer, sell, issue, contract to sell, pledge or otherwise dispose of, directly or indirectly, any Common Shares, rights to purchase Common Shares or any securities convertible into or exercisable or exchangeable for Common Shares; (ii) enter into any swap, hedge or any other agreement that transfers, in whole or in part, the economic consequences of ownership of Common Shares; or (iii) agree or announce any intention to do any of the foregoing, other than Common Shares issuable under the Over-Allotment Option or under equity compensation plans of the Corporation outstanding at Closing; regardless of whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Shares, or other securities or interests, in cash or otherwise.

Restrictions on Certain Shareholders

Prior to Closing, the Lead Underwriter will enter into a lock-up agreement with CCGI and each of Catalyst Fund II, Catalyst Fund III and Catalyst Fund IV pursuant to which each such party will agree, subject to certain exceptions, not to offer, sell, contract to sell, agree to sell, pledge, hypothecate, grant or otherwise dispose of, or agree to dispose of, directly or indirectly, any Common Shares or securities convertible into or exchangeable or exercisable for any Common Shares or Common Shares issuable on the conversion or exchange of any convertible security (whether such Common Shares or convertible securities were held or received prior to, at, or after Closing, but excluding any Common Shares acquired on the secondary market after the completion of the Offering), enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of Common Shares, without the prior written consent of the Lead Underwriter for the following periods:

- (a) with respect to the 3,964,786 Common Shares representing the number of Common Shares anticipated to be distributed to CCGI or its affiliates as its carried interest (the “CCGI Shares”), until the later of (i) two years after the Closing Date; and (ii) the date on which CCGI or its affiliates would become entitled to such Common Shares pursuant to the provisions of the partnership agreement of the applicable Catalyst Fund (or, if CCGI does not become entitled to such Common Shares with respect to a particular Catalyst Fund, on the date such fund has disposed of substantially all of its investments); and.
- (b) with respect to all other Common Shares held beneficially by the Catalyst Funds, 180 days after the Closing Date.

CCGI or an affiliate will be entitled to 20% of the Common Shares held by each of Catalyst Fund II and Catalyst Fund III as of the Closing Date once the relevant fund has undertaken the disposition of its investment and limited partners have received their committed capital plus a specified rate of return. CCGI anticipates that it will become entitled to 20% of the Common Shares held by Fund II in 2015 and, in the event the hurdle rate of return is achieved, it would become entitled to 20% of the Common Shares held by Catalyst Fund III in 2017. See “Principal Shareholders”.

Notwithstanding the foregoing, the Underwriters have agreed to provide their consent, as a condition of Closing, for the Catalyst Funds to transfer or grant, directly or indirectly, the CCGI Shares to CCGI, an affiliate of CCGI or to any partner or employee of CCGI who may ultimately be entitled to such Common Shares provided that any such affiliate, partner or employee first executes a lock-up agreement with the Lead Underwriter substantially in the form of the lock-up agreement with CCGI. See “Principal Shareholders”.

All other holders of Common Shares and Options as of the Closing Date will similarly be subject to a 180-day lock-up.

ELIGIBILITY FOR INVESTMENT

In the opinion of Fasken Martineau DuMoulin LLP, counsel to the Corporation, and Cassels Brock & Blackwell LLP, counsel to the Underwriters, based on the provisions of the *Income Tax Act* (Canada) (the “Tax Act”) and the regulations thereunder

in force on the date hereof, provided the Offered Shares are listed on a designated stock exchange (which includes the Toronto Stock Exchange), the Offered Shares will be qualified investments under the Tax Act for trusts governed by a registered retirement savings plan (“RRSP”), registered retirement income fund (“RRIF”), registered education savings plan, registered disability savings plan, deferred profit sharing plan or tax-free savings account (“TFSA”), all as defined in the Tax Act.

Notwithstanding that Offered Shares may be qualified investments for a trust governed by a RRSP, RRIF or TFSA, the annuitant of a RRSP or RRIF and the holder of a TFSA that holds Offered Shares will be subject to a penalty tax if Offered Shares constitute a “prohibited investment” (as defined in the Tax Act) for the trust. Offered Shares will not be a prohibited investment for a trust governed by a RRSP, RRIF or TFSA provided the annuitant or holder of such RRSP, RRIF, or TFSA, as the case may be, deals at arm’s length with the Corporation for purposes of the Tax Act and does not have a “significant interest” (as defined in the Tax Act for the purpose of the prohibited investment rules) in the Corporation. Generally, an annuitant or holder will have a significant interest in the Corporation if the annuitant or holder (and/or persons or partnerships not dealing at arm’s length with the annuitant or holder) owns directly or indirectly 10% or more of the issued shares of any class of the capital stock of the Corporation or any corporation related to the Corporation within the meaning of the Tax Act. In addition, the Offered Shares will not be a prohibited investment if they are “excluded property” (as defined in the Tax Act) for trusts governed by a TFSA, RRSP or RRIF.

Prospective investors who intend to hold the Offered Shares in a RRSP, RRIF or TFSA should consult their own tax advisors as to whether the Offered Shares will be a prohibited investment in their particular circumstances.

MATERIAL CONTRACTS

The following material contracts and documents (the “Material Contracts”) can reasonably be regarded as material to purchasers of Common Shares:

- (a) the Debenture Repayment Agreement;
- (b) the Participation Agreement;
- (c) the Credit Agreement;
- (d) the Second Credit Agreement;
- (e) the Management Services Agreement; and
- (f) the Underwriting Agreement.

Copies of the Material Contracts may, following the filing of the final prospectus, be inspected at the head and registered office of Callidus located at 77 King Street West, Suite 4320, TD North Tower, P.O. Box 212, Toronto, Ontario M5K 1K2, during normal business hours during the period of distribution of Offered Shares offered hereunder, or they are available at www.sedar.com.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Corporation is not aware of any legal proceedings or regulatory actions outstanding, threatened or pending as of the date hereof by or against the Corporation which would be material to the Corporation’s consolidated financial condition or results of operations.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The independent auditors of the Corporation are KPMG LLP, at its offices located at 4600-333 Bay Street, Toronto, Ontario, M5H 2S5. KPMG LLP have confirmed that they are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

The Corporation will retain Computershare Investor Services Inc. in Toronto, Ontario to act as registrar and transfer agent for the Common Shares.

EXPERTS

There is no person or company whose profession or business gives authority to a report, valuation, statement or opinion made by such person or company and who is named as having prepared or certified a report, valuation, statement or opinion in this prospectus, other than KPMG LLP, Fasken Martineau DuMoulin LLP and Cassels Brock & Blackwell LLP (collectively, the “Experts”).

There were no registered or beneficial interests, direct or indirect, in any securities or other property of Callidus or of one of its associates or affiliates: (i) held by an Expert, when such Expert prepared the report, valuation, statement or opinion referred to herein as having been prepared by such Expert; (ii) received by an Expert, after the time specified above; or (iii) to be received by an Expert; except in each case for the ownership of Common Shares, which in respect of each Expert, as a group, has at all relevant times represented less than 1% of the outstanding Common Shares. In addition, none of the Experts, and no director, executive officer or employee of any of the Experts, is or is expected to be elected, appointed or employed as a director, executive officer or employee of Callidus or of any associate or affiliate of Callidus.

PURCHASERS’ STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt, or deemed receipt, of a prospectus and any amendment. In several of the provinces and territories, securities legislation further provides a purchaser with remedies of rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. Purchasers should refer to any applicable provisions of the securities legislation of their province or territory for the particulars of these rights or consult with a legal advisor.

APPENDIX “A” GLOSSARY OF TERMS

In this prospectus, unless otherwise indicated or the context otherwise requires, the following terms shall have the meaning set forth below:

“**ABL**” means asset-based lending, as defined below.

“**Active Portfolio**” has the meaning set out under the heading “Funding Arrangements – Participation Agreement”.

“**Adjusted EBITDA**” has the meaning set out under the heading “Management’s Discussion and Analysis of Financial Results – Description of Non-IFRS Measures”.

“**affiliate**” has the meaning ascribed to that term in the *Securities Act* (Ontario).

“**Amended and Restated Roadshow Presentation**” has the meaning set out under the heading “Marketing Materials”.

“**Amended and Restated Term Sheet**” has the meaning set out under the heading “Marketing Materials”.

“**asset-based lending**” means commercial finance where loans are secured by assets and subject to a borrowing base.

“**assets under management**” means the sum of the current fair value of fund assets and the uncalled committed capital (as defined by the limited partnership agreements governing such funds).

“**associate**” has the meaning ascribed to that term in the *Securities Act* (Ontario).

“**Audit & Risk Committee**” means the audit & risk committee of the Board.

“**Audit & Risk Committee Charter**” means the charter of the Audit & Risk Committee, a copy of which is attached as Appendix “C”.

“**Available Capital of Callidus**” has the meaning set out under the heading “Funding Arrangements – Participation Agreement – Funding Formula”.

“**Available Capital of the Catalyst Fund**” has the meaning set out under the heading “Funding Arrangements – Participation Agreement – Funding Formula”.

“**Average Loan Portfolio Outstanding**” has the meaning set out under the heading “Management’s Discussion and Analysis of Financial Results – Description of Non-IFRS Measures”.

“**Board**” means the board of directors of the Corporation.

“**Board Mandate**” means the mandate of the Board, a copy of which is attached as Appendix “B”.

“**Callidus**” mean Callidus Capital Corporation.

“**Callidus Investment**” means an investment in Callidus, whether through Common Share ownership or participation interests granted pursuant to the Participation Agreement.

“**Catalyst Fund I**” means Catalyst Fund Limited Partnership I.

“**Catalyst Fund II**” means Catalyst Fund Limited Partnership II (together with a parallel fund).

“**Catalyst Fund III**” means Catalyst Fund Limited Partnership III.

“**Catalyst Fund IV**” means Catalyst Fund Limited Partnership IV.

“**Catalyst Funds**” means Catalyst Fund II, Catalyst Fund III and Catalyst Fund IV and any other investment fund established or managed by CCGI after the date hereof that CCGI elects to have participate in the funding of the Loan Portfolio.

“CCGI Shares” has the meaning set out under the heading “Plan of Distribution – Restrictions on the Sales of Common Shares – Restrictions on Certain Shareholders”.

“CCGI” means The Catalyst Capital Group Inc.

“CDS” has the meaning set out on the cover page.

“CEO” means the Chief Executive Officer of the Corporation.

“CFO” means the Chief Financial Officer of the Corporation.

“Chairman” means the Chairman of the Board.

“Class A Loans” has the meaning set out under the heading “Funding Arrangements – Second Credit Agreement”.

“Class B Loans” has the meaning set out under the heading “Funding Arrangements – Second Credit Agreement”.

“Closing Date” has the meaning set out on the cover page.

“Closing” has the meaning set out on the cover page.

“Code of Conduct” has the meaning set out under the heading “Audit Committee and Corporate Governance – Code of Conduct and Ethics”.

“Common Shares” has the meaning set out on the cover page.

“Compensation and Governance Committee” means the nominating, compensation and corporate governance committee of the Board.

“COO” means the Chief Operating Officer of the Corporation.

“Corporation” means Callidus Capital Corporation.

“Credit Agreement” means the first amended and restated credit agreement dated December 19, 2013 among Callidus and the Senior Lenders.

“Credit Committee” has the meaning set out under the heading “Lending Review Process”.

“Credit Facilities” mean the credit facilities provided to Callidus pursuant to the terms of the Credit Agreement and the Second Credit Agreement.

“Debenture Repayment Agreement” has the meaning set out under the heading “Pre-Closing Transactions”.

“Debt Capital” means amounts drawn under the Credit Facilities (or any other credit facilities or debt securities related to the Loan Portfolio from time to time).

“Derecognition” has the meaning set out under the heading “Management’s Discussion and Analysis of Financial Results – Outlook”.

“DSU” means the deferred share units of the Corporation.

“EBITDA” has the meaning set out under the heading “Management’s Discussion and Analysis of Financial Results – Description of Non-IFRS Measures”.

“Eligible Persons” has the meaning set out under the heading “Executive Officers and Directors Compensation – Incentive Plan Awards – Narrative Discussion of Incentive Plans – Incentive Plan”.

“Existing Borrower” means any entity to which Callidus has made a loan forming part of a Loan Portfolio, or which has had a loan outstanding to Callidus, in the past twelve months and any and all affiliates of such entity.

“fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Corporation has access at that date.

“Financial Statements” means the audited annual consolidated financial statements of Callidus as at December 31, 2013, 2012 and 2011, and for the years ended December 31, 2013, 2012 and 2011, and the related notes attached thereto.

“Floor” has the meaning set out under the heading “Funding Arrangements – Participation Agreement – Funding Formula”.

“Forward-looking statement” has the meaning set out under the heading “Cautionary Note Regarding Forward-Looking Statements”.

“fully collateralized basis” means that the loan advanced is less than the estimated value of the collateral at the time of such advance.

“Funding Formula” has the meaning set out under the heading “Funding Arrangements – Participation Agreement – Funding Formula”.

“FX Facility” means the facility for the establishment of foreign exchange forward contracts in the maximum principal amount of \$7.5 million provided to Callidus pursuant to the terms of the Credit Agreement.

“Grants” means, collectively, Options and DSUs granted pursuant to the Incentive Plan.

“Gross Loans Receivable” has the meaning set out under the heading “Management’s Discussion and Analysis of Financial Results – Description of Non-IFRS Measures”.

“Gross Yield” has the meaning set out under the heading “Management’s Discussion and Analysis of Financial Results – Description of Non-IFRS Measures”.

“Growth Capital” means cash held by Callidus for the purpose of expanding the Loan Portfolio including \$50 million from the proceeds of the Offering, the net proceeds of future issuances of any securities and amounts generated by Callidus from the operation of the business which amounts are not held for the benefit of a Catalyst Fund pursuant to the terms of the Participation Agreement and which, for greater certainty, will not include Debt Capital.

“IASB” means the International Accounting Standards Board.

“IFRS” has the meaning set out under the heading “Presentation of Financial Matters”.

“Initial Portfolio” has the meaning set out under the heading “Funding Arrangements – Participation Agreement”.

“Incentive Plan” means the amended and restated incentive plan of the Corporation effective as of April 11, 2014.

“Lead Underwriter” has the meaning set out on the cover page.

“Leverage Cap” has the meaning set out under the heading “Funding Arrangements – Participation Agreement – Limitation on Leverage”.

“Loan Portfolio” means, collectively, the Initial Portfolio, the Active Portfolio, the Passive Portfolios and any other portfolios of asset-based loans managed by Callidus including additional advances made in respect of such loans and other asset-based loans after the date hereof.

“Loans” has the meaning set out under the heading “Funding Arrangements – Second Credit Agreement”.

“Management Services Agreement” has the meaning set out under the heading “Executive Officers and Directors Compensation – Management Services Agreement”.

“management” has the meaning set out under the heading “Pre-Closing Transactions and Basis Of Presentation Of Callidus”.

“Marketing Materials” means the Term Sheet, the Amended and Restated Term Sheet, the Roadshow Presentation and the Amended and Restated Roadshow Presentation.

“Material Adverse Effect” has the meaning set out under the heading “Risk Factors”.

“MD&A” means management’s discussion and analysis.

“**MI 61-101**” means Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*.

“**mid-market companies**” means those with borrowing requirements of \$5 to \$100 million who are unable to access traditional debt.

“**NCI**” means non-certificated inventory.

“**NEO**” or “**Named Executive Officer**” has the meaning set out under the heading “Executive Officers and Directors Compensation”.

“**New Equity Funding**” has the meaning set out under the heading “Funding Arrangements – Participation Agreement – Funding Formula”.

“**New Senior Debt**” means new indebtedness incurred pursuant to the Second Credit Agreement.

“**NI 41-101**” means National Instrument 41-101 — *General Prospectus Requirements*.

“**NI 52-110**” means National Instrument 52-110 – *Audit Committees*.

“**NI 58-101**” means National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

“**OBCA**” means the *Business Corporations Act* (Ontario).

“**Offered Shares**” has the meaning set out on the cover page.

“**Offering Jurisdictions**” has the meaning set out under the heading “Plan of Distribution”.

“**Offering Price**” has the meaning set out on the cover page.

“**Offering Price**” has the meaning set out on the cover page.

“**Offering**” has the meaning set out on the cover page.

“**Order**” has the meaning set out under the heading “Executive Officers and Directors – Corporate Cease Trade Orders and Bankruptcies”.

“**Over-Allotment Option**” has the meaning set out on the cover page.

“**Participating Debenture**” means the participating secured grid debenture dated as of July 1, 2012, issued by Callidus in favour of Catalyst Fund III and Catalyst Fund IV.

“**Participation Agreement**” means the participation agreement dated the Closing Date among Callidus, the Catalyst Funds and CCGI.

“**Passive Portfolio**” has the meaning set out under the heading “Funding Arrangements – Participation Agreement”.

“**PIK**” means payment-in-kind.

“**PIK Loan**” has the meaning set out under “Description of the Business - Current Loan Portfolio - Payment In Kind Loans”.

“**Pre-Closing Transactions**” means the series of transactions described under the heading “Pre-Closing Transactions”.

“**Preferred Shares**” means the preferred shares in the capital of the Corporation.

“**Realization Proceedings**” means, with respect to any loan: (i) the Corporation has made a demand for payment prior to the stated expiration date of that loan; (ii) the Corporation’s Credit Committee has rejected an application to renew that loan; (iii) the Corporation has entered into a standstill and forbearance agreement; or (iv) proceedings have been initiated with respect to the borrower thereunder under the *Companies’ Creditors Arrangement Act* (Canada) or the Bankruptcy and Insolvency Act (Canada) or similar legislation in other jurisdictions, except in connection with an original credit approval and as a condition for making that loan available.

“**Related Party Policy**” means the related party transaction policy of the Corporation.

“Revolving Facility” means the revolving credit facility in the maximum principal amount of \$40 million provided to Callidus pursuant to the terms of the Credit Agreement.

“Roadshow Presentation” means the template version of the roadshow presentation dated March 26, 2014.

“RRIF” means a registered retirement income fund.

“RRSP” means a registered retirement savings plan.

“Second Credit Agreement” means the loan financing and servicing agreement dated April 10, 2014, between, among others, the Corporation, CCC Funding Corporation and the lenders named therein, as described in the Prospectus.

“Senior Lenders” means two major financial institutions.

“Share Split” has the meaning set out under the heading “Pre-Closing Transactions”.

“Structuring Agent” has the meaning set out under the heading “Funding Arrangements – Second Credit Agreement”.

“Tax Act” has the meaning set out under the heading “Eligibility for Investment”.

“Tax Fees” has the meaning set out under the heading “External Auditor Service Fees”.

“Term Loan” means the loan to Callidus in the principal amount of \$50 million pursuant to the terms of the Credit Agreement.

“Term Sheet” means the template version of the indicative term sheet dated March 26, 2014.

“TFSA” means a tax free savings account.

“Total Available Capital” has the meaning set out under the heading “Funding Arrangements – Participation Agreement – Funding Formula ”.

“TSX” means the Toronto Stock Exchange.

“U.S. Securities Act” has the meaning set out on the cover page.

“U.S.” or **“United States”** means the United States of America, its territories and possessions, any state of the United States and the District of Columbia.

“Underwriters ” has the meaning set out on the cover page.

“Underwriting Agreement” has the meaning set out on the cover page.

“Underwriting Fee” has the meaning set out on the cover page.

**APPENDIX “B”
BOARD MANDATE**

CALLIDUS CAPITAL CORPORATION

To each of the directors of Callidus Capital Corporation (the “Corporation”).

1. GENERAL

The fundamental responsibility of the board of directors (the “Board”) is to supervise the management of the business and affairs of the Corporation.

The Board has adopted this Mandate, which reflects the Corporation’s commitment to high standards of corporate governance, to assist the Board in supervising the management of the business and affairs of the Corporation. The Board is responsible for assessing its own effectiveness in fulfilling this mandate.

The Board believes that sound corporate governance practices are essential to the well-being of the Corporation and the promotion and protection of its shareholders’ interests. The Board oversees the functioning of the Corporation’s governance system, in part through the work of the Nominating, Compensation and Corporate Governance Committee.

The Board promotes fair reporting, including financial reporting, to shareholders of the Corporation and other interested persons as well as ethical and legal corporate conduct through an appropriate system of corporate governance, internal controls and disclosure controls. The Board believes that the Corporation is best served by a board of directors that functions independently of management and is informed and engaged.

The Nominating, Compensation and Corporate Governance Committee will review this mandate annually, or more often if warranted, and recommend to the Board such changes as it deems necessary and appropriate in light of the Corporation’s needs and legal and regulatory developments.

2. COMPOSITION AND OPERATION OF THE BOARD

The Board operates by delegating certain of its authorities to management and by reserving certain powers to itself. The Board retains the responsibility of managing its own affairs including selecting its chairman, nominating candidates for election to the board, constituting committees of the full Board and determining compensation for the directors. Subject to the articles and by-laws of the Corporation and the *Business Corporations Act* (Ontario) (the “OBCA”), the Board may constitute, seek the advice of and delegate powers, duties and responsibilities to committees of the Board.

The Board should consist of individuals who possess skills and competencies in areas that are relevant to the business and affairs of the Corporation. At least a majority of the directors will be “independent” directors within the meaning of applicable securities laws, instruments, rules and policies and regulatory requirements.

The directors of the Corporation will be elected at the annual meeting of the shareholders of the Corporation and shall serve until no longer than the close of the next annual meeting of shareholders, subject to re-election thereat.

3. MEETINGS

The Board shall have at least four regularly scheduled meetings in each financial year of the Corporation.

The Chairman of the Board (the “Chairman”), the Chief Executive Officer (the “CEO”) and the Lead Director of the Board (the “Lead Director”), if any, are responsible for the agenda for each meeting of the Board. Prior to each Board meeting, the Chairman and the CEO will discuss agenda items for the meeting with the Lead Director, if any. Materials for each meeting should be distributed to the Board in advance of the meeting.

Directors are expected to attend at least three quarters of all meetings of the Board held in a given financial year of the Corporation and to adequately review meeting materials in advance of each meeting.

The independent directors (in this context, meaning directors who are not also senior officers or not independent within the meaning of applicable laws) should hold an in-camera session without the non-independent directors and any senior officers present at each meeting of the Board, unless such a session is not considered necessary by the independent directors present. The Chairman, if independent, and if not independent, the Lead Director, if any, should chair the in camera sessions.

4. BOARD COMMITTEES

The Board may appoint such committees from time to time as it considers appropriate. Each permanent committee shall have a mandate that is approved by the Board, setting out the responsibilities of, and the extent of the powers delegated to, such committee by the Board. The Board shall assess the mandates of each committee (considering, among other things, the recommendations of the applicable committee) from time to time, and at least annually. The committees currently consist of the Audit Committee and the Nominating, Compensation and Corporate Governance Committee.

5. RESPONSIBILITIES

The Board's fundamental objectives are to enhance and preserve long-term shareholder value, to ensure the Corporation meets its obligations on an ongoing basis and that the Corporation operates in a reliable and safe manner. In performing its functions, the Board should also consider the legitimate interests that its other stakeholders such as employees, customers and communities may have in the Corporation. In broad terms, the stewardship of the Corporation involves the Board in strategic planning, financial reporting, risk management and mitigation, senior management determination, communication planning and internal control integrity.

6. DUTIES

The Board's specific duties, obligations and responsibilities fall into the following categories.

(i) Legal Requirements

- (A) The Board has the oversight responsibility for meeting the Corporation's legal requirements and for properly preparing, approving and maintaining the Corporation's documents and records.
- (B) The Board has the statutory responsibility to:
 - (I) manage the business and affairs of the Corporation;
 - (II) act honestly and in good faith with a view to the best interests of the Corporation;
 - (III) exercise the care, diligence and skill that responsible, prudent people would exercise in comparable circumstances; and
 - (IV) act in accordance with its obligations contained in the OBCA and the regulations thereto, the articles and by-laws of the Corporation, securities laws and regulations, and other relevant legislation and regulations.
- (C) The Board has the statutory responsibility for considering the following matters as a full Board which in law may not be delegated to management or to a committee of the Board:
 - (I) any submission to the shareholders of a question or matter requiring the approval of the shareholders;
 - (II) the filling of a vacancy among the directors;
 - (III) the issuance of securities;
 - (IV) the declaration of dividends;
 - (V) the purchase, redemption or any other form of acquisition of shares issued by the Corporation;
 - (VI) the payment of a commission to any person in consideration of his/her purchasing or agreeing to purchase shares of the Corporation from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares;

- (VII) the approval of management proxy circulars; and
- (VIII) the approval of any take-over bid circular or directors' circular.

(ii) **Independence**

The Board shall have the responsibility to:

- (A) implement appropriate structures and procedures to permit the Board to function independently of management;
- (B) evaluate the relevant relationships of each independent director and is required to make an affirmative decision that any such relationship does not preclude a determination that the director is independent within the meaning of applicable laws;
- (C) implement a system which enables an individual director to engage an outside advisor at the reasonable expense of the Corporation in appropriate circumstances; and
- (D) provide an orientation and education program for newly appointed members of the Board.

(iii) **Strategy Determination**

The Board shall:

- (A) adopt and annually review a strategic planning process and approve the corporate strategic plan, which takes into account, among other things, the opportunities and risks of the business;
- (B) review and, if appropriate, approve all material transactions affecting the Corporation not contemplated in the strategic plan and budget approved by the Board from time to time;
- (C) annually consider what additional skills and competencies would be helpful to the Board, with the Nominating, Compensation and Corporate Governance Committee being responsible for identifying specific candidates for consideration for appointment to the Board; and
- (D) annually review operating and financial performance results relative to established strategy, budgets and objectives.

(iv) **Corporate Governance**

The Board is responsible for ensuring the establishment of appropriate standards of corporate conduct and should ensure that adequate procedures are in place to monitor compliance with the Corporation's code of conduct and ethics (the "**Code of Conduct**"). Only the Board may grant waivers of the Code of Conduct which would be to the benefit of any director or senior officer.

If any resignations are submitted in accordance with the majority voting policy of the Corporation (the "**Policy**"), the Board shall refer the resignation to the Nominating, Compensation and Corporate Governance Committee. The Nominating, Compensation and Corporate Governance Committee and the Board may adopt such procedures as they see fit to assist it in their determinations with respect to the Policy.

(v) **Managing Risk**

The Board has the responsibility to understand the principal risks of the business in which the Corporation is engaged, to achieve a proper balance between risks incurred and the potential return to shareholders, and to confirm that systems are in place to effectively monitor and manage those risks with a view to the long-term viability of the Corporation.

(vi) **Appointment, Training and Monitoring of Senior Management**

The Board shall:

- (A) appoint the Chief Executive Officer ("**CEO**") and such other senior officers as it determines to be appropriate;

- (B) be responsible for satisfying itself as to the integrity of the CEO and the other senior officers of the Corporation, and that the CEO and the other senior officers create a culture of integrity throughout the Corporation;
- (C) review (upon recommendations from the Compensation and Governance Committee) the compensation of:
 - (I) directors to ensure that the compensation realistically reflects the responsibilities and risks involved in being an effective director; and
 - (II) the senior officers to ensure that it is competitive within the industry and that the form of compensation aligns the interests of each senior officer with those of the Corporation;
- (D) monitor the CEO's performance against a set of mutually agreed corporate objectives directed at maximizing shareholder value;
- (E) ensure that a process is established that adequately provides for succession planning, including the appointment, training and monitoring of the CEO and other senior officers; and
- (F) establish limits of authority delegated to management.

(vii) Reporting and Communication

The Board has the responsibility to:

- (A) verify that the Corporation has in place policies and programs to enable the Corporation to communicate effectively with its shareholders, other stakeholders and the public generally;
- (B) verify that the financial performance of the Corporation is reported to shareholders, other security holders and regulators on a timely and regular basis;
- (C) verify that the financial results are reported fairly and in accordance with generally accepted accounting standards (including International Financial Reporting Standards as applicable);
- (D) verify the timely reporting of any other developments that have a significant and material impact on the value of the Corporation; and
- (E) report annually to shareholders on its stewardship of the affairs of the Corporation for the preceding year.

(viii) Monitoring and Acting

The Board has the responsibility to:

- (A) review and approve the Corporation's financial statements and oversee the Corporation's compliance with applicable audit, accounting and reporting requirements;
- (B) review and approve the annual financial statements, management's discussion and analysis related to such annual financial statements, budgets and forecasts, annual information form and management information circular of the Corporation, as applicable;
- (C) if requested by the Audit Committee, review and approve the quarterly financial statements and management's discussion and analysis related to such quarterly financial statements;
- (D) verify that the Corporation operates at all times within applicable laws and regulations to the highest ethical and moral standards;
- (E) approve and monitor compliance with significant policies and procedures by which the Corporation is operated;
- (F) recommend to shareholders the appointment of the Corporation's external auditor, pursuant to the recommendation of the Audit & Risk Committee, and set the external auditor's compensation;

- (G) monitor the Corporation's progress towards its goals and objectives and to revise and alter its direction through management in response to changing circumstances;
- (H) take such action as it determines appropriate when performance falls short of its goals and objectives or when other special circumstances warrant;
- (I) verify that the Corporation has implemented adequate internal controls and information systems which ensure the effective discharge of its responsibilities; and
- (J) consider, and if established, review from time to time, a dividend policy for the Corporation.

(ix) **Other Activities**

The Board may exercise or delegate any other powers consistent with this mandate, the Corporation's articles and by-laws, the OBCA and any other governing laws, as the Board deems necessary or appropriate. The powers of the Board may be exercised by a resolution passed at a meeting of the Board at which a quorum is present or by a resolution in writing signed by all the directors entitled to vote on that resolution at a meeting. If there is a vacancy in the Board, the remaining directors may exercise all the powers of the Board so long as a quorum remains in office. The Board may perform any other activities consistent with this mandate, the by-laws of the Corporation, the OBCA and any other governing laws as the Board determines necessary or appropriate.

APPENDIX "C"
AUDIT & RISK COMMITTEE CHARTER

CALLIDUS CAPITAL CORPORATION

1. GENERAL

It is the policy of Callidus Capital Corporation (the "**Corporation**") to establish and maintain an Audit & Risk Committee (the "**Committee**"), composed entirely of independent directors, to assist the board of directors (the "**Board**") in carrying out its oversight responsibility for the Corporation's internal controls, financial reporting and risk management processes. The Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board, including administrative support. If determined necessary by the Committee, it will have the discretion to institute investigations of improprieties, or suspected improprieties within the scope of its responsibilities, including the standing authority to retain special counsel or experts.

2. COMPOSITION OF THE COMMITTEE

- (A) The Committee shall consist of at least three directors. The Board shall appoint the members of the Committee and may seek the advice and assistance of the Nominating, Compensation and Corporate Governance Committee in identifying qualified candidates. The Board shall appoint one member of the Committee to be the chair of the Committee (the "**Chair**").
- (B) Each director appointed to the Committee by the Board shall be an outside director who is unrelated. An outside, unrelated director is a director who is independent of management and is free from any interest, any business or other relationship which could, or could reasonably be perceived, to materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholdings. In determining whether a director is independent of management, the Board shall make reference to the then current legislation, rules, policies and instruments of applicable regulatory authorities.
- (C) Each member of the Committee shall be "financially literate". In order to be financially literate, a director must be, at a minimum, able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements.
- (D) A director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation.

3. MEETINGS OF THE COMMITTEE

- (A) The Committee shall convene a minimum of four times each year at such times and places as may be designated by the Chair and whenever a meeting is requested by the Board, a member of the Committee, the auditors, or a senior officer of the Corporation. Meetings of the Committee shall also correspond with the review of the quarterly financial statements and management's discussion and analysis.
- (B) Notice of each meeting of the Committee shall be given to each member of the Committee and to the auditors, who shall be entitled to attend each meeting of the Committee and shall attend whenever requested to do so by a member of the Committee. However, no notice of a meeting shall be necessary if all of the members are present either in person or by means of telephone or web conference, or other communication equipment, or if those absent waive notice or otherwise signify their consent to the holding of such meeting.
- (C) Notice of a meeting of the Committee shall:
 - (I) be in writing;
 - (II) state the nature of the business to be transacted at the meeting in reasonable detail;
 - (III) to the extent practicable, be accompanied by copies of documentation to be considered at the meeting; and

- (IV) be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Committee may permit.
- (D) A quorum for the transaction of business at a meeting of the Committee shall consist of a majority of the members of the Committee. However, it shall be the practice of the Committee to require review, and, if necessary, approval of certain important matters by all members of the Committee.
- (E) Any matter to be determined by the Committee shall be decided by a majority of the votes cast at a meeting of the Committee called for such purpose. Any action of the Committee may also be taken by an instrument or instruments in writing signed by all of the members of the Committee (including in counterparts, by facsimile or other electronic signature) and any such action shall be as effective as if it had been decided by a majority of the votes cast at a meeting of the Committee called for such purpose.
- (F) A member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities, as permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.
- (G) In the absence of the Chair, the members of the Committee shall choose one of the members present to be chair of the meeting. In addition, the members of the Committee shall choose one of the persons present to be the secretary of the meeting.
- (H) The chairman of the Board, senior management of the Corporation and other parties may attend meetings of the Committee; however, the Committee (i) shall meet with the external auditors independent of management, as necessary, in the sole discretion of the Committee, but in any event, not less than quarterly; and (ii) may meet separately with management.
- (I) The Committee shall hold an in-camera session without any senior officers present at each meeting of the Committee, unless such a session is not considered necessary by the members present.
- (J) Minutes shall be kept of all meetings of the Committee and shall be signed by the chair and the secretary of the meeting.

4. COMMITTEE RESPONSIBILITIES

The Committee's primary responsibilities are to:

- (A) identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation;
- (B) monitor the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
- (C) monitor the independence and performance of the Corporation's external auditors;
- (D) deal directly with the external auditors to approve external audit plans, other services (if any) and fees;
- (E) directly oversee the external audit process and results;
- (F) provide an avenue of communication among the external auditors, management and the Board;
- (G) ensure that there is an appropriate standard of corporate conduct relating to the internal controls and financial reporting of the Corporation;
- (H) ensure that an effective "whistle blowing" procedure (the "Policy") exists to permit stakeholders to express any concerns regarding accounting or financial matters to an appropriately independent individual; and

- (I) ensure that an appropriate code of conduct and ethics (the “Code of Conduct”) is in place and understood by employees, officers and directors of the Corporation.

5. DUTIES

(A) The Committee shall:

- (I) review the audit plan with the Corporation’s external auditors and with management;
- (II) discuss with management and the external auditors any proposed changes in major accounting policies or principles, the presentation and impact of significant risks and uncertainties and key estimates and judgments of management that may be material to financial reporting;
- (III) review with management and with the external auditors significant financial reporting issues arising during the most recent fiscal period and the resolution or proposed resolution of such issues;
- (IV) review any problems experienced or concerns expressed by the external auditors in performing an audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management;
- (V) review with senior management the process of identifying, monitoring and reporting the principal risks affecting financial reporting;
- (VI) consider whether the Corporation’s financial disclosures are complete, accurate, prepared in accordance with International Financial Reporting Standards (“IFRS”) and fairly present the financial position of the Corporation;
- (VII) obtain timely reports from the external auditors describing critical accounting policies and practices applicable to the Corporation, the alternative treatment of information in accordance with IFRS that were discussed with the Chief Financial Officer of the Corporation, the ramifications thereof, and the external auditor’s preferred treatment, and should review any material written communications between the Corporation and the external auditor;
- (VIII) review and discuss with senior officers of the Corporation any guidance being provided on the expected future results and financial performance of the Corporation, and provide its recommendations on such guidance to the Board;
- (IX) review the procedures which are in place for the review of the public disclosure by the Corporation of financial information extracted or derived from the financial statements of the Corporation and periodically assess the adequacy of such procedures;
- (X) review audited annual financial statements and related documents in conjunction with the report of the external auditors and obtain an explanation from management of all significant variances between comparative reporting periods;
- (XI) consider and review with management, the internal control memorandum or management letter containing the recommendations of the external auditors and management’s response, if any, including an evaluation of the adequacy and effectiveness of the internal financial controls of the Corporation and subsequent follow-up to any identified weaknesses;
- (XII) review with financial management and the external auditors the quarterly unaudited financial statements and management’s discussion and analysis before release to the public;
- (XIII) before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information, including any prospectuses, annual reports, annual information forms, management’s discussion and analysis and press releases containing financial information;

- (XIV) review, consider and if appropriate, approve any transaction between the Corporation and the Catalyst Capital Group Inc. (“CCGI”), a related party to the Corporation;
 - (XV) oversee any of the financial affairs of the Corporation, its subsidiaries or affiliates, and, if deemed appropriate, make recommendations to the Board, external auditors or management;
 - (XVI) evaluate the independence and performance of the external auditors and annually recommend to the Board the appointment of the external auditors or the discharge of the external auditors when circumstances are warranted;
 - (XVII) consider the recommendations of management in respect of the appointment of the external auditors;
 - (XVIII) pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by its external auditors, or the external auditors of the Corporation’s subsidiary entities (if any);
 - (XIX) approve the engagement letter for non-audit services to be provided by the external auditors or affiliates, together with estimated fees, and consider the potential impact of such services on the independence of the external auditors;
 - (XX) review the fees paid by the Corporation to the external auditor and any other professionals in respect of audit and non-audit services on an annual basis;
 - (XXI) when there is to be a change of external auditors, review all issues and provide documentation related to the change, including the information to be included in the Notice of Change of Auditors and documentation required pursuant to National Instrument 51-102 — *Continuous Disclosure Obligations* (or any successor instrument) of the Canadian Securities Administrators and the planned steps for an orderly transition period;
 - (XXII) establish and maintain procedures for:
 - (1) the receipt, retention and treatment of complaints received by the Corporation regarding accounting controls, or auditing matters; and
 - (2) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
 - (XXIII) review and approve the Corporation’s hiring policies regarding employees and former employees of the present and former external auditors or auditing matters;
 - (XXIV) review all reportable events, including disagreements, unresolved issues and consultations, as defined by applicable securities policies, on a routine basis, whether or not there is to be a change of external auditors;
 - (XXV) review with management at least annually, the financing strategy and plans of the Corporation; and
 - (XXVI) review all securities offering documents (including documents incorporated therein by reference) of the Corporation.
- (B) The Committee has the authority to:
- (I) inspect any and all of the books and records of the Corporation, its subsidiaries and affiliates (to the extent necessary);
 - (II) discuss with the management of the Corporation, its subsidiaries and affiliates and senior staff of the Corporation, any affected party and the external auditors, such accounts, records and other matters as any member of the Committee considers necessary and appropriate;

- (III) consult with executive officers and operating personnel of the Corporation who do not have economic interests in CCGI, as well as other external advisors that the Committee deems appropriate, in connection with reviewing transactions with CCGI;
 - (IV) engage independent counsel and other advisors as it determines necessary to carry out its duties;
 - (V) to set and pay the compensation for any advisors employed by the Committee;
 - (VI) conduct any investigation considered appropriate by the Committee; and
 - (VII) at any meeting, request the presence of the auditor, a member of senior management or any other person who could contribute to the subject of the meeting.
- (C) The Committee shall, at the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate.

6. CHAIR OF THE COMMITTEE

- (A) The Board will appoint one member who is qualified for such purpose to be Chair, to serve until the next annual election of directors or otherwise until his or her successor is duly appointed. If, following the election of directors, in any year, the Board does not appoint a Chair, the incumbent Chair will continue in office until a successor is appointed.
- (B) The Chair should:
 - (I) provide leadership to the Committee and oversee the functioning of the Committee;
 - (II) chair meetings of the Committee (unless not present), including in-camera sessions, and report to the Board following each meeting of the Committee on the activities and any recommendations and decisions of the Committee, and otherwise at such times and in such manner as the Chair considers advisable;
 - (III) ensure that the Committee meets at least quarterly in each financial year of the Corporation, and otherwise as is considered advisable;
 - (IV) in consultation with the Chairman of the Board and the members of the Committee, establish dates for holding meetings of the Committee;
 - (V) set the agenda for each meeting of the Committee, with input from other members of the Committee, the Chairman of the Board, the Lead Director, if any, and any other appropriate individuals;
 - (VI) ensure that Committee materials are available to any director upon request;
 - (VII) act as a liaison, and maintain communication, with the Chairman of the Board, the Lead Director, if any, and the Board to co-ordinate input from the Board and to optimize the effectiveness of the Committee;
 - (VIII) report annually to the Board on the role of the Committee and the effectiveness of the Committee in contributing to the effectiveness of the Board;
 - (IX) assist the members of the Committee to understand and comply with the responsibilities contained in this mandate;
 - (X) foster ethical and responsible decision making by the Committee;
 - (XI) consider complaints covered by the Policy, undertake an investigation of the violation or suspected violation of the Code of Conduct or as defined in the Policy, and promptly report to the Committee and the Board any complaint that may have material consequences for the Corporation and, for each financial quarter of the Corporation, the Chair should report to the Committee and to the external auditors, in the

aggregate, the number, the nature and the outcome of the complaints received and investigated under the Policy;

- (XII) together with the Nominating, Compensation and Corporate Governance Committee, oversee the structure, composition and membership of, and activities delegated to, the Committee from time to time;
- (XIII) ensure appropriate information is provided to the Committee by the senior officers of the Corporation to enable the Committee to function effectively and comply with this mandate;
- (XIV) ensure that appropriate resources and expertise are available to the Committee;
- (XV) ensure that the Committee considers whether any independent counsel or other experts or advisors retained by the Committee are appropriately qualified and independent in accordance with the applicable laws;
- (XVI) facilitate effective communication between the members of the Committee and the senior officers of the Corporation, and encourage an open and frank relationship between the Committee and the external auditor;
- (XVII) attend, or arrange for another member of the Committee to attend, each meeting of the shareholders of the Corporation to respond to any questions from shareholders that may be asked of the Committee;
- (XVIII) in the event a Chairman of the Board is not appointed by the Board at the first meeting of the Board following the annual meeting of shareholders each year, and the position of Chair of the Nominating, Compensation and Corporate Governance Committee is vacant, serve as the interim Chairman of the Board until a successor is appointed; and
- (XIX) perform such other duties as may be delegated to the Chair by the Committee or the Board from time to time.

7. REMOVAL AND VACANCIES

Any member of the Committee may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as he or she resigns or ceases to meet the qualifications set out above. The Board will fill vacancies on the Committee by appointment from among qualified members of the Board on the recommendation of the Committee. If a vacancy exists on the Committee, the remaining members will exercise all of its powers so long as a quorum remains in office.

8. ASSESSMENT

At least annually, the Committee will assess its effectiveness in fulfilling its responsibilities and duties as set out in this Mandate and in a manner consistent with the Board mandate to be adopted by the Board.

9. REVIEW AND DISCLOSURE

The Committee will review this Mandate at least annually and submit it to the Board for approval with such further proposed amendments as it deems necessary and appropriate.

10. CODE OF CONDUCT AND ETHICS

The Committee should:

- (A) review periodically and recommend to the Board any amendments to the Code of Conduct, and monitor the policies and procedures established by the senior officers to ensure compliance with the Code of Conduct;
- (B) review actions taken by the senior officers to ensure compliance with the Code of Conduct, the results of the confirmations and the responses to any violations of the Code of Conduct;
- (C) monitor the disclosure of the Code of Conduct, any proposed amendments to the Code of Conduct and any waivers to the Code of Conduct granted by the Board; and

- (D) review the policies and procedures instituted to ensure that any departure from the Code of Conduct by a director or senior officer which constitutes a “material change” within the meaning of applicable laws is appropriately disclosed in accordance with applicable laws.

11. WHISTLEBLOWER POLICY

The Committee shall review the Corporation's Policy periodically to determine whether the Policy is effective in providing appropriate procedures to report violations (as defined in the Policy) or suspected violations, and recommend to the Board any amendments to the Policy.

12. ACCESS TO OUTSIDE ADVISORS

The Committee may retain any outside advisor, including an executive search firm, at the expense of the Corporation at any time and has the authority to determine any such advisor's fees and other retention terms. The Committee, and any outside advisors retained by it, will have access to all records and information relating to the Corporation and its subsidiaries which it deems relevant to the performance of its duties.

APPENDIX "D"
FINANCIAL STATEMENTS

Consolidated Financial Statements
(Expressed in Canadian dollars)

CALLIDUS CAPITAL CORPORATION

Years ended December 31, 2013, 2012 and 2011



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Callidus Capital Corporation

We have audited the accompanying consolidated financial statements of Callidus Capital Corporation, which comprise the consolidated statements of financial position as at December 31, 2013, December 31, 2012 and December 31, 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the three years ended December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Callidus Capital Corporation as at December 31, 2013, December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the three years ended December 31, 2013 in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

April 15, 2014
Toronto, Canada

CALLIDUS CAPITAL CORPORATION

Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

December 31, 2013, 2012 and 2011

	2013	2012	2011
Assets			
Current assets:			
Cash and cash equivalents	\$ 38,014	\$ 49,127	\$ 71,996
Loans receivable (note 5)	349,992	114,395	138,909
Derivative assets (note 15)	–	18	317
Income taxes receivable (note 11)	9	–	–
Deferred tax asset (note 11)	1,228	–	–
Assets held for sale (note 17)	11,360	11,690	12,601
Other assets	17	19	18
	\$ 400,620	\$ 175,249	\$ 223,841
Liabilities and Shareholders' Deficiency			
Current liabilities:			
Revolving credit facility (note 8)	\$ 19,879	\$ –	\$ –
Accounts payable and accrued liabilities	788	949	2,463
Deferred facility fees (note 3)	3,701	3,030	1,205
Derivative liabilities (note 15)	329	–	–
Income and other taxes payable (note 11)	–	–	15
	24,697	3,979	3,683
Borrower deposits	235	150	84
Due to Catalyst Fund Limited Partnerships (note 7)	330,703	125,670	172,919
Senior debt (note 7)	49,683	49,586	49,489
Shareholders' deficiency:			
Share capital (note 10)	1	1	1
Contributed surplus (note 16)	5,152	–	–
Accumulated deficit	(9,851)	(4,137)	(2,335)
	(4,698)	(4,136)	(2,334)
Contingencies (note 13)			
	\$ 400,620	\$ 175,249	\$ 223,841

See accompanying notes to consolidated financial statements.

CALLIDUS CAPITAL CORPORATION

Consolidated Statements of Comprehensive Income
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

	2013	2012	2011
Revenue:			
Interest	\$ 47,102	\$ 21,451	\$ 18,720
Fees and other	6,222	6,070	3,095
	<u>53,324</u>	<u>27,521</u>	<u>21,815</u>
Interest expense and participation fees:			
Catalyst Fund Limited Partnerships	37,494	17,870	14,074
Senior debt and revolving credit facilities	4,414	4,307	3,245
	<u>41,908</u>	<u>22,177</u>	<u>17,319</u>
Net interest income	11,416	5,344	4,496
Other income (loss):			
Provision for loan losses (note 6)	(5,976)	(2,030)	(3,199)
Foreign exchange gain (loss)	(1,363)	(433)	940
Other income	451	—	—
	<u>(6,888)</u>	<u>(2,463)</u>	<u>(2,259)</u>
Non-interest expenses:			
Management fees	—	—	260
Salaries and wages	4,248	3,004	2,379
Stock options	5,152	—	—
General and administrative	2,036	1,745	1,287
	<u>11,436</u>	<u>4,749</u>	<u>3,926</u>
Loss before income taxes	(6,908)	(1,868)	(1,689)
Income taxes (recovery):			
Current	34	(66)	—
Deferred	(1,228)	—	—
	<u>(1,194)</u>	<u>(66)</u>	<u>—</u>
Loss and comprehensive loss for the year	<u>\$ (5,714)</u>	<u>\$ (1,802)</u>	<u>\$ (1,689)</u>

See accompanying notes to consolidated financial statements.

CALLIDUS CAPITAL CORPORATION

Consolidated Statements of Changes in Equity
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

	2013	2012	2011
Share capital, beginning of year	\$ 1	\$ 1	\$ 1
Balance, end of year	\$ 1	\$ 1	\$ 1
Contributed surplus, beginning of year	\$ –	\$ –	\$ –
Stock options expense	5,152	–	–
Balance, end of year	\$ 5,152	\$ –	\$ –
Accumulated deficit, beginning of year	\$ (4,137)	\$ (2,335)	\$ (646)
Loss for the year	(5,714)	(1,802)	(1,689)
Balance, end of year	\$ (9,851)	\$ (4,137)	\$ (2,335)

See accompanying notes to consolidated financial statements.

CALLIDUS CAPITAL CORPORATION

Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

	2013	2012	2011
Cash provided by (used in):			
Operating activities:			
Loss for the year	\$ (5,714)	\$ (1,802)	\$ (1,689)
Transaction costs not involving cash:			
Stock options	5,152	—	—
Amortization of transaction costs	97	97	73
Provision for loan losses	5,976	2,030	3,199
Change in non-cash operating items:			
Change in loans receivable, net of repayments	(241,573)	22,484	(45,079)
Derivative assets	18	299	—
Income taxes receivable	(9)	—	—
Deferred tax asset	(1,228)	—	—
Assets held for sale	330	911	—
Other assets	2	(1)	438
Accounts payable and accrued liabilities	(161)	(1,514)	(294)
Deferred facility fees	671	1,825	277
Derivative liabilities	329	—	—
Income and other taxes payable	—	(15)	(18)
Borrower deposits	85	66	84
	(236,025)	24,380	(43,009)
Financing activities:			
Net advances from (repayment to) Catalyst Fund Limited Partnerships	205,033	(47,249)	38,384
Net draw on senior debt and revolving credit facilities	19,879	—	49,416
Increase in share capital	—	—	1
	224,912	(47,249)	87,801
Increase (decrease) in cash and cash equivalents	(11,113)	(22,869)	44,792
Cash and cash equivalents, beginning of year	49,127	71,996	27,204
Cash and cash equivalents, end of year	\$ 38,014	\$ 49,127	\$ 71,996
Cash and cash equivalents are composed of the following:			
Cash	\$ 32,264	\$ 41,627	\$ 65,096
Restricted cash	5,750	7,500	6,900
	\$ 38,014	\$ 49,127	\$ 71,996

See accompanying notes to consolidated financial statements.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

1. Reporting entity:

Callidus Capital Corporation ("Callidus") is a company domiciled in Canada and was incorporated under the Business Corporations Act (Ontario). Callidus' registered office is at 77 King Street West, Toronto, Ontario Canada.

These consolidated financial statements comprise Callidus and its subsidiaries (together referred to as the "Company"). The Company operates a specialty finance business that provides senior secured asset based loans and lending services to mid-market companies operating in Canada and the United States.

Callidus Capital Management Inc. ("CCM"), the former principal subsidiary of the Company, was a private company incorporated under the Business Corporations Act (Ontario). On December 14, 2012, CCM was granted registration as an investment fund manager and as an exempt market dealer with the Ontario Securities Commission ("OSC").

CCM was amalgamated with Callidus effective January 1, 2013 and the OSC registration name was changed to Callidus.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first consolidated financial statements prepared in accordance with IFRS and IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 19.

The consolidated financial statements were authorized for issue by the Board of Directors on April 11, 2014.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for derivative instruments which are measured at fair value.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

2. Basis of presentation (continued):

(c) Functional and presentation currency:

These consolidated financial statements are presented in thousands of Canadian dollars, which is also the Company's functional currency.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the allowance for loan losses and the Company's assessment of consolidation under IFRS 10, Consolidated Financial Statements, of certain loans in its loan portfolio.

3. Significant accounting policies:

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS consolidated statements of financial position at January 1, 2011 for the purposes of transition to IFRS.

(a) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the consolidated statements of financial position.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

3. Significant accounting policies (continued):

(b) Loans receivable:

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Loans receivable include accrued interest receivable, loans advanced to borrowers during the normal course of the Company's business, and loans acquired from other lenders at a discount.

Loans receivable are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. The loans receivable balances include accrued interest.

(c) Impairment:

Collectability is regularly evaluated by assessing the realizable values of the assets securing the loans and viability of the underlying business. At each reporting date, the Company assesses whether there is objective evidence that loans receivable or other financial assets are impaired. A financial asset is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy; and
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

3. Significant accounting policies (continued):

The Company considers evidence of impairment for loans at both a specific asset and a collective level. All individually significant loans are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified, where the loans have similar risk characteristics.

Impairment losses are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and the new financial asset is recognized at fair value. The impairment loss before an expected restructuring is measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans receivables.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

3. Significant accounting policies (continued):

Interest on the impaired assets continues to be recognized through the unwinding of the discount. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

The Company writes off a loan either partially or in full, and any related allowance for impairment losses, when the Company determines that there is no realistic prospect of recovery.

(d) Borrower deposits:

Borrower deposits include amounts received by the Company from potential borrowers as part of the loan application process. If the loan is approved and closes, the full amount of the deposit is credited against the loan. If the loan is approved on terms substantially the same as the terms and conditions contained in the term sheet provided to the potential borrower and the borrower chooses not to proceed with the credit facility, the deposit is deemed a fully earned work fee by the Company and non-refundable and is recognized into income at that time. The deposit amounts less any legal and due diligence costs incurred by the lender are refunded to such potential borrowers if the loan application is not approved.

(e) Foreign currency transactions:

Transactions in foreign currencies are translated into the respective functional currency of the Company at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the spot exchange rate at the end of the year.

Foreign currency differences arising on translation are generally recognized in the consolidated statements of comprehensive income.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

3. Significant accounting policies (continued):

(f) Financial assets and financial liabilities:

(i) Recognition:

The Company initially recognizes loans and other financial assets on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification:

Financial assets:

The Company classifies its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; and
- at fair value through profit or loss, and within this category as:
 - held for trading; or designated at fair value through profit or loss.

At December 31, 2013, 2012 and 2011, all financial assets except for derivative instruments have been categorized as loans and receivables.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

3. Significant accounting policies (continued):

Financial liabilities:

The Company classifies its financial liabilities as measured at amortized cost or fair value through profit or loss. At December 31, 2013, 2012 and 2011, the Company has no liabilities at fair value through profit and loss.

(iii) Derecognition:

Financial assets:

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income ("OCI") is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

3. Significant accounting policies (continued):

Financial liabilities:

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Offsetting:

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

(v) Amortized cost measurement:

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

3. Significant accounting policies (continued):

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(g) Derivatives held for risk management purposes:

Derivatives held for risk management purposes are measured at fair value in the consolidated statements of financial position.

All changes in fair value are recognized immediately in the consolidated statements of comprehensive income.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

3. Significant accounting policies (continued):

Embedded derivatives:

Derivatives may be embedded in another contractual arrangement (a host contract) such as a loan contract. The Company accounts for an embedded derivative separately from the host contract when:

- the contract is not itself carried at fair value through profit or loss;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the consolidated statements of financial position together with the host contract.

(h) Income taxes:

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI.

(i) Current tax:

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

3. Significant accounting policies (continued):

(ii) Deferred tax:

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

3. Significant accounting policies (continued):

(iii) Tax exposures:

In determining the amount of current and deferred tax, the Company considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(i) Consolidation:

The Company consolidates any entities which it controls. Control is established when the Company has the power over the entity, exposure or rights to variable returns from its involvement, and the ability to exercise power to affect the amount of returns. The Company assesses individual loans for control at each reporting date.

(j) Interest:

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

3. Significant accounting policies (continued):

Interest income includes interest earned on loans receivable. Interest income is calculated on the daily balance and charged monthly. Fees are recognized in accordance with the signed loan agreements.

Facility fees are earned on commitment of a new facility or renewal of existing facilities, and are payable by the borrower (i) at closing or renewal, or (ii) the earlier of maturity or repayment of the credit facility. These fees are non-refundable and are recognized as income over the expected term of the facility.

Unused line fees are calculated daily based on the unused portion of the credit facility and are payable by the borrower monthly.

Discounts on acquired loans are recognized when the loan is fully repaid.

As at December 31, 2013, there were \$3,701 (2012 - \$3,030; 2011 - \$1,205) in deferred facility fees that will be recognized in income in fiscal 2014 and 2015.

As at December 31, 2013, there were \$2,200 (2012 - \$2,200; 2011 - \$2,200) in discounts on acquired loans that will be recognized when the related loans are fully repaid.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in the consolidated statements of comprehensive income.

(k) Impairment of non-financial assets:

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets ("CGU") that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

3. Significant accounting policies (continued):

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

(l) Financial guarantees and loan commitments:

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

(m) Stock options:

Stock options granted to employees is recognized in salary and wage expense on the consolidated statements of comprehensive income, with a corresponding increase in contributed surplus, over the period in which the employees become unconditionally entitled to the awards.

(n) Assets held for sale:

Assets held for sale are carried at the lower of the carrying amount at designation and fair value less costs to sell.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

4. Future accounting developments:

The Company actively monitors developments and changes in standards from the IASB. The IASB issued a number of new or revised standards which are effective for annual periods beginning after January 1, 2014 and have not been applied in preparing these consolidated financial statements.

(a) IFRS 9, Financial Instruments, ("IFRS 9"):

IFRS 9 was issued by the IASB in November 2009 to provide guidance on classification and measurement of financial assets.

Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. In 2010, the IASB released an updated version that introduces additional changes relating to financial liabilities. In 2013, the IASB issued a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. On November 19, 2013, IFRS 9 was formally amended to remove the January 1, 2015 effective date, in line with the decision made in the July 2013 IASB meeting. The IASB also tentatively decided at its November 2013 meeting that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after January 1, 2018.

The Company continues to monitor all of these developments and continues to assess the impact thereof on the Company's consolidated financial statements.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

4. Future accounting developments (continued):

(b) Amendments to International Accounting Standard 32, Offsetting Financial Assets and Liabilities ("IAS 32"):

In December 2011, the IASB published Offsetting Financial Assets and Financial Liabilities.

The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively.

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The Company is assessing the impact thereof on the consolidated financial statements.

5. Loans receivable:

Loans and advances to customers are measured at amortized cost.

Contractual Maturity	2013	2012	2011
0 - 3 months	\$ 169,318	\$ –	\$ 25,004
3 - 6 months	16,538	17,642	1,089
6 - 12 months	160,448	89,890	98,660
No specific maturity	3,688	6,863	14,156
	<u>\$ 349,992</u>	<u>\$ 114,395</u>	<u>\$ 138,909</u>

The loans can be prepaid subject to prepayment penalties. The total credit facilities available to borrowers at December 31, 2013 was \$479,000 (2012 - \$209,000; 2011 - \$250,239).

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

5. Loans receivable (continued):

The loans receivable charge interest at fixed rates. For the current year, the loan portfolio generated a blended yield, including all interest and fees of approximately 21% (2012 - 21%; 2011 - 20%). The loans are all senior secured credit facilities with revolving and non-revolving loans secured by a first charge on substantially all of the borrowers' assets.

In fiscal 2011, the Company acquired a pool of distressed loans funded by a competitor (the "Assignor") for \$18,737. The loans were recorded at the exchange amount documented in the purchase agreement and will be held at amortized cost, consistent with existing loans and receivables.

Certain loans acquired were given a value of nil which reflects its fair value given the uncertainty associated with its recoverability. However, the Company expects to recover proceeds from several of these loans in future periods. At December 31, 2011, the notional value of the loans expected to produce additional proceeds was \$2,067. During 2012, two of the loans were realized in the amount of \$969, from which \$363 was paid to the Assignor as part of an agreement to share equally, the net proceeds realized during the twelve month period ended June 30, 2012 on certain of the acquired loans.

6. Loan loss allowance:

As at December 31, 2013, the Company has allowance for loan losses of \$10,176 (2012 - \$4,200; 2011 - \$2,500), which is offset against loans receivable on the consolidated statements of financial position.

	2013	2012	2011
Individual allowance for impairment			
Balance, beginning of year	\$ 4,200	\$ 2,500	\$ -
Charge for the year:			
Interest accrual on non-performing loans	976	1,700	-
Additional individual allowances	5,000	-	2,500
Balance, end of year	\$ 10,176	\$ 4,200	\$ 2,500

During the year, the Company had direct write-offs of nil (2012 - \$330; 2011 - \$699).

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

7. Long-term and callable debt:

	2013	2012	2011
Due to Catalyst Fund Limited Partnerships	\$ 330,703	\$ 125,670	\$ 172,919
Senior debt	50,000	50,000	50,000
Associated transaction costs	(317)	(414)	(511)
	49,683	49,586	49,489
	\$ 380,386	\$ 175,256	\$ 222,408

The Company entered into a Debenture Note and Commitment Agreement (the "Original Debenture"), with Catalyst Fund Limited Partnership II ("Catalyst Fund II") on May 1, 2007 whereby Catalyst Fund II committed up to U.S. \$150 million to finance commercial loans made by the Company. On July 1, 2012, the Company entered into a series of agreements, including an amendment and restatement of the Original Debenture, whereby Catalyst Fund Limited Partnership III and Catalyst Fund Limited Partnership IV (the "Funds"), committed up to U.S. \$200 million to finance commercial loans made by the Company and the Original Debenture issued to Catalyst Fund II was cancelled. The committed amount was increased to U.S. \$350 million, effective October 24, 2013 by way of an amendment to the amended and restated debenture agreement.

The amounts due on the senior debt represent a senior secured non-revolving term loan for \$50 million. The loan has a term of six years, matures March 31, 2017, and bears a fixed rate of interest based on Government of Canada Bond rate at the time of issuance plus 5.75%. The loan is secured by a first priority charge over all assets and property owned by the Company. The Company was in compliance with its financial covenants at December 31, 2013, 2012 and 2011.

In 2011, the Company paid \$575 in transaction costs associated with the above term financing, which has been deferred and is being amortized into interest expense over the term of the loan using the effective interest rate method.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

8. Revolving credit facility:

On December 19, 2013, the Company obtained a \$47.5 million revolving credit facility (the "Revolving Credit Facility"), consisting of a \$40 million revolving facility (the "Revolver") and a \$7.5 million Treasury Risk Management Facility (the "FEX Facility"). The Revolver may be drawn in either Canadian dollar or U.S. dollar advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases subject to (i) a borrowing base calculation dependent on certain accounts receivable and inventories; and (ii) a financial ratio of total senior debt divided by the total senior debt borrowing base.

The Revolving Credit Facility matures March 31, 2017, ranks pari passu with the term loan and shares a first priority charge over all assets of the Company. As at December 31, 2013, the Company had availability of \$20,121 under the Revolver.

The Company was in compliance with its financial covenants at December 31, 2013.

9. Related party transactions:

(a) Relationships:

The Catalyst Capital Group Inc. and Funds managed by them (collectively "Catalyst") and Tradecap Management Inc. (formerly Callidus Management Inc.) own 95% and 5% of the issued and outstanding shares of the Company, respectively.

The Chief Executive Officer of Catalyst is a member of the Board of Directors and the Credit Committee of the Company.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

9. Related party transactions (continued):

(b) Due to Catalyst:

Catalyst has committed up to U.S. \$350 million to finance commercial loans made by the Company. Catalyst charges interest at 8% per annum on funds advanced from time to time plus a commitment fee of 1% of committed funds plus additional interest determined by a formula based on the net income of the Company. The amounts due to Catalyst are secured by a subordinated security interest over the Company's assets. The commitment obligation is for a minimum of three years and maximum of five years (the "Term") and the Term can be extended by mutual consent. Advances are aligned to loans receivable and are settled at the end of each fiscal year unless there is a specific repayment date agreed to at the time the advance is made. To date, no specific repayment terms have been agreed to between the above parties.

During the year, Catalyst provided the Company with over 80% (2012 - 74%; 2011 - 75%) of its funding for issuance of facilities to external borrowers. Future funding of operations is dependent on Catalyst continuing to provide the Company with sufficient funding to support its lending operations.

(c) Transactions during the year:

During the year, participation fees of \$19,690 (2012 - \$8,796; 2011 - \$5,236) and commitment fees of \$599 (2012 - \$508; 2011 - \$1,038) to Catalyst were paid or accrued. Interest expense also includes \$17,205 (2012 - \$8,566; 2011 - \$3,800) paid to Catalyst. All transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(d) Key management personnel compensation:

Key management personnel compensation comprised the following:

	2013	2012	2011
Short-term employee benefits	\$ 1,581	\$ 1,156	\$ 480
Share-based payments	1,690	–	–
	<u>\$ 3,271</u>	<u>\$ 1,156</u>	<u>\$ 480</u>

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

10. Share capital:

	2013	2012	2011
100 common shares Issued, beginning and end of year	\$ 1	\$ 1	\$ 1

11. Income taxes:

(a) Amounts recognized in profit or loss:

	2013	2012	2011
Current taxes expense (recovery):			
Current year	\$ 13	\$ (66)	\$ –
Prior year adjustments	21	–	–
	34	(66)	–
Deferred tax expense:			
Origination and reversal of temporary differences	(376)	–	–
Recognition of previously unrecognized deferred tax assets	(852)	–	–
	(1,228)	–	–
Total income tax expense	\$ (1,194)	\$ (66)	\$ –

(b) Reconciliation of effective tax rate:

		2013		2012		2011
Loss before income taxes		\$ (6,908)		\$ (1,868)		\$ (1,689)
Tax using the domestic corporation tax rate	26.50 %	\$ (1,831)	26.50 %	\$ (495)	28.25 %	\$ (477)
Non-deductible expenses	(0.22)%	15	(0.62)%	12	(0.24)%	4
Share options	(19.76)%	1,365	–	–	–	–
Recognition of previously unrecognized tax asset	12.34 %	(852)	–	–	–	–
Changes to estimates for prior years	(0.32)%	22	(3.48)%	65	–	–
Other	(1.26)%	87	(18.86)%	352	(28.01)%	473
Total income tax expense	17.28 %	\$ (1,194)	3.54 %	\$ (66)	–	\$ –

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

11. Income taxes (continued):

(c) Components of deferred tax assets:

	2013	2012	2011
Deferred financing fees	\$ 980	\$ 803	\$ 313
Loan loss provision	270	66	66
Financing costs	(22)	(17)	(11)
	1,228	852	368
Deferred tax assets not recognized	–	852	368
Total recognized deferred tax assets	\$ 1,228	\$ –	\$ –

In previous years, the Company did not recognize a deferred tax asset due to uncertainty regarding future profitability. During 2013, the Company considers it probable that future taxable profits will be available against which such deductible temporary differences can be used.

12. Fair values of financial instruments:

(a) Fair values and carrying values of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal, or in its absence, the most advantageous market to which the Company has access. The fair value of a liability reflects its non-performance risk. Some of the Company's financial instruments lack an available trading market. As such, the fair values of such instruments are based on estimates using discounted cash flows and other valuation techniques. The fair values derived from such valuation techniques may be significantly affected by the assumptions used to determine discount rates and the amount and timing of future cash flows. Due to this estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the financial instruments.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

12. Fair values of financial instruments (continued):

The amounts in the following table represent the fair values and fair value hierarchy of all the financial instruments carried on the Company's consolidated statements of financial position:

	2013			2012			2011			Fair value hierarchy level
	Fair value	Carrying value	Fair value over carrying	Fair value	Carrying value	Fair value over carrying	Fair value	Carrying value	Fair value over carrying	
Assets										
Loans receivable	\$ 349,992	\$ 349,992	\$ -	\$ 114,395	\$ 114,395	\$ -	\$ 138,909	\$ 138,909	\$ -	\$ 3
Derivative assets	-	-	-	18	18	-	317	317	-	2
	\$ 349,992	\$ 349,992	\$ -	\$ 114,413	\$ 114,413	\$ -	\$ 139,226	\$ 139,226	\$ -	
Liabilities										
Revolving credit facility	\$ 19,879	\$ 19,879	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3
Derivative liabilities	329	329	-	-	-	-	-	-	-	2
Due to Catalyst	330,703	330,703	-	125,670	125,670	-	172,919	172,919	-	3
Senior debt	49,683	49,683	-	49,586	49,586	-	49,489	49,489	-	3
	\$ 400,594	\$ 400,594	\$ -	\$ 175,256	\$ 175,256	\$ -	\$ 222,408	\$ 222,408	\$ -	

The fair value hierarchy leveling is applicable for all years.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013 and 2012

12. Fair values of financial instruments (continued):

The above table categorized financial instruments recorded at fair value on the consolidated statements of financial position into one of the three fair value hierarchy levels:

- Level 1 - fair values are based on unadjusted quoted prices from an active market for identical assets or liabilities;
- Level 2 - fair values are based on inputs other than quoted prices that are directly or indirectly observable in an active market; and
- Level 3 - fair values are based on inputs not observable in the market.

The following methods and assumptions are used to estimate the fair values of financial instruments:

- (i) The carrying value of cash and cash equivalents, other assets and other liabilities is a reasonable approximation of fair value because these instruments are either short-term in nature or re-price to current market rates frequently.
- (ii) For securities traded over the counter, the Company determines fair values using prices obtained from independent vendors. Where available, the Company also uses quoted prices for recent trading activity of assets with similar characteristics to the asset being valued. The Company classifies instruments valued using such methods in Level 2 of the fair value hierarchy. In addition, the Company classifies illiquid investment securities in Level 3 of the fair value hierarchy if the value for such instruments is based on the Company's estimates of unobservable inputs like liquidity discounts and credit spreads.
- (iii) The fair value of the loans portfolio is determined by aggregating the present value of the discounted cash flows factoring current interest rates and estimates of credit risk. Discount rates used to determine the fair value of loans range from 14.5% to 30.0%.
- (iv) Fair values of derivative instruments are determined using pricing models, which take into account current market and contractual prices of underlying instruments, as well as time value and yield curve underlying the positions. Accordingly, such instruments are classified in Level 2 of the fair value hierarchy.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

12. Fair values of financial instruments (continued):

(b) Reconciliation:

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement of Level 3 instruments:

Assets	2013	2012	2011
Loans receivable:			
Balance, beginning of year	\$ 114,395	\$ 138,909	\$ 109,629
New loans, net of repayments	235,597	(24,514)	29,280
Balance, end of year	\$ 349,992	\$ 114,395	\$ 138,909
Liabilities	2013	2012	2011
Revolving credit facility:			
Balance, beginning of year	\$ –	\$ –	\$ –
Changes in debt, net of repayments	19,879	–	–
Balance, end of year	\$ 19,879	\$ –	\$ –
Due to Catalyst:			
Balance, beginning of year	\$ 125,670	\$ 172,919	\$ 134,534
Changes in debt, net of repayments	205,033	(47,249)	38,385
Balance, end of year	\$ 330,703	\$ 125,670	\$ 172,919
Senior debt:			
Balance, beginning of year	\$ 49,586	\$ 49,489	\$ –
Changes in debt, net of repayments	97	97	49,489
Balance, end of year	\$ 49,683	\$ 49,586	\$ 49,489

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

13. Contingencies:

In the normal conduct of operations, there are pending claims against the Company. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, final determination of these other litigations is not expected to materially affect the Company's consolidated financial position or consolidated results of operations.

14. Financial risk management:

The Company's exposure to risks associated with financial instruments includes currency risk, interest rate risk, liquidity risk and credit risk.

(a) Currency risk:

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. This exposure is the result of indebtedness and related interest expenses denominated in U.S. dollars, as well as assets and liabilities that will be settled in U.S. dollars. The Company has entered into foreign exchange forward contracts to mitigate this risk (note 15).

An increase (decrease) of 1% in the value of the Canadian dollar as compared to the U.S. dollar would result in a net immaterial change to the Canadian equivalent amount of U.S. dollar foreign exchange exposure as at December 31, 2013, as the gain (loss) on translation is offset by the mark-to-market value of the foreign exchange forward contracts.

(b) Interest rate risk:

The Company is exposed to interest rate risk as it earns interest on its loans and receivable and pays interest on its revolving credit facility and amounts due to Catalyst and on its senior debt.

The Company's loans receivable primarily bear a fixed rate of interest as does the Company's senior debt and amounts due to Catalyst. Any changes in interest rates will not have an impact on the Company's interest income and related expenses on these financial instruments.

The Company's revolving credit facility is exposed to changes in interest rates. The Company continues to monitor the interest rate gap.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

14. Financial risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's liquid assets consist of cash and cash equivalents amounting to \$38,014 or 9.5% of the total assets.

The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

(d) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers and other banks.

The Company adheres to a credit evaluation process and requires collateral in the form of a general security agreement covering all of the borrower's property. The Company does experience credit risk and appropriate measures are being taken on a regular basis to evaluate and monitor this risk.

15. Derivatives held for risk management:

The table below analyses derivatives held for risk management purposes by type of instrument.

	Notional value*			Fair value		
	2013	2012	2011	2013	2012	2011
Foreign exchange forwards	\$ 148,900	\$ 64,300	\$ 53,400	\$ (329)	\$ 18	\$ 317

*Amounts in thousands of U.S. dollars, all of the Company's forward contracts mature within 30 days of year end.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

16. Share-based payments:

Stock options plan:

The Company grants stocks options which vest evenly over a three-year period and are exercisable no later than ten years after the date of the grant. As approved by the directors, a total of 10% of the total issued and outstanding common shares of the Company have been reserved for issuance under the plan of which 5% have been awarded.

The cost of these options is recognized on a graded vesting basis except where the employee is eligible to retire prior to a tranche's vesting date, in which case the cost is recognized between the grant date and the date the employee is eligible to retire.

The amount recorded in contributed surplus as at December 31, 2013 was \$5,152 (2012 - nil; 2011 - nil). In 2013, an expense of \$5,152 (2012 - nil) was recorded in the consolidated statements of comprehensive income. As at December 31, 2013, future unrecognized compensation cost for non-vested stock options was \$3,278 (2012 - nil; 2011 - nil) which is to be recognized over a weighted average period of 2 years (2012 - nil years).

Significant assumptions used in valuing the options include volatility rate of 30% and risk-free rate of 3.13%. The options expire on December 31, 2022.

17. Assets held for sale:

During 2011, the Company received 100% of the common shares of a borrower, in exchange for a loan valued at \$12.6 million. The asset held for sale is a corporation which distributes athletic equipment. It maintains current operations. This entity is being held for sale on the consolidated statements of financial position. The asset held for sale is recorded at the lower of carrying value or fair value less cost to sell. The entity is currently being marketed for sale and will be sold as market conditions permit.

18. Capital:

The Company is required to maintain minimum excess working capital as prescribed by the OSC. At December 31, 2013 and 2012, the Company was in compliance with the OSC's requirement to maintain minimum capital of \$100.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

19. Transition to IFRS:

The Company has adopted IFRS issued by the IASB effective January 1, 2011. The consolidated financial statements for the year ended December 31, 2013 have been prepared in accordance with IFRS. As these are the first consolidated financial statements prepared under IFRS, the provisions of IFRS 1 have been applied. The Company previously prepared its primary financial statements under Canadian Accounting Standards for Private Enterprises ("ASPE") on a non-consolidated basis.

Reconciliation of equity:

	January 1, 2011			December 31, 2012		
	ASPE	Effect of transition to IFRS	IFRS	ASPE	Effect of transition to IFRS	IFRS
Assets						
Cash and cash equivalents	\$ 27,204	\$ -	\$ 27,204	\$ 49,127	\$ -	\$ 49,127
Loans receivable	109,629	-	109,629	126,085	(11,690)	114,395
Derivative assets	-	-	-	-	18	18
Assets held for sale	-	-	-	-	11,690	11,690
Other assets	773	-	773	37	(18)	19
	\$ 137,606	\$ -	\$ 137,606	\$ 175,249	\$ -	\$ 175,249
Liabilities and Shareholders' Deficiency						
Liabilities:						
Accounts payable and accrued liabilities	\$ 2,758	\$ -	\$ 2,758	\$ 949	\$ -	\$ 949
Deferred facility fees	927	-	927	3,030	-	3,030
Derivative liabilities	-	-	-	-	-	-
Income and other taxes payable	32	-	32	-	-	-
	3,717	-	3,717	3,979	-	3,979
Borrower deposits	-	-	-	150	-	150
Due to Catalyst Fund	-	-	-	-	-	-
Limited Partnerships	134,534	-	134,534	125,670	-	125,670
Senior debt	-	-	-	49,586	-	49,586
Shareholders' deficiency:						
Share capital	1	-	1	1	-	1
Contributed surplus	-	-	-	-	-	-
Accumulated deficit	(646)	-	(646)	(4,137)	-	(4,137)
	(645)	-	(645)	(4,136)	-	(4,136)
	\$ 137,606	\$ -	\$ 137,606	\$ 175,249	\$ -	\$ 175,249

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

19. Transition to IFRS (continued):

For the year ended December 31, 2012	ASPE	Effect of transition to IFRS	IFRS
Revenue:			
Interest	\$ 19,751	\$ 1,700	\$ 21,451
Fees	4,567	1,503	6,070
Other	1,503	(1,503)	–
	25,821	1,700	27,521
Interest expense and participation fees:			
Catalyst Fund Limited Partnerships	17,870	–	17,870
Senior debt and revolving credit facilities	4,307	–	4,307
	22,177	–	22,177
Net interest income	3,644	1,700	5,344
Other loss:			
Provision for loan losses	(330)	(1,700)	(2,030)
Foreign exchange loss	(433)	–	(433)
	(763)	(1,700)	(2,463)
Non-interest expenses:			
Salaries and wages	3,004	–	3,004
General and administrative	1,745	–	1,745
	4,749	–	4,749
Loss before income taxes	(1,868)	–	(1,868)
Income tax recovery	(66)	–	(66)
Loss for the year	\$ (1,802)	\$ –	\$ (1,802)

IFRS requires that interest income continue to accrue and a related provision for credit losses created for any non-performing loans. Under ASPE, the Company used to cease recognition of interest income when, in management's opinion, there was a deterioration in credit quality and there was no longer reasonable assurance of timely collection of the full amount of interest.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2013, 2012, 2011

20. Subsequent events:

- (a) During 2013, one of the Company's borrowers entered formal restructuring proceedings in Canada and the US. It is anticipated that the Company, as a secured creditor will own the assets of the borrower when it emerges from protection subsequent to year end. As at December 31, 2013, the carrying value of the loan, net of a provision was \$37,029.
- (b) On April 15, 2014, the Company filed an initial public offering of its common shares with a number of the regulatory authorities in each of the provinces and territories of Canada for the issuance of 18,000,000 common shares for gross proceeds of \$252 million.

CERTIFICATE OF THE ISSUER

Dated: April 15, 2014

This prospectus (which includes the marketing materials included or incorporated by reference) constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada.

(Signed) "Newton Glassman"

NEWTON GLASSMAN
Chief Executive Officer

(Signed) "Daniel Nohdomi"

DANIEL NOHDOMI
Chief Financial Officer

On behalf of the Directors

(Signed) "David Sutin"

DAVID SUTIN
Director

(Signed) "Jim Riley"

JIM RILEY
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: April 15, 2014

To the best of our knowledge, information and belief, this prospectus (which includes the marketing materials included or incorporated by reference) constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada.

CANACCORD GENUITY CORP.

(Signed) "Alan Polak"

Alan Polak
Managing Director & Head of Financial Institutions
Investment Banking

CIBC WORLD MARKETS INC.

(Signed) "Donald A. Fox"

Donald A. Fox
Managing Director, Investment Banking
Head, Financial Institutions

TD SECURITIES INC.

(Signed) "Jonathan Broer"

Jonathan Broer
Managing Director,
Head of Financial Institutions

NATIONAL BANK FINANCIAL INC.

(Signed) "Darin E. Deschamps"

Darin E. Deschamps
Managing Director, Investment Banking

GMP SECURITIES L.P.

(Signed) "Andrew Kiguel"

Andrew Kiguel
Managing Director, Investment Banking

DESJARDINS SECURITIES INC.

(Signed) "A. Thomas Little"

A. Thomas Little
Managing Director, Head of Financial Institutions
Investment Banking

DUNDEE SECURITIES LTD.

(Signed) "Aaron Unger"

Aaron Unger
Managing Director, Equity Capital Markets

EXHIBIT #8

FORM 51-102F3

MATERIAL CHANGE REPORT

Item 1 – Name and Address of Company:

Callidus Capital Corporation

77 King Street West, Suite 4320
TD North Tower, P.O. Box 212
Toronto, Ontario
M5K 1K2

Item 2 - Date of Material Change:

December 23, 2014

Item 3 – News Release:

The news release attached hereto as Schedule “A” was disseminated over CNW Group on December 23, 2014.

Item 4 – Summary of Material Change:

Callidus Capital Corporation (“Callidus” or the “Company”) finalized the terms of the previously announced USD \$200 million unsecured subordinated bridge facility extended by funds managed by The Catalyst Capital Group Inc. (the “Catalyst Funds”). Callidus also announced that it intends to purchase the \$50 million participation of Catalyst Fund Limited Partnership IV in Callidus’ loan portfolio for a purchase price of \$50 million, being the book value of the participation interest.

Item 5 – Full Description of Material Change:

5.1 Full Description of Material Change

Finalization of Terms of Bridge Facility

Callidus finalized the terms of the previously announced USD \$200 million unsecured subordinated bridge facility extended by funds managed by the Catalyst Funds. As previously disclosed, the terms of that facility were subject to the approval of the independent directors of the Company. The independent directors have agreed with the Catalyst Funds that the facility will carry an interest rate of 8% per annum. In addition, the Catalyst Funds will be entitled to an annual fee equal to 1.5% of the maximum amount available under the facility and a standby fee equal to 1% per annum of undrawn amounts. The bridge facility will have a term of 29 months and will be pre-payable by Callidus at any time without penalty. The facility will be unsecured and

will be subordinated to the Company's other debt facilities. Approximately US\$75 million had been drawn under the facility as of December 19, 2014.

In accordance with the Company's policy, the independent directors reviewed the terms of the bridge facility and concluded that they are consistent with the terms applicable between arm's length parties for similar unsecured, subordinated credit facilities

Purchase of Participation Interest

Callidus announced that it intends to purchase the \$50 million participation of Catalyst Fund Limited Partnership IV in Callidus' loan portfolio for a purchase price of \$50 million, being the book value of the participation interest. In connection with the acquisition, Catalyst Fund Limited Partnership IV has agreed to provide a principal guarantee related to the sale of the participation interest as disclosed in the prospectus filed in connection with the Company's initial public offering. Also as disclosed in the prospectus, the Catalyst Funds provided a principal guarantee with respect to the loans in existence at that time and have agreed to provide a similar guarantee in connection with any future sales of participation interests to Callidus in accordance with the participation agreement between the companies.

Callidus has determined to exercise its right to acquire the participation interest. The acquisition will result in approximately \$81 million of loans that are currently derecognized coming on to Callidus' balance sheet and management has determined that the acquisition of the participation interest will be accretive to earnings per share. Further, management has determined that acquiring the participation interest is the most cost effective way to increase the size of the loan portfolio as well as the lowest risk option given the principal guarantee from the Catalyst Funds and Callidus' involvement in originating the loans.

The purchase price will be satisfied by Callidus issuing 2,335,357 common shares to Catalyst Fund Limited Partnership IV at an issue price of \$21.41 per common share, being the closing price of the Company's common shares on the Toronto Stock Exchange on December 3, 2014, the last trading day before the date on which it was first announced that the Catalyst Funds had offered to sell the participation interest to Callidus for shares. This price represents a premium of in excess of 27% over the closing price of the Company's common shares on the Toronto Stock Exchange on Friday, December 19, 2014.

The transaction is subject to receipt of all required regulatory approvals.

The Catalyst Funds are "related parties" of the Company for the purposes of applicable securities laws as they beneficially own, control or direct approximately 57.5% of the Company's issued and outstanding common shares and approximately 56.5% of the common shares on a fully diluted basis. Following completion of the acquisition of the participation interest, the Catalyst Funds will beneficially own, control or direct approximately 59.5% of the Company's issued and outstanding common shares and approximately 58.4% of the common shares on a fully diluted basis.

Also in accordance with the Company's policy, the independent directors of Callidus have approved the issuance of shares by the Company as consideration for the acquisition of the participation interest and the price at which the common shares will be issued to Catalyst Fund Limited Partnership IV.

5.2 Disclosure for Restructuring Transactions

Not applicable.

Item 6 – Reliance on subsection 7.1(2) of National Instrument 51-102:

Not applicable.

Item 7 - Omitted Information:

Not applicable.

Item 8 – Executive Officer:

David Reese, Chief Operating Officer

Item 9 – Date of Report:

December 31, 2014

Schedule "A"

Callidus Capital Corporation Provides Update on Bridge Financing and Acquisition of Participation Interest

TORONTO, Dec. 23, 2014 /CNW/ - Callidus Capital Corporation ("Callidus" or the "Company") (TSX: CBL) today provided an update on the following.

Finalization of Terms of Bridge Facility

Callidus announced the finalization of the terms of the previously announced USD \$200 million unsecured subordinated bridge facility extended by funds managed by The Catalyst Capital Group Inc. (the "Catalyst Funds"). As previously disclosed, the terms of that facility were subject to the approval of the independent directors of the Company. The independent directors have agreed with the Catalyst Funds that the facility will carry an interest rate of 8% per annum. In addition, the Catalyst Funds will be entitled to an annual fee equal to 1.5% of the maximum amount available under the facility and a standby fee equal to 1% per annum of undrawn amounts. The bridge facility will have a term of 29 months and will be pre-payable by Callidus at any time without penalty. The facility will be unsecured and will be subordinated to the Company's other debt facilities. Approximately US\$75 million had been drawn under the facility as of December 19, 2014.

In accordance with the Company's policy, the independent directors have reviewed the terms of the bridge facility and concluded that they are consistent with the terms applicable between arm's length parties for similar unsecured, subordinated credit facilities

Purchase of Participation Interest

Callidus also announced that it intends to purchase the \$50 million participation of Catalyst Fund Limited Partnership IV in Callidus' loan portfolio for a purchase price of \$50 million, being the book value of the participation interest. In connection with the acquisition, Catalyst Fund Limited Partnership IV has agreed to provide a principal guarantee related to the sale of the participation interest as disclosed in the prospectus filed in connection with the Company's initial public offering. Also as disclosed in the prospectus, the Catalyst Funds provided a principal guarantee with respect to the loans in existence at that time and have agreed to provide a similar guarantee in connection with any future sales of participation interests to Callidus in accordance with the participation agreement between the companies.

Callidus has determined to exercise its right to acquire the participation interest. The acquisition will result in approximately \$81 million of loans that are currently derecognized coming on to Callidus' balance sheet and management has determined that the acquisition of the participation interest will be accretive to earnings per share. Further, management has determined that acquiring the participation interest is the most cost effective way to increase the size of the loan portfolio as well as the lowest risk option given the principal guarantee from the Catalyst Funds and Callidus' involvement in originating the loans.

The purchase price will be satisfied by Callidus issuing 2,335,357 common shares to Catalyst Fund Limited Partnership IV at an issue price of \$21.41 per common share, being the closing price of the Company's common shares on the Toronto Stock Exchange on December 3, 2014, the last trading day before the date on which it was first announced that the Catalyst Funds had offered to sell the participation interest to Callidus for shares. This price represents a premium of in excess of 27% over the closing price of the Company's common shares on the Toronto Stock Exchange on Friday, December 19, 2014.

The transaction is subject to receipt of all required regulatory approvals.

The Catalyst Funds are "related parties" of the Company for the purposes of applicable securities laws as they beneficially own, control or direct approximately 57.5% of the Company's issued and outstanding common shares and approximately 56.5% of the common shares on a fully diluted basis. Following completion of the acquisition of the participation interest, the Catalyst Funds will beneficially own, control or direct approximately 59.5% of the Company's issued and outstanding common shares and approximately 58.4% of the common shares on a fully diluted basis.

Also in accordance with the Company's policy, the independent directors of Callidus have approved the issuance of shares by the Company as consideration for the acquisition of the participation interest and the price at which the common shares will be issued to Catalyst Fund Limited Partnership IV.

About Callidus Capital Corporation

Established in 2003, Callidus Capital Corporation is a Canadian company that specializes in innovative and creative financing solutions for companies that are unable to obtain adequate financing from conventional lending institutions. Unlike conventional lending institutions who demand a long list of covenants and make credit decisions based on cash flow and projections, Callidus credit facilities have few, if any, covenants and are based on the value of the company's assets, its enterprise value and borrowing needs. Callidus employs a proprietary system of monitoring collateral and exercising control over the cash inflow and outflows of each borrower, enabling Callidus to very effectively manage any risk of loss.

Forward Looking Statements

Certain statements made herein contain forward-looking information. Forward-looking statements in this release include those related to expected growth in the loan portfolio, repayment of the bridge loan and sufficiency of sources of liquidity. Such forward-looking statements involve known and unknown risks, uncertainties and other factors and assumptions that may cause the actual results, performance or achievements of Callidus, or developments in Callidus' business or industry, to differ materially from the anticipated results, performance or achievements or developments expressed or implied by such forward-looking statements. Such factors and assumptions include, but are not limited to, Callidus' inability to successfully originate new loans due to competitive factors or adverse developments in the asset-based loans market; the availability of additional financing on acceptable terms, or at all, being dependent on capital market conditions and the operating performance of Callidus; the continued availability of funding under bridge loan facility provided by Catalyst Funds and Callidus' existing loan facilities; and other factors and assumptions discussed in the section entitled "Risk Factors" in documents filed with the Ontario Securities Commission and other securities commissions across Canada, including Callidus' prospectus dated April 15, 2014. If any such risks actually occur or assumptions prove to be incorrect, Callidus' business, financial condition or results of operations could be materially adversely affected. Readers are

cautioned not to place undue reliance upon any such forward-looking statements, which are made as at the date of this press release and Callidus does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

EXHIBIT #9

This is Exhibit "61" referred to in the Affidavit of James A. Riley sworn May 29, 2020.



Commissioner for Taking Affidavits

MARCO ROMEO



GROWTH PARTNERS

August 15, 2013

Strictly Private and Confidential

Jeff McFarlane, President and CEO, Xchange Technology Group, LLC
 c/o James Merkur, Managing Director
 Canaccord Genuity Corp
 161 Bay Street
 Toronto, Ontario, Canada, M5J 2S1

Dear Jeff,

On behalf of CDI Computer Dealers Inc. ("CDI") and H.I.G. Growth Partners, LLC ("H.I.G.") we are pleased to present you this Letter of Intent ("LOI") outlining the terms of a potential transaction ("Transaction") between CDI and Xchange Technology Group, LLC ("XTG" or the "Company"). CDI would, as part of this Transaction, have the financial backing of H.I.G. We firmly believe that the Transaction outlined herein offers XTG a unique opportunity to pursue its longer-term business plan.

CDI Overview

CDI is the leading provider of refurbished computers to the North American education market. CDI supplies both K-12 and higher education institutions with PCs, laptops, tablets, servers, and other computing equipment. Based in Markham, Ontario, CDI has been in business for over 30 years.

H.I.G. Overview

H.I.G. Capital is a global private equity investment firm specializing in growth capital, acquisitions and recapitalizations of privately held businesses. H.I.G. Capital is the largest private equity investor in the U.S. focused on the lower end of the middle market and its investment professionals combine operational, strategic, and financial expertise in partnership with senior management to add significant value to its portfolio companies. H.I.G. Capital has over \$13.0 billion of total capital under management and in excess of \$4.5 billion of available committed equity capital to support investment activities. Since 1993 H.I.G. Capital has invested in over 200 companies across a wide range of industries with combined revenues of more than \$30 billion.

H.I.G. Growth Partners is the dedicated growth capital investment affiliate of H.I.G. Capital. The Growth Partners team maintains a collaborative and supportive relationship with its portfolio investments and works closely with management teams to serve as an experienced resource, providing broad-based strategic, operational and financial management services from their comprehensive in-house team and vast network of third-party relationships.

1. Summary Transaction Terms

The Transaction would entail CDI acquiring all of the assets and assuming certain defined liabilities of XTG (excluded from the Transaction is Hamilton Services Group Limited) in exchange for: (1) \$15.0 million in cash and (2) \$2.0 million of non-voting and non-participating preferred equity ("Preferred Equity") of a new entity, Newco ("Newco"), that will acquire and own the acquired assets and liabilities of XTG, with the exception of PartStock Computer LLC ("PartStock"). CDI will retain PartStock in its entirety. The Preferred Equity will be non-voting and will accrue PIK dividends at 6%. Other terms for the Preferred Equity to be mutually agreed upon in connection with finalising other details with respect to the Transaction.

Assumptions Underlying the Purchase Price: The Cash Purchase Price has been calculated based on the assumption that the assets will be delivered at closing (i) free of cash and indebtedness, liens, income tax obligations and any other undisclosed/contingent liabilities; and (ii) with working capital at a level necessary to support the current operations of the Company. The Cash Purchase Price is based on a balance sheet that is debt free on the closing date. Debt includes any purchase money debt, amounts due to affiliates, income taxes payable, interest bearing liabilities (e.g. bank debt, revolving credit facilities, notes payable, etc.), letters of credit, capital leases, guarantees, deferred revenue, deferred compensation, trade payables stretched beyond their normal terms, contingent liabilities, any liabilities incurred outside the ordinary course of business, and certain other liabilities including but not limited to accrued pension and taxes. Further, the Cash Purchase Price will be increased or decreased by the amount by which the Company's net working capital (with respect to the acquired assets and liabilities) as of the close of business on the day immediately preceding the closing date (the "Closing Date Net Working Capital") is more or less than a target working capital amount to be agreed upon in connection with finalising other details with respect to the Transaction. The Closing Date Net Working Capital will be determined pursuant to a mutually agreed upon mechanism set forth in the definitive asset purchase agreement.

Newco Capitalization: The initial capitalization of Newco will consist, immediately after closing of the Transaction, of voting common shares (held by CDI), the Preferred Equity (to be issued to XTG at closing), approximately \$15.0 million of debt, to be provided by a third party lender, and Participating Preferred Stock issuable to CDI, which is prepared to invest up to an additional \$5.0 million in Newco in the form of Participating Preferred Stock (terms to be determined).

2. Conditions

Should the Parties choose to proceed with the Transaction, such Transaction would be subject to certain conditions, including, but not limited to, the following:

- Preparation and signature of a definitive asset purchase agreement (and other agreements) documenting the terms of the Transaction containing, without limitation, representations, warranties, covenants, indemnification provisions (including, without limitation, with respect to matters regarding ownership, customer disputes, intellectual property and tax indemnity), escrow and closing conditions customary for transactions of this nature and satisfactory to CDI, H.I.G., the Company and their respective counsel.
- Satisfactory completion of due diligence investigations with respect to XTG and resolution of any issues related to CDI's proposed investment (this would also be a condition to closing the transactions described in the definitive asset purchase agreement).
- Receipt of all material consents and approvals necessary for the consummation of the Transaction and the continuation of the business operations as currently conducted by XTG without impairment.
- Absence of any material adverse change in the Company's business, assets, condition or prospects.

- Securing third party debt of \$15.0 million (referred to in *Newco Capitalization* above) to fund the Transaction on terms satisfactory to CDI and H.I.G.
- The execution of employment and non-compete/solicit agreements with key members of management on terms satisfactory to CDI and H.I.G.
- Full and final settlement of all obligations of the Company to its lenders and creditors.

3. Publicity

Except to the extent required by law, prior to the closing, neither party will make any disclosure or announcement, including formal and informal conversations with outside parties or Company employees, or news releases concerning the Transaction contemplated herein, without the consent of the other parties. The Company will consult with CDI and H.I.G. prior to any disclosure to any outside parties or to any employees of the Transaction as outlined herein.

4. Exclusivity

In consideration of CDI's and H.I.G.'s time, effort and expense in connection with the proposed Transaction, the Company agrees that, commencing on the date hereof and until the entering into of a definitive purchase agreement (the "Exclusivity Period"), neither it nor any of its lenders, shareholders, directors, officers, representatives or affiliates will solicit, encourage, enter into or continue discussions with any other party, either agent or principal, concerning a possible investment, public offering, merger, acquisition, sale of any material asset outside the ordinary course of business, or transfer or issuance of any capital stock or other securities of the Company, recapitalization, or other business combination. Notwithstanding the foregoing, if a definitive asset purchase agreement has not been entered into by the earlier of (i) 60 days from the date hereof; or (ii) such other date as the parties may mutually agree in writing that they are not able to agree on the terms and conditions of a possible Transaction, the Company shall have the right to terminate this agreement upon two days written notice.

5. Access to Information, Conduct of Business and H.I.G. Diligence Process

During the Exclusivity Period, provided CDI and H.I.G. are actively pursuing the Transaction, the Company shall afford (and shall cause its affiliates, officers, directors, employees, partners, attorneys, accountants and other agents to afford) to CDI's and H.I.G.'s officers, employees, attorneys, accountants, lenders and other agents and advisers full access at reasonable times to the Company's financial, legal, tax and other data and information. Such information shall be made available on a confidential basis.

Our due diligence of XTG will include, but is not limited to, the following: (i) accounting and detailed financial review, (ii) discussions with key clients and suppliers, (iii) operational reviews with key senior executives, (iv) reference and background checks on key executives, and (v) standard and customary insurance, contracts and legal review. CDI and H.I.G. are prepared to dedicate significant resources to completing our diligence in a timely manner.

6. Fees and Expenses

Provided the Transaction is completed, NewCo will be responsible for all fees and expenses incurred by CDI and H.I.G. in connection with the Transaction; each of the parties will otherwise be responsible for their own expenses; provided, however, that if the Company or the Company's lenders, shareholders, directors, officers, representatives or affiliates breach their obligations under Section 4 above, the Company and/or the Company's shareholders and lenders shall reimburse CDI and H.I.G. for all out of pocket fees and expenses incurred by CDI and H.I.G. Each party to this Letter of Intent will indemnify the other party from any claim by any broker or finder based upon arrangements made by or on behalf of

the indemnifying party or any of his or its affiliates in connection with this Letter of Intent or the transactions contemplated hereby.

7. Governing Law; Nature of Letter

This letter shall be governed by the substantive laws (and not the laws of conflicts) of Delaware.

This letter reflects only a summary of certain proposed terms and an expression of interest with respect to the proposed Transaction and does not constitute a formal offer and is not intended to create a binding commitment on the part of CDI, H.I.G or the Company to proceed with such a Transaction; provided, however, that paragraphs 3, 4, 5, 6, 7 and 8 shall be binding on the parties and all other paragraphs shall be non-binding, and will remain non-binding after the termination of the LOI and Exclusivity period. This paragraph shall survive any termination or expiration of (i) this LOI, (ii) the Exclusivity provision contained in paragraph 4 above or (iii) any negotiations between the parties hereto.

8. Expiration of this Offer

Unless signed by the Parties no later than 7:00 PM EDT on Tuesday, August 20, 2013 the terms of this offer shall be null and void.

We are very excited about proceeding with this transaction and believe that CDI and H.L.G. are uniquely qualified as high-value partners to XTG. To discuss any questions you may have, please feel free to reach out to either Saar Pikar at (905) 946-3853 or Steve Loose at (617) 262-8455.

Very truly yours,

CDI Computers, Inc.



by: Saar Pikar

as its: Chief Executive Officer

H.L.G. Growth Partners LLC

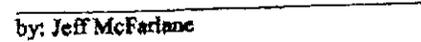


by: Steve Loose

as its: Managing Director

Agreed and Accepted:

Xchange Technology Group, LLC



by: Jeff McFarlane

as its: President and CEO

EXHIBIT #10

II. 2016 Review:

a) Financial Review

(2) Position Review – Cumulative Fund Investment Returns Since Inception (as of December 31, 2016) ⁽¹⁾

Fund III in US\$	Date of Initial Investment	Date of Substantial Realization ⁽²⁾	Total Capital Committed ⁽³⁾	Total Capital Invested ⁽⁴⁾	Total Realized Proceeds ⁽⁵⁾	Unrealized Value ⁽⁶⁾	Total Value	Multiple of Cost	Gross IRR ⁽⁷⁾	Net IRR ⁽⁷⁾	Net Multiple of Cost
Catalyst Fund Limited Partnership III											
Realized and Partially Realized Investments											
Callidus Capital Corporation - Sr. Secured Loan	Sep-09	Apr-14		197,521,300	231,431,016	-	231,431,016	1.2x	15.4%		
Callidus Capital Corporation - Common Shares ⁽⁹⁾	Sep-09	N/A	204,000,000	136,528,748	58	275,720,207	275,720,265	2.0x	29.7%		
Callidus Capital Corporation - Bridge Loan ⁽⁹⁾	Nov-14	N/A		52,277,908	13,458,708	52,277,908	65,736,616	1.3x	11.0%		
Xchange Technology Group ⁽¹⁴⁾	Mar-16	N/A	20,000,000	18,276,237	-	3,132,667	3,132,667	0.2x	NM		
Callidus Capital Corporation - Total				404,604,193	244,889,781	331,130,782	576,020,563	1.4x	20.1%		
Canwest	Oct-09	Oct-10		24,215,118	33,053,997	-	33,053,997	1.4x	24.7%		
Gateway Casinos & Entertainment Inc. ⁽¹⁰⁾	Sep-09	Sep-10	160,000,000	153,479,560	75,758,785	391,713,936	467,472,721	3.0x	25.0%		
YRC Worldwide	Apr-10	Dec-11		41,360,394	57,778,060	-	57,778,060	1.4x	32.2%		
Mobility	Sep-12	Jul-15		23,962,135	28,898,561	-	28,898,561	1.2x	9.0%		
Great Canadian Gaming	Mar-12	May-16		64,129,870	93,576,491	-	93,576,491	1.5x	15.0%		
Geneba ⁽¹⁵⁾	Oct-12	N/A	100,977,200	99,510,315	34,101,911	110,077,528	144,179,439	1.4x	19.5%		
Advantage Rent-A-Car ⁽¹⁶⁾	Nov-13	N/A	100,977,200	100,975,231	13,501,282	171,066,667	184,567,948	1.8x	30.1%		
Total Realized and Partially Realized Investments				\$ 912,236,817	\$ 581,558,868	\$ 1,003,988,913	\$ 1,585,547,781	1.7x	22.9%		
Unrealized Investments											
Natural Market Restaurants Corp. ⁽¹²⁾	Apr-10	N/A	215,000,000	207,232,126	-	26,635,808	26,635,808	0.1x	NM		
Sonar Entertainment Inc. ⁽¹³⁾	May-10	N/A	204,000,000	140,309,848	4,231,242	230,638,322	234,869,564	1.7x	16.2%		
Wind Litigation Claim ⁽¹⁸⁾	N/A	N/A		-	-	148,953,601	148,953,601	NM	NM		
PanAm Litigation Claim ⁽¹⁹⁾	N/A	N/A		-	-	18,395,770	18,395,770	NM	NM		
Total Unrealized Investments				\$ 347,541,974	\$ 4,231,242	\$ 424,623,501	\$ 428,854,743	1.2x	6.7%		
Total Fund III Investments - With Litigation Claims				\$ 1,259,778,790	\$ 585,790,110	\$ 1,428,612,414	\$ 2,014,402,524	1.6x	18.4%	11.7%	1.5x
Total Fund III Investments - Without Litigation Claims				\$ 1,259,778,790	\$ 585,790,110	\$ 1,261,263,043	\$ 1,847,053,153	1.5x	15.3%	8.9%	1.3x

(Footnotes in Appendix 4)

II. 2016 Review:

a) Financial Review

(2) Position Review – Cumulative Fund Investment Returns Since Inception (as of December 31, 2016) ⁽¹⁾

Fund IV & IV-PP in US\$

	<u>Date of Initial Investment</u>	<u>Date of Substantial Realization</u> ⁽²⁾	<u>Total Capital Committed</u> ⁽³⁾	<u>Total Capital Invested</u> ⁽⁴⁾	<u>Total Realized Proceeds</u> ⁽⁵⁾	<u>Unrealized Value</u> ⁽⁶⁾	<u>Total Value</u>	<u>Multiple of Cost</u>	<u>Gross IRR</u> ⁽⁷⁾	<u>Net IRR</u> ⁽⁷⁾	<u>Net Multiple of Cost</u>
Catalyst Fund Limited Partnership IV & IV-PP											
Realized and Partially Realized Investments											
Callidus Capital Corporation - Sr. Secured Loan	Jun-12	Apr-14		179,155,489	203,169,682	-	203,169,682	1.1x	14.1%		
Callidus Capital Corporation - Common Shares ⁽⁹⁾	Apr-14	N/A		116,877,217	57	120,528,773	120,528,830	1.0x	1.3%		
Callidus Capital Corporation - Bridge Loan ⁽⁹⁾	Nov-14	N/A	201,954,400	197,529,025	27,237,193	197,529,025	224,766,218	1.1x	10.8%		
Xchange Technology Group ⁽¹⁴⁾	Mar-16	N/A	40,000,000	36,552,474	-	6,265,333	6,265,333	0.2x	NM		
Callidus Capital Corporation - Total				530,114,204	230,406,932	324,323,131	554,730,063	1.0x	3.6%		
Mobilicity	Sep-12	Jul-15		47,924,269	57,797,123	-	57,797,123	1.2x	9.0%		
Relativity Media	Jun-15	Jul-15		55,043,290	55,947,165	-	55,947,165	1.0x	94.1%		
SFX Entertainment, Inc.	Dec-15	Feb-16		3,334,135	3,764,926	-	3,764,926	1.1x	277.2%		
The Fresh Market, Inc.	Dec-15	Apr-16		7,216,032	9,666,796	-	9,666,796	1.3x	189.0%		
Corus Entertainment Inc.	Feb-16	May-16		203,889	205,025	-	205,025	1.0x	5.7%		
Tervita Corporation (formerly "Project Vinci")	Sep-15	Dec-16		16,723,338	20,685,383	-	20,685,383	1.2x	36.8%		
Geneba ⁽¹⁵⁾	Oct-12	N/A	201,954,400	199,020,630	68,203,822	220,155,057	288,358,879	1.4x	19.5%		
Advantage Rent-A-Car ⁽¹⁶⁾	Nov-13	N/A	201,954,400	201,950,462	27,002,563	342,133,333	369,135,896	1.8x	30.1%		
Total Realized and Partially Realized Investments				\$ 1,061,530,249	\$ 473,679,735	\$ 886,611,521	\$ 1,360,291,256	1.3x	15.9%		
Unrealized Investments											
Pacific Exploration & Production ⁽¹⁷⁾	Jun-16	N/A	114,955,073	70,085,150	2,957,164	183,758,285	186,715,449	2.7x	596.7%		
Wind Litigation Claim ⁽¹⁸⁾	N/A	N/A		-	-	297,907,202	297,907,202	NM	NM		
Total Unrealized Investments				\$ 70,085,150	\$ 2,957,164	\$ 481,665,487	\$ 484,622,651	6.9x	4220.6%		
Total Fund IV & IV-PP Investments - With Litigation Claims				\$ 1,131,615,399	\$ 476,636,899	\$ 1,368,277,008	\$ 1,844,913,907	1.6x	32.0%	24.5%	1.6x
Total Fund IV & IV-PP Investments - Without Litigation Claims				\$ 1,131,615,399	\$ 476,636,899	\$ 1,070,369,806	\$ 1,547,006,705	1.4x	20.8%	14.2%	1.3x

(Footnotes in Appendix 4)

EXHIBIT #11

Part 1

Section 1A

1. Newton Glassman
 - a. CEO of Callidus
 - b. Managing Partner of Catalyst
2. David Reese
 - a. COO of Callidus
3. Craig Boyer
 - a. Vice President Portfolio Management - Callidus
4. James Riley
 - a. Secretary and Director
5. Dan Nohdomi
 - a. CFO
6. Duane Morrison
 - a. Vice President Origination - Callidus
7. Mark Wilk
 - a. Vice President Origination - Callidus

Section 1B

1. Callidus Capital Corporation
2. Catalyst Fund III
3. Catalyst Fund IV
4. Catalyst Fund V

Section 1C

Yes

All of the Individuals were either an employee officer or director of Entity 1
Individuals 1 & 4 were either an employee officer or director of Entity 2,3,4

Part 2

Section 2A

Answer these as affirmative:

- Corporate disclosure and/or financial statements
- Fraud

Section 2B

- Check the second box
- Starting from March 2014

Section 2C

Beginning with the Prospectus relating to the Initial Public Offering of shares in Callidus Capital Corporation (CBL) there has been ongoing deception. This deception involves:

1. Misinformation involving the IPO Prospectus
2. The Catalyst Participation Agreement or Principle Guaranty is riddled with conflicts of interest
 - a. Opaque reporting around the Catalyst loan guaranty also referred to as the Participation Agreement
 - b. Inconsistent application of the guaranty
 - c. Fabrication of earnings using the guaranty
 - d. Potential for conflict of interest between Catalyst and Callidus given shared directorships
3. Misstating the value of the assets on Callidus' balance sheet
 - a. in particular "Assets Held for Sale" and
 - b. the Catalyst Principle Guaranty
 - c. Understatement or non-statement of Unrealized Loan losses

1. Catalyst Principle Guaranty aka Participation Agreement
 - a. The first mention of this mechanism appeared in the CBL IPO Prospectus – page 11 – see attached
 - b. The intent of this Participation Agreement, later known as the Catalyst Guaranty appears to be a risk-sharing arrangement with CBL's parent company Catalyst Capital Corp, in proportion to its historical participation in the Callidus loan portfolio
 - c. The Guaranty is explained on page 11 of the IPO Prospectus – see attached
 - d. It is again referenced in the December 23, 2014 "Material Change Report" Form 51-102F3 on page 2
 - e. Any claims under the Guaranty are Capitalized and placed on the Balance Sheet of Callidus as an Asset – see "Q4-15 CBL FS" – page 4 – "Guarantee Asset"
 - f. By its very definition, the Guaranty was to protect CBL shareholders from Principle Loss
 - g. Instead, CBL and Catalyst have used the mechanism to manufacture fictitious earnings by accruing interest to themselves and booking them as normal course earnings.
 - h. The most egregious application of this manufacturing of earnings was related to Xchange Technology Group LLC (XTG) a borrower of CBL who's assets are now owned by CBL
 - i. XTG was forced into receivership by CBL in October 2013.
 - j. The Loan balance outstanding at the time of the receivership was \$36.97M – see Page 13 of the "Initial Report of the Receiver"
 - k. CBL, via a numbered company controlled by them, credit bid their debt less \$3M via a Stalking Horse Bid with the expectation that XTG would conclude its receivership prior to the end of 2013
 - l. CBL was successful in their attempt to acquire the assets of XTG and on November 19th, 2013 the Receiver informed them they were the successful bidder – See the "First Report of the Receiver" page 7
 - m. CBL opted to leave XTG in receivership for the entirety of 2014 – it's first year as a publically traded company even though their Stalking Horse Bid outlined in the "Initial Report of the Receiver" page 22 & 23 called for a closing before December 31, 2013.
 - n. Instead the Receiver certified the transfer of XTG's assets to CBL on January 2nd of 2015 concluding its bankruptcy – see attached "Receivers Certificate"

- o. The first time XTG appears on CBL's financial statements is in 1Q15, which represent XTG as an "Asset Held For Sale" valued at \$62.603M (page 2)
- p. Note that the "Guarantee Asset" on the Balance Sheet has also grown to \$23.434M as of 1Q15 – page 2.
- q. Nine months later, as of 12/31/15, CBL is now carrying "Assets Acquired from Loans" at \$102.367M – see Q4-15 CBL – page 4 and the "Guarantee Asset" at \$34.755M. Note 17 on page 17 confirms CBL is now valuing XTG at \$66.787M
- r. Note 17 of the Qe-15 Financials also indicates accrued losses of \$8.257M during CBL's ownership of XTG
- s. Note 6 on page 19 of the 4Q-15 financial statements reiterate that the Guaranty is not to cover unpaid interest. The language here is looser than every previous disclosure which definitively stated that interest and fees were not covered under the Guarantee.
- t. Note 21 (page 27) of the 4Q-15 CBL financial statements indicates a "sale" XTG to CBL's parent company, Catalyst in exchange for \$101.3 M. According to a court document, attached here as "TORONTO-#1159157-v1-Letter_to_Justice_Newbould" the amount was comprised of:
 - i. \$67M Book Value of the Assets Held for Sale
 - ii. \$13M for the Catalyst Guarantee relating to a provision reversal
 - iii. \$4M for operating losses for XTG
 - iv. For a total of \$84M "EXCLUDING INTEREST" leaving the reader to conclude there was another \$17.3M in interest paid to CBL by Catalyst even though the Guarantee did not cover interest payable.
- u. \$101.3M was a completely indefensible figure and it served no practical purposes other than to:
 - i. Continue a practice of misleading investors by crystallizing interest income that CBL continued to accrue throughout the receivership (Oct 13 to Jan 15) using the Guarantee including interest income effectively accrued to themselves. They effectively acknowledge \$17.3M of interest income accrued by Callidus and paid by Catalyst (\$101.3M less \$84M). This does not likely include the interest income accrued in Receivership from Oct 2013 to January 2015 – estimated to be another \$8M using typical Callidus lending rates.
 - ii. Mislead the market as on multiple occasions, beginning with the IPO Prospectus, and reiterated by CBL in all of their quarterly filings, that the Principle Guarantee or Participation Agreement only cover Principle and excluded fees and interest.
 - iii. hide a substantial Unrealized Loss from the public market
 - 1. The "Initial Report of the Receiver" indicates on page 5 that a Liquidation Analysis was performed. This document was filed and subsequently sealed by the court
 - 2. The highest offer tabled for the assets of XTG in August of 2013 was \$17M USD by HIG Growth Partners – see "Factum – J McFarlane" page 10 and page 12
 - 3. The assets of XTG continued to generated losses the entire time the business was in receivership and according to CBL's own financial statements, lost money again in 2015.
 - 4. There is no possible way that CBL followed its own stated asset valuation practices referred to in their Prospectus:
 - a. Allowance for Loan Losses – page 49

- b. Fair Value Measurement – page 127
- c. Assets Held for Sale – page 133
- v. The potential for conflicts of interest are acknowledged by Callidus in their IPO Prospectus on Page 11. We would allege that Callidus knowingly not only hid a massive unrealized loss from the market but doubled down by using the receivership process to accrue income to itself, and ultimately crystallizing the gain by “selling” the assets to a related party. Given that Catalyst Funds are the largest shareholder of CBL’s stock, they had a vested interest not disclosing a loss that had the potential to totally wipeout their 2015 Net Income of \$62M.

A Pattern of Deception

This pattern of accruing interest and deceptive financial reporting is common practice for CBL. CBL has another massive loan, now in excess of \$100M outstanding to Bluberi Gaming Technologies. In a similar fashion to XTG, CBL has sought to gain control of the company using a court process. Bluberi filed for CCAA protection in August of 2015 when CBL was owed \$86M – see attached “Initial Monitor Report (Bluberi)” page 4. Fourteen months later, with interest still accumulating at rates ranging from 18 to 35%, the principle is now well over \$100M.

In the case of Bluberi, the Honourable Nicholas Kasirer ruled that during the take-over process, at a certain point CBL could no longer charge interest once they had effective control. To have a non-performing loan in excess of \$100M is extremely detrimental to CBL. CBL have appealed the decision but have not publicly disclosed this material change to their investors. See attached – “Bluberi Appeal”

To further contract Bluberi to XTG, they did have competing offers to Callidus, none of which represented a fraction of the loan exposure CBL has. These documents are known to exist, but we do not have copies.

Through 2Q-16 CBL has yet to disclose to the market that they have a single loan at or in excess of 10% of their portfolio in a court proceeding. Should CBL not be successful in transferring over 90 gaming licenses that require government or commission approval, they could be faced with a massive write-off. Given the interest rate on Bluberi’s debt ranges from 18-35% this is a material loss and a material change for Callidus – none of which has been publicly disclosed. See attached – “Petition Initial Order (Bluberi)” page 18

Once again, there is no demonstrable evidence the Callidus is applying its publicly stated practices for loan loss impairment accruals or assets held for sale valuation.

Section 2C

- as a principal in a former borrower of CB L
- by speaking with other former principals who likewise had their economic interest / equity destroyed by Callidus’ deceptive lending practices
- by speaking with other Plaintiffs who are opposed to CBL in ongoing court cases
- by following their quarterly financial releases and comparing the level of disclosure in these statements to ongoing court matters
- as a creditor of pre-bankruptcy companies CBL acquired

Section 2E

March 2014

Section 2F

We believe the extent of the undeclared loan losses and improperly accrued income are in the range of \$200M. An objective mark to market exercise of Callidus' portfolio will completely eliminate multiple years of earnings and require a dramatic restatement.

The legal liabilities from ongoing litigation could also exceed \$155M

All shareholders in Callidus and potentially the Limited Partners in the Catalyst funds are being harmed. Current borrowers are also likely to be harmed and prospective borrowers need to be aware of the extreme risks of borrowing from Callidus

Section 3A

Yes (from DropBox)

Section 3B

Yes – described above

Section 4A

No

Section 4B

No

Section 4C

I assume we should indicate yes here – although the matters do not directly include securities fraud.

Section 4D

No

Section 4H

No

Section 4I

No

EXHIBIT #12

CALLIDUS
CAPITAL

Callidus Capital Corporation
Royal Trust Tower
77 King Street West, Suite 4320
Toronto, Ontario M5K 1K2
Canada

TO:

XChange Technology Group
9241 Globe Center Drive
Unit 100
Morrisville, NC 27560

STATEMENT

DATE
6/2/2014

LOAN: XTG ACC US

Page 1

Activity From: 01/05/2014 To: 31/05/2014

Balance Forward: \$519,917.74

DATE	REF. NO.	DESCRIPTION	CHARGES	PAYMENTS	BALANCE
Total In: USD					\$519,917.74

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STATEMENT

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6/2/2014

LOAN: XTG FAC A C\$

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Activity From: 01/05/2014 To: 31/05/2014

Balance Forward: \$2,335,074.92

DATE	REF. NO.	DESCRIPTION	CHARGES	PAYMENTS	BALANCE
5/1/2014	DN002672	Transfer from Facility A to Facility C re: Inventory Refund	\$84,524.00		\$2,419,598.92
5/1/2014	PY024454	Incoming wire transfer		\$84,524.00	\$2,335,074.92
5/2/2014	DN002673	Transfer from Facility A to Facility C re: Inventory Sold	\$12,382.30		\$2,347,457.22
5/2/2014	PY024489	Transfer blocked account		\$2,546.13	\$2,344,911.09
5/2/2014	PY024490	Transfer blocked account		\$74,071.39	\$2,270,839.70
5/5/2014	PY024509	Transfer blocked account		\$1,799.02	\$2,269,040.68
5/6/2014	IN013217	XTG050614 wire transfer to Wells Fargo.	\$43,733.00		\$2,312,773.68
5/6/2014	PY024530	Incoming wire transfer		\$82,995.08	\$2,229,778.60
5/9/2014	DN002690	Transfer from Facility C to Facility A re: Inventory Sold	\$6,527.35		\$2,236,305.95
5/9/2014	PY024603	Incoming wire transfer		\$72,648.19	\$2,163,657.76
5/9/2014	PY024604	Incoming wire transfer		\$3,048.03	\$2,160,609.73
5/13/2014	IN013256	XTG051314 wire transfer to Wells Fargo	\$257,486.00		\$2,418,095.73
5/13/2014	PY024647	Transfer blocked account		\$13,095.54	\$2,405,000.19
5/14/2014	DN002692	Transfer from Facility C to Facility A re: Inventory Sold	\$24,561.72		\$2,429,561.91
5/14/2014	PY024672	Incoming wire transfer		\$4,935.00	\$2,424,626.91
5/16/2014	DN002701	Transfer from Facility C to Facility A re: Inventory Sold	\$14,380.08		\$2,439,006.99
5/16/2014	PY024724	Incoming wire transfer		\$79,649.91	\$2,359,357.08
5/20/2014	IN013298	XTG052014 wire transfer to Wells Fargo	\$27,281.00		\$2,386,638.08
5/21/2014	DN002713	Transfer from Facility C to Facility A re: Inventory Sold	\$3,664.04		\$2,390,302.12
5/23/2014	PY024842	Transfer blocked account		\$19.60	\$2,390,282.52
5/26/2014	PY024868	Transfer blocked account		\$766.35	\$2,389,516.17
5/27/2014	IN013339	XTG052714 wire transfer to Wells Fargo	\$162,592.00		\$2,552,108.17
5/27/2014	PY024884	Incoming wire transfer		\$127,684.47	\$2,424,423.70
5/27/2014	PY024889	Transfer blocked account		\$3,369.18	\$2,421,054.52
5/28/2014	DN002734	Transfer from Facility C to Facility A re: Inventory Sold	\$1,357.47		\$2,422,411.99
5/28/2014	PY024912	Transfer blocked account		\$6,151.37	\$2,416,260.62
5/29/2014	PY024942	Transfer blocked account		\$5,835.79	\$2,410,424.83
5/30/2014	DN002751	Transfer from Facility C to Facility A re: Inventory Sold	\$4,144.50		\$2,414,569.33
5/30/2014	PY024981	Transfer blocked account		\$435.08	\$2,414,134.25
5/31/2014	IN013423	Loan Interest Account -May 2014	\$131,665.71		\$2,545,799.96
Total In: CAD			\$774,299.17	\$563,574.13	\$2,545,799.96

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STATEMENT

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6/2/2014

LOAN: XTG FAC A US

Page 1

Activity From: 01/05/2014 To: 31/05/2014

Balance Forward: \$15,731,863.03

DATE	REF. NO.	DESCRIPTION	CHARGES	PAYMENTS	BALANCE
5/1/2014	PY024464	Incoming wire transfer		\$370,032.41	\$15,361,830.62
5/1/2014	PY024465	Incoming wire transfer		\$323.89	\$15,361,506.73
5/1/2014	PY024466	Incoming wire transfer		\$27,888.69	\$15,333,618.04
5/2/2014	DN002674	Transfer from Facility C to Facility A re: Inventory Sold	\$401,334.82		\$15,734,952.86
5/2/2014	PY024493	Incoming wire transfer		\$23,056.34	\$15,711,896.52
5/2/2014	PY024494	Incoming wire transfer		\$6,364.40	\$15,705,532.12
5/2/2014	PY024495	Incoming wire transfer		\$35,521.86	\$15,670,010.26
5/2/2014	PY024497	Incoming wire transfer		\$116,827.13	\$15,553,183.13
5/5/2014	PY024515	Incoming wire transfer		\$2,309.50	\$15,550,873.63
5/5/2014	PY024516	Incoming wire transfer		\$15,365.70	\$15,535,507.93
5/5/2014	PY024517	Incoming wire transfer		\$41,277.31	\$15,494,230.62
5/5/2014	PY024518	Incoming wire transfer		\$5,680.00	\$15,488,550.62
5/6/2014	CN003375	Transfer from Facility A to Facility C re: Rental Inventory		\$32,850.00	\$15,455,700.62
5/6/2014	IN013216	XTG050614US wire transfer to Wells Fargo.	\$277,738.00		\$15,733,438.62
5/6/2014	PY024537	Incoming wire transfer		\$41,283.55	\$15,692,155.07
5/6/2014	PY024538	Incoming wire transfer		\$2,995.45	\$15,689,159.62
5/6/2014	PY024539	Incoming wire transfer		\$79,268.94	\$15,609,890.68
5/6/2014	PY024541	Incoming wire transfer		\$120,603.02	\$15,489,287.66
5/7/2014	PY024566	Incoming wire transfer		\$2,664.30	\$15,486,623.36
5/7/2014	PY024567	Incoming wire transfer		\$996.00	\$15,485,627.36
5/7/2014	PY024568	Incoming wire transfer		\$3,439.73	\$15,482,187.63
5/8/2014	PY024588	Incoming wire transfer		\$930.86	\$15,481,256.77
5/8/2014	PY024589	Incoming wire transfer		\$28,621.64	\$15,452,635.13
5/8/2014	PY024590	Incoming wire transfer		\$267.75	\$15,452,367.38
5/8/2014	PY024592	Incoming wire transfer		\$2,219.26	\$15,450,148.12
5/8/2014	PY024593	Incoming wire transfer		\$53,528.92	\$15,396,619.20
5/9/2014	DN002689	Transfer from Facility C to Facility A re: Inventory Sold	\$268,134.73		\$15,664,753.93
5/9/2014	PY024614	Incoming wire transfer		\$18,147.00	\$15,646,606.93
5/9/2014	PY024615	Incoming wire transfer		\$19,892.43	\$15,626,714.50
5/9/2014	PY024616	Incoming wire transfer		\$17,746.05	\$15,608,968.45
5/9/2014	PY024617	Incoming wire transfer		\$20,115.69	\$15,588,852.76
5/12/2014	PY024633	Incoming wire transfer		\$61,071.87	\$15,527,780.89
5/12/2014	PY024634	Incoming wire transfer		\$28,042.31	\$15,499,738.58
5/12/2014	PY024635	Incoming wire transfer		\$1,136.86	\$15,498,601.72
5/13/2014	IN013263	XTG051314US wire transfer to Wells Fargo	\$414,999.00		\$15,913,600.72
5/13/2014	PY024653	Incoming wire transfer		\$59,888.61	\$15,853,712.11
5/13/2014	PY024654	Incoming wire transfer		\$20,976.32	\$15,832,735.79
5/13/2014	PY024655	Incoming wire transfer		\$199,774.66	\$15,632,961.13
5/13/2014	PY024656	Incoming wire transfer		\$45,244.64	\$15,587,716.49

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5/14/2014	DN002693	Transfer from Facility C to Facility A re: Inventory Sold	\$762,833.63		\$16,350,550.12
5/14/2014	PY024681	Incoming wire transfer		\$387.00	\$16,350,163.12
5/14/2014	PY024682	Incoming wire transfer		\$8,971.69	\$16,341,191.43
5/14/2014	PY024684	Incoming wire transfer		\$47,331.24	\$16,293,860.19
5/14/2014	PY024685	Incoming wire transfer		\$57,161.00	\$16,236,699.19
5/14/2014	PY024686	Incoming wire transfer		\$1,966.81	\$16,234,732.38
5/15/2014	PY024707	Incoming wire transfer		\$66.80	\$16,234,665.58
5/15/2014	PY024708	Incoming wire transfer		\$12,308.94	\$16,222,356.64
5/15/2014	PY024709	Incoming wire transfer		\$5,612.15	\$16,216,744.49
5/15/2014	PY024711	Incoming wire transfer		\$19,689.30	\$16,197,055.19
5/15/2014	PY024712	Incoming wire transfer		\$12,458.95	\$16,184,596.24
5/16/2014	IN013297	Transfer from Facility C to Facility A re: Inventory Sold	\$213,900.67		\$16,398,496.91
5/16/2014	PY024725	Incoming wire transfer		\$14,864.39	\$16,383,632.52
5/16/2014	PY024726	Incoming wire transfer		\$184.00	\$16,383,448.52
5/16/2014	PY024727	Incoming wire transfer		\$11,449.92	\$16,371,998.60
5/16/2014	PY024730	Incoming wire transfer		\$96,912.55	\$16,275,086.05
5/20/2014	IN013305	XTG052014US wire transfer to Wells Fargo	\$323,534.00		\$16,598,620.05
5/20/2014	PY024757	Incoming wire transfer		\$358,865.95	\$16,239,754.10
5/20/2014	PY024760	Incoming wire transfer		\$265.81	\$16,239,488.29
5/20/2014	PY024761	Incoming wire transfer		\$38,422.52	\$16,201,065.77
5/20/2014	PY024762	Incoming wire transfer		\$30,865.76	\$16,170,200.01
5/20/2014	PY024763	Incoming wire transfer		\$165,595.49	\$16,004,604.52
5/20/2014	PY024765	Incoming wire transfer		\$53,148.48	\$15,951,456.04
5/20/2014	PY024767	Incoming wire transfer		\$77,625.09	\$15,873,830.95
5/21/2014	DN002714	Transfer from Facility C to Facility A re: Inventory Sold	\$143,830.46		\$16,017,661.41
5/21/2014	PY024791	Incoming wire transfer		\$16,550.36	\$16,001,111.05
5/21/2014	PY024792	Incoming wire transfer		\$852.93	\$16,000,258.12
5/21/2014	PY024793	Incoming wire transfer		\$2,312.10	\$15,997,946.02
5/21/2014	PY024795	Incoming wire transfer		\$19,261.48	\$15,978,684.54
5/21/2014	PY024796	Incoming wire transfer		\$1,580.00	\$15,977,104.54
5/22/2014	DN002715	Transfer from Facility C to Facility A re: Adjustment	\$2,000.00		\$15,979,104.54
5/22/2014	PY024822	Incoming wire transfer		\$30,824.64	\$15,948,279.90
5/22/2014	PY024823	Incoming wire transfer		\$17,683.54	\$15,930,596.36
5/22/2014	PY024824	Incoming wire transfer		\$55,829.33	\$15,874,767.03
5/23/2014	DN002724	Transfer from Facility C to Facility A re: Inventory Sold	\$181,860.14		\$16,056,627.17
5/23/2014	PY024850	Incoming wire transfer		\$5,065.00	\$16,051,562.17
5/23/2014	PY024851	Incoming wire transfer		\$34,615.74	\$16,016,946.43
5/23/2014	PY024852	Incoming wire transfer		\$5,564.89	\$16,011,381.54
5/27/2014	IN013341	XTG052714US wire transfer to Wells Fargo	\$449,556.00		\$16,460,937.54
5/27/2014	PY024893	Incoming wire transfer		\$10,856.03	\$16,450,081.51
5/27/2014	PY024895	Incoming wire transfer		\$3,184.66	\$16,446,896.85
5/27/2014	PY024896	Incoming wire transfer		\$40,618.96	\$16,406,277.89
5/27/2014	PY024898	Incoming wire transfer		\$76,096.09	\$16,330,181.80
5/27/2014	PY024899	Incoming wire transfer		\$1,596.18	\$16,328,585.62
5/28/2014	CN003417	Transfer from Facility C to Facility A re: Adjustemen		\$140,000.00	\$16,188,585.62
5/28/2014	DN002733	Transfer from Facility C to Facility A re: Inventory Sold	\$115,755.49		\$16,304,341.11
5/28/2014	PY024924	Incoming wire transfer		\$7,935.02	\$16,296,406.09
5/28/2014	PY024925	Incoming wire transfer		\$98,006.83	\$16,198,399.26
5/28/2014	PY024926	Incoming wire transfer		\$102,398.42	\$16,096,000.84

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5/28/2014	PY024928	Incoming wire transfer		\$16,493.22	\$16,079,507.62
5/28/2014	PY024930	Incoming wire transfer		\$11,070.00	\$16,068,437.62
5/28/2014	PY024931	Incoming wire transfer		\$43,418.18	\$16,025,019.44
5/29/2014	DN002739	Transfer from Facility A to Facility C re: IBM Refund	\$3,381.00		\$16,028,400.44
5/29/2014	PY024953	Incoming wire transfer		\$18.14	\$16,028,382.30
5/29/2014	PY024954	Incoming wire transfer		\$15,797.11	\$16,012,585.19
5/29/2014	PY024956	Incoming wire transfer		\$3,381.00	\$16,009,204.19
5/29/2014	PY024957	Incoming wire transfer		\$21,174.72	\$15,988,029.47
5/30/2014	DN002753	Transfer from Facility C to Facility A re: Inventory Sold	\$192,263.65		\$16,180,293.12
5/30/2014	PY024970	Incoming wire transfer		\$29,386.04	\$16,150,907.08
5/30/2014	PY024971	Incoming wire transfer		\$15,872.69	\$16,135,034.39
5/30/2014	PY024973	Incoming wire transfer		\$1,852.47	\$16,133,181.92
5/30/2014	PY024975	Incoming wire transfer		\$604.00	\$16,132,577.92
5/31/2014	IN013395	Monthly Monitoring Fee- May 2014	\$15,000.00		\$16,147,577.92
5/31/2014	IN013417	Monthly Wire transfer Fee- May 2014	\$100.00		\$16,147,677.92
5/31/2014	IN013451	Loan Interest Account- May 2014	\$656,528.51		\$16,804,206.43
Total In: USD				\$4,422,750.10	\$3,350,406.70
					\$16,804,206.43

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STATEMENT

DATE
6/2/2014

LOAN: XTG FAC C C\$

Page 1

Activity From: 01/05/2014 To: 31/05/2014

Balance Forward: \$2,999,860.68

DATE	REF. NO.	DESCRIPTION	CHARGES	PAYMENTS	BALANCE
5/1/2014	CN003368	Transfer from Facility A to Facility C re: Inventory Refund		\$84,524.00	\$2,915,336.68
5/2/2014	CN003370	Transfer from Facility A to Facility C re: Inventory Sold		\$12,382.30	\$2,902,954.38
5/2/2014	PY024482	Incoming wire transfer		\$25,000.00	\$2,877,954.38
5/7/2014	IN013230	XTG050714 wire transfer to Wells Fargo	\$158,004.51		\$3,035,958.89
5/8/2014	IN013241	XTG050814 wire transfer to Wells Fargo	\$14,374.54		\$3,050,333.43
5/9/2014	CN003385	Transfer from Facility C to Facility A re: Inventory Sold		\$6,527.35	\$3,043,806.08
5/14/2014	CN003387	Transfer from Facility C to Facility A re: Inventory Sold		\$24,561.72	\$3,019,244.36
5/15/2014	IN013273	XTG051514 wire transfer to Wells Fargo	\$7,345.00		\$3,026,589.36
5/16/2014	CN003395	Transfer from Facility C to Facility A re: Inventory Sold		\$14,380.08	\$3,012,209.28
5/21/2014	CN003399	Transfer from Facility C to Facility A re: Inventory Sold		\$3,664.04	\$3,008,545.24
5/22/2014	IN013318	XTG052214 wire transfer to Wells Fargo	\$1,670.75		\$3,010,215.99
5/28/2014	CN003419	Transfer from Facility C to Facility A re: Inventory Sold		\$1,357.47	\$3,008,858.52
5/30/2014	CN003435	Transfer from Facility C to Facility A re: Inventory Sold		\$4,144.50	\$3,004,714.02
5/30/2014	IN013364	XTG053014 wire transfer to Wells Fargo	\$18,199.04		\$3,022,913.06
Total In: CAD			\$199,593.84	\$176,541.46	\$3,022,913.06

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DATE
6/2/2014

LOAN: XTG FAC C US

Page 1

Activity From: 01/05/2014 To: 31/05/2014

Balance Forward: **\$5,309,108.82**

DATE	REF. NO.	DESCRIPTION	CHARGES	PAYMENTS	BALANCE
5/2/2014	CN003371	Transfer from Facility C to Facility A re: Inventory Sold		\$401,334.82	\$4,907,774.00
5/2/2014	IN013207	XTG050214US wire transfer to Wells Fargo	\$76,737.08		\$4,984,511.08
5/5/2014	IN013212	XTG050514US wire transfer to Wells Fargo	\$119,380.54		\$5,103,891.62
5/6/2014	DN002677	Transfer from Facility A to Facility C re: Rental Inventory	\$32,850.00		\$5,136,741.62
5/7/2014	IN013231	XTG050714US wire transfer to Wells Fargo	\$103,035.75		\$5,239,777.37
5/8/2014	IN013242	XTG050814US wire transfer to Wells Fargo	\$125,905.72		\$5,365,683.09
5/9/2014	CN003384	Transfer from Facility C to Facility A re: Inventory Sold		\$268,134.73	\$5,097,548.36
5/12/2014	IN013253	XTG051214US wire transfer to Wells Fargo	\$463,780.54		\$5,561,328.90
5/14/2014	CN003388	Transfer from Facility C to Facility A re: Inventory Sold		\$762,833.63	\$4,798,495.27
5/15/2014	IN013276	XTG051514US wire transfer to Wells Fargo	\$781,013.12		\$5,579,508.39
5/15/2014	PY024713	Incoming wire transfer		\$8,523.28	\$5,570,985.11
5/16/2014	CN003394	Transfer from Facility C to Facility A re: Inventory Sold		\$213,900.67	\$5,357,084.44
5/21/2014	CN003400	Transfer from Facility C to Facility A re: Inventory Sold		\$143,830.46	\$5,213,253.98
5/21/2014	IN013311	XTG052114US wire transfer to Wells Fargo	\$407,627.37		\$5,620,881.35
5/22/2014	CN003401	Transfer from Facility C to Facility A re: Adjustment		\$2,000.00	\$5,618,881.35
5/22/2014	IN013319	XTG052214US wire transfer to Wells Fargo	\$239,466.11		\$5,858,347.46
5/22/2014	PY024827	Incoming wire transfer		\$6,377.91	\$5,851,969.55
5/23/2014	CN003407	Transfer from Facility C to Facility A re: Inventory Sold		\$181,860.14	\$5,670,109.41
5/28/2014	CN003418	Transfer from Facility C to Facility A re: Inventory Sold		\$115,755.49	\$5,554,353.92
5/28/2014	DN002732	Transfer from Facility C to Facility A re: Adjustemen	\$140,000.00		\$5,694,353.92
5/28/2014	PY024932	Incoming wire transfer		\$350,000.00	\$5,344,353.92
5/29/2014	CN003422	Transfer from Facility A to Facility C re: IBM Refund		\$3,381.00	\$5,340,972.92
5/29/2014	IN013357	XTG052914US wire transfer to Wells Fargo	\$333,115.54		\$5,674,088.46
5/30/2014	CN003436	Transfer from Facility C to Facility A re: Inventory Sold		\$192,263.65	\$5,481,824.81
5/30/2014	IN013365	XTG053014US wire transfer to Wells Fargo	\$806,640.09		\$6,288,464.90
Total In: USD			\$3,629,551.86	\$2,650,195.78	\$6,288,464.90

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6/2/2014

LOAN: XTG FAC D C\$

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Activity From: 01/05/2014 To: 31/05/2014

Balance Forward: \$1,991,745.12

DATE	REF. NO.	DESCRIPTION	CHARGES	PAYMENTS	BALANCE
5/14/2014	DN002695	Pay't to Duff & Phelps on your behalf. Inv-TP00148947	\$99,833.99		\$2,091,579.11
5/26/2014	DN002725	Pay't to Chaitons LLP on your behalf. Inv- 249988	\$13,925.54		\$2,105,504.65
Total In: CAD			\$113,759.53		\$2,105,504.65

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LOAN: XTG FAC D US

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Activity From: 01/05/2014 To: 31/05/2014

Balance Forward: \$584,832.56

DATE	REF. NO.	DESCRIPTION	CHARGES	PAYMENTS	BALANCE
5/7/2014	DN002684	Pay't to Allen & Overy on your behalf. Inv-6001016953	\$3,201.93		\$588,034.49
5/21/2014	DN002707	Pay't to Littler Mendenson on your behalf. Inv- 4085454	\$12,781.42		\$600,815.91
Total In: USD			\$15,983.35		\$600,815.91



Callidus Capital Corporation
Royal Trust Tower
77 King Street West, Suite 4320
Toronto, Ontario M5K 1K2
Canada

EXHIBIT #13

Catalyst v West Face et al.

Jim Riley

on Tuesday, November 17, 2020



77 King Street West, Suite 2020
Toronto, Ontario M5K 1A1

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1 Court File No. CV-17-587463-00CL

2 ONTARIO
3 SUPERIOR COURT OF JUSTICE
4 COMMERCIAL LIST

5 B E T W E E N:

6 THE CATALYST CAPITAL GROUP INC. and CALLIDUS
7 CAPITAL CORPORATION
8 Plaintiff

9 - and -

10 WEST FACE CAPITAL INC., GREGORY BOLAND,
11 M5V ADVISORS INC. c.o.b. ANSON GROUP CANADA,
12 ADMIRALTY ADVISORS LLC, FRIGATE VENTURES LP,
13 ANSON INVESTMENTS LP, ANSON CAPITAL LP,
14 ANSON INVESTMENTS MASTER FUND LP, AIMF GP,
15 ANSON CATALYST MASTER FUND LP, ACF GP, MOEZ KASSAM,
16 ADAM SPEARS, SUNNY PURI, CLARITYSPRING INC.,
17 NATHAN ANDERSON, BRUCE LANGSTAFF, ROB COPELAND,
18 KEVIN BAUMANN, JEFFREY MCFARLANE, DARRYL LEVITT,
19 RICHARD MOLYNEUX, GERALD DUHAMEL, GEORGE WESLEY
20 VOORHEIS, BRUCE LIVESEY and JOHN DOES #4-10
21 Defendants

22 A N D B E T W E E N:

23 WEST FACE CAPITAL INC. and GREGORY BOLAND
24 Plaintiffs by Counterclaim

25 - and -

THE CATALYST CAPITAL GROUP INC., CALLIDUS CAPITAL
CORPORATION, NEWTON GLASSMAN, GABRIEL DE ALBA,
JAMES RILEY, VIRGINIA JAMIESON, EMMANUEL
ROSEN, B.C. STRATEGY LTD. d/b/a BLACK CUBE,
B.C. STRATEGY UK LTD. d/b/a BLACK CUBE
and INVOP LTD. d/b/a PSY GROUP
Defendants to the Counterclaim

--- This is Cross-Examination of JAMES RILEY, on
his affidavits sworn December 5, 2019, May 29, 2020
and August 20, 2020 respectively, taken via Zoom
Videoconferencing with all participants attending
remotely, on the 17th day of November, 2020.

1 A P P E A R A N C E S:
2 RICHARD G. DEARDEN, Esq., for the Plaintiffs,
3 & DAVID C. MOORE, Esq., (Defendants to the
4 & BENJAMIN NA, Esq., Counterclaim), The
5 & MARCO ROMEO, Esq., Catalyst Capital Group
6 Inc. and Callidus
7 Capital Corporation
8 and the Defendants to
9 the Counterclaim,
10 Gariel De Alba, James
11 Riley and Newton
12 Glassman
13
14 ANDREW CARLSON, Esq., for the Defendants
15 (Plaintiffs by
16 Counterclaim), West
17 Face Capital Inc. and
18 Gregory Boland
19
20 LUCAS E. LUNG, Esq., for the Defendants,
21 ClaritySpring Inc. and
22 Nathan Anderson
23
24 PHIL TUNLEY, Esq., for the Defendant, Rob
25 & JENNIFER SAVILLE, Esq., Copeland, Dow Jones &

1 Company and Jacquie
2 McNish

3
4 DIMITRI LASCARIS, Esq., for the Defendant,
5 Bruce Livesey

6
7 MICHAEL DARCY, Esq., for the Defendants to
8 the Counterclaim, BC
9 Strategy Ltd. d/b/a
10 Black Cube and BC
11 Strategy UK Ltd. d/b/a
12 Black Cube

13
14 DARYLL LEVITT Self-Represented

15
16 KEVIN BAUMANN Self-Represented

17
18 JEFF McFARLANE Self-Represented

19
20 Also Present: Greg Boland, CEO, West Face Capital
21 Philip Panet, General Counsel, West
22 Face Capital

23
24 REPORTED BY: Deana Santedicola, RPR, CRR, CSR

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I N D E X

WITNESS: JAMES RILEY

PAGES

CROSS-EXAMINATION BY MR. McFARLANE.....447-566
CROSS-EXAMINATION BY MR. LEVITT.....568-694

**The following list of undertakings, advisements
and refusals is meant as a guide only for the
assistance of counsel and no other purpose**

INDEX OF UNDERTAKINGS

The questions/requests undertaken are noted by U/T
and appear on the following pages: 582:14

INDEX OF ADVISEMENTS

The questions/requests taken under advisement are
noted by U/A and appear on the following pages:
505:3, 539:6, 546:16, 584:1, 587:14, 588:9, 589:21,
590:13, 595:23, 639:2, 657:7, 685:13

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I N D E X

(CONT'D)

INDEX OF REFUSALS

The questions/requests refused are noted by R/F and appear on the following pages: 460:5, 467:16, 468:23, 469:8, 478:8, 509:11, 533:1, 545:25, 550:16, 551:7, 583:5, 584:13, 585:4, 585:25, 597:12, 598:14, 602:25, 603:12, 605:14, 607:4, 608:8, 616:16, 619:4, 619:19, 627:1, 628:10, 647:3, 659:24, 660:5, 669:14, 675:18, 679:9, 679:25, 681:25, 682:12, 683:10, 683:17, 684:12

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NO. DESCRIPTION PAGE/LINE NO.

5 Electronic document brief of exhibits referred to by Mr. McFarlane in the cross-examination of Mr. Riley..... 567/3

6 Electronic brief of documents referred to in the course of Mr. Levitt's cross-examination... 648/6

Exhibits For Identification:

A Email from Lorne Morein, sent to Craig Boyer, cc'd to Duane Morrison, September 4, 2014, at 3:56 p.m., subject "FW: Fortress"..... 615/25

1 -- Upon commencing at 10:05 a.m.

2

3 JIM RILEY; UNDER PRIOR AFFIRMATION.

4 CROSS-EXAMINATION BY MR. McFARLANE:

5 1297 Q. Good morning, Mr. Riley, ready to
6 begin?

7 A. I am. Good morning.

8 1298 Q. Good morning. Just for the
9 record, could you state your name, please.

10 A. Jim Riley or James A. Riley.

11 1299 Q. James A. Riley, thank you. What
12 role do you currently have with Catalyst Capital
13 Group?

14 A. I am a Managing Director.

15 1300 Q. And what past roles have you had
16 with Catalyst Capital Group?

17 A. I was formerly Managing Director
18 and Chief Operating Officer.

19 1301 Q. Thank you. Do you currently have
20 any role with Callidus Capital?

21 A. I do not. I am a shareholder with
22 Callidus, but I am not -- I have no office.

23 1302 Q. And what past roles have you had
24 with Callidus Capital?

25 A. I was a Director and Secretary.

1 1303 Q. What committees have you served on
2 for Callidus or Catalyst?

3 A. None with Catalyst, and with
4 Callidus I don't believe I was on any committees
5 that I can recall.

6 1304 Q. So you were never a member of the
7 Credit Committee?

8 A. Oh, sorry, the Credit Committee.
9 I apologize, the Credit Committee.

10 1305 Q. Okay.

11 A. I was thinking of committees of
12 the board.

13 1306 Q. Okay. When did Callidus start
14 trading as a public company?

15 A. April of 2014.

16 1307 Q. Would that be 2013 by chance or
17 2014?

18 A. 2014.

19 1308 Q. Okay. And at the time Callidus
20 went public, did it own XTG?

21 A. No, it did not.

22 1309 Q. What was the current state of XTG
23 at the time of the IPO?

24 A. I believe it was a borrower from
25 Callidus.

1 1310 Q. Who were the other members of the
2 Callidus Credit Committee?

3 A. David Reese and Newton Glassman.

4 1311 Q. Did Newton Glassman exert veto
5 power over the Credit Committee?

6 A. Any one of the members of the
7 committee had veto power because it required a
8 unanimous decision.

9 1312 Q. Is it your position that the loan
10 to XTG and the subsequent acquisition was at all
11 times accounted for using Callidus's Significant
12 Accounting Policies?

13 A. Yes.

14 1313 Q. I would like to turn to document
15 001 in the documents shared, which I will share on
16 the screen here, which was the IPO prospectus of
17 Callidus. Just give me a moment, and I will start
18 sharing.

19 Did you receive that file, Mr. Dearden
20 or Mr. Moore?

21 MR. DEARDEN: Yeah, we have your
22 documents.

23 BY MR. McFARLANE:

24 1314 Q. Okay, thank you. It is coming up
25 shortly. So if we could turn to page 121, is it

1 large enough on the screen here? Is it sharing
2 okay?

3 A. Yes, but what we see is page 6 of
4 some document.

5 MR. DEARDEN: Perhaps, Mr. McFarlane,
6 each time you refer to one of the documents, you
7 just want to put on the record what the document is
8 and if there is a date for it, say the date. So
9 what is this document 1?

10 BY MR. McFARLANE:

11 1315 Q. Document 1 is the IPO prospectus
12 of Callidus Capital. I'll just make sure the right
13 document is sharing here. Can we confirm that is
14 what is sharing on the screen?

15 A. It is --

16 1316 Q. It is section 3.

17 A. Sorry, Mr. McFarlane, could you go
18 to the start of that document? I think it is
19 probably notes to a financial statement, but I
20 am --

21 1317 Q. Okay.

22 A. It is not -- you'll appreciate
23 that the page you took me to is not the page from a
24 prospectus. It looks like it is a page from a
25 financial statement.

1 1318 Q. Understood. So can you see the
2 prospectus on page 1 here?

3 A. I do.

4 1319 Q. Okay. So page 121 of this
5 prospectus includes the Callidus financial
6 statements for 2011 through 2013.

7 A. Got it, thank you.

8 1320 Q. Okay, so in particular, in section
9 3(c), and I'll scroll down, specifically I just
10 want to ask the question that at all times XTG was
11 treated consistently with the impairment
12 Significant Accounting Policy?

13 A. To the best of my recollection,
14 yes.

15 1321 Q. Okay, and specifically the
16 statement in the second bullet from the bottom:

17 "If the expected restructuring
18 will not result in derecognition of
19 the existing asset, then the
20 estimated cash flows arising from
21 the modified financial asset are
22 included in the measurement of the
23 existing asset based on their
24 expected timing and amounts
25 discounted at the original effective

1 interest rate of the existing
2 financial asset."

3 A. Could you please -- sorry, just
4 before you go, could you go up? There is a lead-in
5 to that that I just want to look at.

6 1322 Q. Yes, we are still in the
7 impairment section.

8 A. No, I understand, but I was just
9 looking to see the paragraph before the one you
10 just read to me.

11 1323 Q. Sure.

12 A. [Witness reviews document.]
13 Okay, I see it.

14 1324 Q. Okay.

15 A. Thank you.

16 1325 Q. So back to the section I read,
17 which was this second bullet here, it is your
18 position that at all times XTG was treated
19 consistently with this Significant Accounting
20 Policy?

21 A. To the best of my knowledge, yes.

22 1326 Q. Okay, and if we could go to
23 section 3(f) in the same document, still in
24 "Significant Accounting Policies", and dealing with
25 recognition, point (vi) the "Fair Value

1 Measurement":

2 "Fair value is the price that
3 would be received to sell an asset
4 or paid to transfer a liability in
5 an orderly transaction between
6 market participants at the
7 measurement date in the principal
8 or, in its absence, the most
9 advantageous market to which the
10 Company has access at that date.
11 The fair value of a liability
12 reflects its non-performance risk."

13 Again, Mr. Riley, was XTG treated
14 consistently with this statement?

15 A. I do not know. I don't know
16 whether that was the policy that was applied or
17 not.

18 1327 Q. Okay.

19 A. If you go -- could you go up? I
20 don't have an answer to that.

21 1328 Q. Okay.

22 A. Could you scroll up to the top of
23 this, please?

24 1329 Q. Any further?

25 A. At the top.

1 1330 Q. That is the top.

2 MR. MOORE: No, it is not.

3 THE DEPONENT: Okay, so scroll down,
4 please. Sorry, go back, go back to the top.

5 BY MR. McFARLANE:

6 1331 Q. To the top. Of which section?

7 A. In other words, Mr. McFarlane, I
8 am trying to answer your questions, but some of
9 this I wouldn't have particular expertise on or
10 knowledge.

11 1332 Q. Let's start at the beginning of
12 the Significant Accounting Policies here, so no
13 questions on section (a), no questions on (b), (c)
14 we already addressed, (d) no questions, (e) no
15 questions, and here is the beginning of section
16 (f).

17 A. Okay.

18 [Witness reviews document.]

19 Okay, I see that.

20 1333 Q. Okay, and scrolling down through
21 (f), no questions on sub-point (iii); no questions
22 on (iv) or (v). So we are in 3(f), sub (vi).

23 A. And as I say, I do not know
24 whether that was the applicable policy that was
25 applied in respect of XTG in its accounting on

1 the financial statements. I do know that those
2 audit -- those financial statements were audited
3 without qualification --

4 1334 Q. Okay.

5 A. -- by KPMG.

6 1335 Q. I am going to scroll down to
7 section 3(n), section 3(n) - and I have got an echo
8 now - 3(n) is "Assets Held For Sale":

9 "Assets held for sale are
10 carried at the lower of the carrying
11 amount at designation and fair value
12 less costs to sell."

13 The question is was XTG treated
14 consistently with this accounting practice?

15 A. I am going to answer it in a
16 different way. The accounting policies that were
17 applied in respect of XTG were reviewed by KPMG in
18 connection with their audit, and it was an
19 unqualified audit, with the report.

20 1336 Q. What time period are you referring
21 to?

22 A. Well, they would have been audited
23 in connection with this prospectus.

24 1337 Q. But you said XTG was a borrower.
25 Why would they audit a borrower's statements at

1 this point?

2 A. They wouldn't audit those
3 statements, but they would consider the loan at
4 that time.

5 1338 Q. Okay. If we could advance to page
6 150 in this same IPO document, in the "Subsequent
7 Events" section, Callidus is now carrying the loan
8 net of a provision at 37.029 million. Is that
9 you --

10 A. Sorry, are you saying --
11 [Court reporter intervenes for
12 clarification.]

13 MR. DEARDEN: Sorry, Mr. McFarlane,
14 could you just read the subsequent note 20(a) that
15 you have highlighted there? Could you just read it
16 into the record so we have the dates, please?

17 BY MR. MCFARLANE:

18 1339 Q. Sure. 20(a):
19 "During 2013, one of the
20 Company's borrowers entered formal
21 restructuring proceedings in Canada
22 and the U.S. It is anticipated that
23 the Company, as a secured creditor
24 will own the assets of the borrower
25 when it emerges from protection

1 subsequent to year end. As at
2 December 31, 2013, the carrying
3 value of the loan, net of a
4 provision was \$37.029 [million]."
5 Is that in U.S. or Canadian funds?

6 A. That is Canadian funds.

7 1340 Q. And at that time, was it your
8 position that XTG was properly provided for in your
9 loan loss provisions?

10 A. I do not recall whether footnote
11 20(a) refers to XTG or not.

12 1341 Q. Okay, well, we can confirm that
13 later. If it was XTG, was it properly provided for
14 using this value?

15 A. Yes, that is what the financial
16 statements say.

17 1342 Q. Okay. So at the time of the
18 Callidus IPO, Callidus had three objective sets of
19 financial data around the valuation of XTG. At
20 this point in time -- and just I'll establish for
21 the record here that the receivership was in
22 October 2013; correct?

23 A. I do not remember that date, but
24 do you have the receivership materials here?

25 1343 Q. Yes, I do.

1 MR. DEARDEN: And what do you mean, Mr.
2 McFarlane, by receivership when --

3 MR. McFARLANE: The application for
4 receivership was approved on October 29th, 2013.

5 MR. DEARDEN: And that is Justice
6 Morawetz's order?

7 MR. McFARLANE: Yes, it is.

8 MR. DEARDEN: Okay.

9 BY MR. McFARLANE:

10 1344 Q. Okay, and later on we'll confirm
11 the vesting date, et cetera, in a moment.

12 So as of the date of the IPO, Callidus
13 would have had financial data for the lead-up
14 period of XTG in receivership. You had two other
15 objective data points, the offer from HIG to
16 acquire the XTG loan for 17 million, which is on
17 the record, and you had the liquidation analysis
18 from the Receiver pre-receivership, a report that
19 was sealed.

20 So in establishing this value of 37.029
21 million for XTG, which of these data sets did you
22 rely on?

23 A. I do not recall, although I would
24 point out that XTG was one of the loans that was
25 subject to the IPO guarantee.

1 1345 Q. Noted.

2 A. So from Callidus's point of view,
3 it was always worth what the amount of the loan
4 was.

5 1346 Q. We'll have questions about the
6 guarantee in a minute here. Do you know what role,
7 if any, discounted cash flow calculations played in
8 determining the value of XTG at this point in time?

9 A. I do not recall.

10 1347 Q. What role, if any, did fair market
11 valuation play in determining the value of XTG at
12 this time?

13 A. I do not recall.

14 1348 Q. But it is your position that none
15 of that mattered because it was covered by the
16 Catalyst guarantee?

17 A. No, I am satisfied that the
18 accounting was correct, and from Callidus' point of
19 view, if the loan was covered by the guarantee, it
20 was made whole.

21 1349 Q. So in effect, it did not matter
22 what the real value was because of the Catalyst
23 guarantee?

24 A. In functional terms, I agree with
25 that statement.

1 1350 Q. Okay, thank you. Is there any
2 documentation to support this valuation of 37.029
3 million that you can supply to support this
4 valuation?

5 R/F MR. DEARDEN: I am going to object to
6 that question.

7 MR. McFARLANE: On what grounds?

8 MR. DEARDEN: It is not relevant. You
9 don't need that documentation.

10 MR. McFARLANE: There is valuation
11 support as of 12/31/2014. Why would it not be
12 relevant to ask for valuation support at the time
13 of the IPO?

14 MR. DEARDEN: I am not arguing with
15 you, sir.

16 MR. McFARLANE: Well, I am going to
17 take that as a refusal then that you will not
18 supply the valuation to support the 37.029 million.

19 MR. DEARDEN: I am objecting to your
20 question, yes.

21 BY MR. McFARLANE:

22 1351 Q. And I would also ask you to
23 research the fact that I believe that is a U.S.
24 dollar figure, not a Canadian figure, if you would
25 undertake to confirm that?

1 MR. DEARDEN: Sorry, which figure are
2 you referring to?

3 BY MR. McFARLANE:

4 1352 Q. 37.029.

5 A. And, Mr. McFarlane, if you could
6 look at the top of the financial statement, it
7 states it is expressed in thousands of Canadian
8 dollars.

9 1353 Q. Okay, so that is your position?

10 A. That is --

11 1354 Q. Okay.

12 A. I can only go by what I see on the
13 financial statements.

14 1355 Q. All right. Moving on, did
15 Callidus have a defined policy of non-accrual of
16 interest on non-performing loans, as most lenders
17 do?

18 A. In terms -- it would depend on the
19 loan, but under the arrangements that we had, cash
20 was swept first to pay interest and second to pay
21 principal.

22 1356 Q. So at a point in time, if there
23 was no cash to sweep for interest, what happened?

24 A. I would say there would have to be
25 an impairment to that loan and possibly an increase

1 in the guarantee, depending on whether the loan was
2 guaranteed or not. XTG's was guaranteed.

3 1357 Q. In that scenario, would the clock
4 continue to run on interest income?

5 A. Well, are we talking about a loan
6 that is -- in the case of XTG, that eventually was
7 carried as assets held for sale?

8 1358 Q. I am talking about any --

9 A. There would be no interest at that
10 type.

11 1359 Q. Apologies. I am speaking about
12 any non-performing loan that could not pay
13 interest, was interest income still accrued?

14 A. Sorry, are we talking about XTG or
15 are we talking about something else?

16 1360 Q. We are speaking about Callidus'
17 financial policy.

18 A. If there was cash available, it
19 swept to pay interest.

20 1361 Q. And if there was no cash
21 available, did Callidus still accrue --

22 A. It would probably be written off
23 at that point.

24 1362 Q. Was it accrued and then written
25 off or did it stop accruing, as most financial

1 lenders do?

2 A. Well, I think actually under IFRS
3 you still have to accrue it and then you have to
4 write it off.

5 1363 Q. Okay.

6 A. I believe that is the way IFRS
7 works. So your statement I guess I disagree with.

8 1364 Q. How does or did Callidus define a
9 non-performing loan?

10 A. I don't recall a specific policy.
11 I think each loan was reviewed at each quarter-end
12 to determine what its carrying value should be.

13 1365 Q. So there was no global policy?

14 A. Not that I can recall.

15 1366 Q. At the point Callidus would
16 acquire a business, often through a bankruptcy
17 proceeding, did it stop charging interest at that
18 point?

19 MR. DEARDEN: I am going to object to
20 the "often" part of your question --

21 MR. McFARLANE: Fair enough.

22 MR. DEARDEN: But he can --

23 MR. McFARLANE: Let me rephrase.

24 MR. DEARDEN: No, it is okay, he'll
25 answer it without agreeing that it was often

1 through bankruptcy.

2 THE DEPONENT: Once a company was
3 acquired through whatever process was applicable,
4 then it was consolidated and there are two parts to
5 that.

6 One is from a financial point of view,
7 if there was nothing in the financial statements
8 for interest, we sometimes would charge interest
9 just as a way of disciplining management, but it
10 was not -- it had no effect on the financial
11 position in the Callidus financial statements.

12 BY MR. MCFARLANE:

13 1367 Q. In that scenario, that specific
14 scenario that you just described, would that amount
15 imposed for management discipline purposes still be
16 charged to the Catalyst guarantee?

17 A. No.

18 1368 Q. Okay, I am going to take you to
19 document 002, the Bluberi appeal. Let me know when
20 you can see it.

21 A. I am --

22 MR. DEARDEN: Let's just indicate, Mr.
23 McFarlane, what the document is.

24 MR. MCFARLANE: This is in reference to
25 the Bluberi CCAA case, and this is a Court of

1 Appeal decision.

2 MR. DEARDEN: Of Quebec.

3 MR. McFARLANE: From Quebec.

4 MR. MOORE: Well, let's have the date.

5 August 12th, I don't know if there is more than one

6 interim ruling or whatever, maybe not, but it is

7 dated August 12th, 2016?

8 BY MR. McFARLANE:

9 1369 Q. Correct. I'll take you to page 2,
10 the highlighted section here:

11 "In so doing, the CCAA Judge
12 issued the following order in
13 paragraph [35] of the judgment in
14 appeal:

15 'Wherefore the Court Declares and
16 Orders that any and all forms of
17 interest, costs, penalties, fees or
18 other additional amounts shall cease
19 to accrue and be accounted for as of
20 and from the Risk Shifting Date, as
21 such terms are defined in the APA."

22 Mr. Riley, in layman's terms, how do
23 you interpret this section?

24 A. That no amounts of interest, et
25 cetera, will be charged to Bluberi, the existing

1 Bluberi in CCAA, after the risk-shifting date as
2 defined in I think that is the Asset Purchase
3 Agreement.

4 1370 Q. Okay. Now, isn't a risk-shifting
5 date consistent with Callidus's own practice of
6 consolidation once it controls an entity?

7 A. I am not sure I understand the
8 question.

9 1371 Q. When Callidus speaks to
10 consolidation in its significant accounting
11 practices, and I am going to take you back to the
12 IPO prospectus -- let me just find the correct
13 page.

14 So we are in section 3, point (i) of
15 the prospectus in the 2013 financial statements,
16 and point (i) "Consolidation" says:

17 "The Company consolidates any
18 entities which it controls. Control
19 is established when the Company has
20 the power over the entity, exposure
21 or rights to variable returns from
22 its involvement, and the ability to
23 exercise power to affect the amount
24 of returns. The Company assesses
25 individual loans for control at each

1 reporting date."

2 My question, and it is an involved
3 question, is why would Callidus appeal this ruling
4 from a CCAA judge that it could not continue
5 charging interest and fees after effectively risk
6 and control has shifted when its own policies says
7 it will consolidate results and, by definition,
8 consolidation means you are eliminating
9 inter-company charges?

10 A. I do not recall the circumstances
11 of that appeal.

12 1372 Q. Would you be willing to share why
13 Callidus appealed something that appears to be
14 consistent with its own stated Significant
15 Accounting Policy?

16 R/F MR. DEARDEN: No.

17 MR. McFARLANE: So we have a refusal on
18 that point?

19 MR. DEARDEN: You do.

20 BY MR. McFARLANE:

21 1373 Q. Mr. Riley, earlier you stated at
22 the time of the IPO that Callidus did not own XTG,
23 which was --

24 A. To the best of my recollection,
25 that is correct.

1 1374 Q. Okay. Did Callidus control XTG at
2 the time of the IPO?

3 A. No.

4 1375 Q. It did not control, okay. Can you
5 confirm that Callidus took possession of XTG
6 through a successful stalking horse bid during the
7 receivership process?

8 A. Yes.

9 1376 Q. If we can go to document 3, which
10 is the First Report of the Receiver. Just for
11 context, there is the first page. We are going to
12 page 7 in the First Report of the Receiver, section
13 3.2(2), "Sale Process Results":

14 "On November 19, 2013, the
15 Receiver advised Callidus that it
16 was the 'successful bidder' and that
17 the Receiver would promptly file
18 motion materials to apply for the
19 Vesting Order [...]"

20 And the vesting order subsequently came
21 on November 22nd. Does this not constitute
22 control?

23 R/F MR. DEARDEN: He is not going to
24 provide you some -- he is not -- I'm objecting to
25 that question.

1 BY MR. McFARLANE:

2 1377 Q. There is no grounds to object to
3 that question, Mr. Dearden. Quite clearly, the
4 company was vested to Callidus through the
5 receivership process applied for on the 19th of
6 November, 2013. The vesting order was signed
7 November 22nd, 2013. Does that constitute control?

8 R/F MR. DEARDEN: He is not here to
9 interpret orders or to apply what he thinks the
10 definition of "control" is to a particular fact
11 situation. The documents say what they say. I
12 object to your question.

13 MR. McFARLANE: Mr. Riley is a
14 sophisticated investor. He understands very
15 clearly what these definitions mean. Does this
16 constitute control?

17 MR. DEARDEN: I told you I object.

18 MR. McFARLANE: On what grounds?

19 MR. DEARDEN: I am not arguing with
20 you, Mr. McFarlane.

21 MR. McFARLANE: On what grounds are you
22 objecting to --

23 MR. DEARDEN: I'm on the record, sir,
24 as to why he is not going to answer that question.

25 BY MR. McFARLANE:

1 1378 Q. Going back to document number 1,
2 "Significant Accounting Policies", "Consolidation",
3 and section 3(i), and my question, Mr. Riley, is as
4 of November 22nd, 2013, did Callidus have exposure
5 or rights to variable returns from its involvement
6 in XTG?

7 A. Could you ask me that question
8 again, please?

9 1379 Q. We have established as of November
10 22nd, 2013, Callidus was successful in its stalking
11 horse bid. Through court orders the company was
12 vested. My question is as of November 22nd, 2013,
13 did Callidus have exposure or rights to variable
14 returns from its involvement in XTG?

15 MR. DEARDEN: Well, what do you mean by
16 "exposure or rights to variable returns from its
17 involvement in XTG"?

18 MR. McFARLANE: I am reading a Callidus
19 Significant Accounting Policy. I am assuming that
20 Mr. Riley as a director would know what his own
21 Significant Accounting Policies mean.

22 MR. DEARDEN: Well, I asked you to tell
23 Mr. Riley what you mean by "exposure or rights to
24 variable returns".

25 BY MR. McFARLANE:

1 1380 Q. I will give you my interpretation,
2 but this is a Callidus policy. My interpretation
3 would mean they win or lose because of their
4 exposure as of a certain point in time.

5 My question is, as of November 22nd,
6 2013, did Callidus have exposure or rights to
7 variable returns from its involvement in XTG?

8 A. I am just reading from my
9 affidavit to make sure I have covered this and just
10 so I am not saying something that is incorrect.

11 [Witness reviews document.]

12 Could you ask me the question again,
13 please?

14 1381 Q. Mr. Riley, as of November 22nd,
15 2013, by virtue of the vesting order which
16 confirmed the successful stalking horse bid for the
17 assets of XTG, did Callidus have exposure or rights
18 to variable returns from its involvement in XTG?

19 MR. DEARDEN: Before -- Mr. McFarlane,
20 the company XTG is still under receivership.

21 THE DEPONENT: Yes, that is my point.
22 The receivership didn't end until XTG was
23 transferred to Callidus, which occurred I believe
24 in 2015 -- or 2014 -- 2015, I think, 2015.

25 BY MR. McFARLANE:

1 1382 Q. In January 2015 XTG emerged from
2 receivership, but on November 22nd, 2013, 14-plus
3 months earlier, Callidus's stalking horse bid was
4 approved by the court and was vested.

5 A. And --

6 1383 Q. Did after that point in time
7 Callidus have exposure or rights to variable
8 returns?

9 A. I do not believe that is a correct
10 statement. It was still under the control of the
11 Receiver and under the court supervision until the
12 actual transfer of XTG.

13 1384 Q. So your position is Callidus had
14 no exposure or rights, meaning Callidus could not
15 make money or lose money on XTG during
16 receivership?

17 MR. DEARDEN: He didn't say that.

18 THE DEPONENT: I didn't say that. I
19 did not say that.

20 BY MR. McFARLANE:

21 1385 Q. That would be the explicit
22 definition of "exposure to variable returns". You
23 made money or you lost money.

24 A. I am confused by your question.

25 1386 Q. I don't think you should be, Mr.

1 Riley. Did Callidus have the ability to exercise
2 power that would affect the returns of XTG during
3 receivership?

4 A. Could you go back to -- this is an
5 accounting policy relating to consolidation.

6 1387 Q. Yes.

7 A. You consolidate when you control
8 that entity.

9 1388 Q. Yes.

10 A. The entity was at all times that
11 you are talking about in receivership, under Duff &
12 Phelps as the Receiver and with the court
13 supervision under Mr. Justice Morawetz. So I don't
14 think that the --

15 1389 Q. Callidus's Significant Accounting
16 Policy makes no reference to receivership. The
17 stated accounting policy, as of a point in time you
18 had exposure to variable returns, you would
19 consolidate?

20 MR. DEARDEN: He has answered your
21 question, sir.

22 BY MR. MCFARLANE:

23 1390 Q. Mr. Dearden, I respectfully
24 disagree. He has not explicitly said that Callidus
25 has had control of XTG legally since November 22nd,

1 2013, and according to Callidus's own Significant
2 Accounting Policies should have consolidated?

3 A. No, I disagree with that statement
4 and I think KPMG would disagree as well.

5 1391 Q. Okay, all right, let's move on.

6 When Callidus does consolidate its
7 financial results, what exactly does that mean in
8 practice with respect to inter-company charges like
9 interest fees, expenses? How are they eliminated?

10 A. They are eliminated. They are
11 taken out of the income statement.

12 1392 Q. Is there a situation in which they
13 could be eliminated and still charged to the
14 Catalyst guarantee?

15 A. Sorry, what charge to the Catalyst
16 guarantee?

17 1393 Q. Professional fees, interest,
18 capital, principal?

19 A. No. No. Principal yes, but not
20 interest.

21 1394 Q. So interest could not be
22 eliminated and charged to the Catalyst guarantee?

23 MR. DEARDEN: That is not what he said.

24 THE DEPONENT: Could you please ask the
25 question?

1 BY MR. MCFARLANE:

2 1395 Q. My question was, when these
3 inter-company charges are eliminated, are there
4 situations where they could be eliminated from the
5 financial statements of Callidus but still charged
6 to the Catalyst guarantee?

7 A. I apologize, I do not understand
8 the question. Are you telling me -- are you asking
9 me does the guarantee cover interest? Is that what
10 you are asking me?

11 1396 Q. I am asking --

12 A. I am not trying to be
13 argumentative.

14 1397 Q. No, I understand.

15 A. I am not trying to be
16 argumentative.

17 1398 Q. Apologies if it is at all not
18 clear, but in accounting under consolidation, you
19 would eliminate related-party transactions. So for
20 example, if fees were charged between entities
21 which look like revenue on one side, they are
22 eliminated on the other. Fees could take any
23 number of forms. They could be professional fees.
24 They could be management fees. They could be
25 facility fees. They could be interest.

1 Are there any scenarios under which
2 inter-company fees within Callidus and assets held
3 for sale or assets controlled by Callidus could be
4 eliminated yet still charged to the Catalyst
5 guarantee?

6 A. The Catalyst guarantee relates to
7 the loan amount, so you would have to make
8 adjustments to get back to what the proper
9 principal amount that was covered under the
10 guarantee.

11 1399 Q. Okay, and the guarantee always
12 covered principal?

13 A. Correct.

14 1400 Q. And did the guarantee cover
15 professional fees?

16 A. No.

17 1401 Q. Did it cover interest?

18 A. No.

19 1402 Q. Okay, thank you. Let's see, let's
20 go to document number 5, which is the initial
21 report of the Receiver in the XTG matter.

22 At page 23 -- and I am going to scroll
23 back a page here. This is the definition of "sale
24 process", and we are in the section that speaks to
25 the stalking horse bid and in this section it

1 insists that any competitive bid must contemplate a
2 closing date of December 31st, 2013. Did that
3 imply that Callidus would have its transaction
4 concluded by this date?

5 A. I have no basis for answering that
6 question.

7 1403 Q. Why did Callidus leave XTG in
8 receivership until January 2015?

9 A. Two principal reasons. One was
10 the risk of a tax inversion which would have had
11 adverse tax consequences to Callidus. It took time
12 to do the restructure that eliminated that risk.

13 And once that was done, if we had
14 concluded the transaction I think it was November
15 of 2014, we would have had to do two audits, one at
16 that interim date and then one subsequent to
17 December 31. So we deferred to I believe early
18 January so we only had to do one audit.

19 1404 Q. Okay. And can I assume that given
20 your presentation in the stalking horse bid that
21 you were unaware that a tax inversion was a
22 probability at this time?

23 A. I do not recall.

24 1405 Q. If you had done an audit at
25 November 2014, and I understand the practical

1 reasons for not wanting to do two audits, would you
2 have had to re-value XTG at that point in time?

3 MR. DEARDEN: Don't answer. It is a
4 hypothetical.

5 MR. McFARLANE: No, it is a question
6 about accounting policy. It is far from
7 hypothetical.

8 R/F MR. DEARDEN: If you did an audit in
9 November 2014, that is a hypothetical.

10 BY MR. McFARLANE:

11 1406 Q. Let me rephrase. With every
12 annual audit, you would be required to value an
13 asset of that consequence; correct?

14 A. Yes.

15 1407 Q. Was there any decision or debate
16 or communication about deliberately leaving XTG in
17 receivership until after the IPO?

18 A. I do not recall any such
19 discussion.

20 1408 Q. And do you recall any conversation
21 about when XTG should be brought out of
22 receivership?

23 A. It would have been in the -- that
24 discussion would have turned on when KPMG was
25 satisfied that we had done a sufficient

1 re-organization or done sufficient things to avoid
2 inversion.

3 1409 Q. Okay. So for the entirety of
4 2014, XTG remains in receivership, and during that
5 time was Callidus charging interest to XTG?

6 A. Interest would have been charged
7 and was being paid under the cash sweep. Proceeds
8 from the cash would be applied first to interest,
9 and there was sufficient cash in that period to pay
10 interest.

11 [Court Reporter intervenes for
12 clarification.]

13 There was sufficient proceeds from the
14 cash sweep to pay interest at all material times.

15 BY MR. McFARLANE:

16 1410 Q. And was that the result of
17 additional advances from Callidus to XTG while in
18 receivership?

19 A. Since interest was paid out of the
20 cash sweep, the remaining balance of any cash swept
21 was reducing principal, and further advances were
22 made based on the availability principles.

23 1411 Q. I am going to go to document
24 number 6, which is an exhibit filed as a part of
25 the Dow Jones materials.

1 MR. DEARDEN: Could you just indicate,
2 Jeff, what it is?

3 BY MR. McFARLANE:

4 1412 Q. This appears to be a loan
5 statement for XTG from Callidus for the period of
6 May 2014. We are on page 130, which shows a
7 variety of transactions, and at the bottom would
8 you agree that represents an interest charge for
9 this particular facility?

10 A. Yes.

11 1413 Q. Okay, and fast-forwarding to
12 Facility A in U.S. dollars, and we are now on page
13 133, the third-last line from the bottom, is that a
14 fee that Callidus is charging XTG for monitoring
15 while in receivership?

16 A. Yes.

17 1414 Q. And that fee would translate to
18 income in Callidus's public financial statements
19 now that Callidus was a publicly traded company?

20 A. Are we in receivership at this
21 stage?

22 1415 Q. Yes.

23 A. Sorry, it is just that we have
24 gone through a lot of dates. Yes, then it would
25 have been included.

1 1416 Q. We are in receivership but now
2 public.

3 A. Yes.

4 1417 Q. The last line appears to indicate
5 another interest charge, \$656,000 U.S. for May
6 2014. Would that also have showed as interest
7 income in Callidus's second quarter financial
8 statements 2014?

9 A. Yes.

10 1418 Q. Okay.

11 A. To the best of my recollection.

12 1419 Q. And fast-forwarding here to
13 Facility D, and apologies for bouncing around, page
14 138, and this appears to represent that as of May
15 21st, 2014, Callidus had spent \$600,000 USD on
16 professional fees with respect to XTG; is that an
17 accurate interpretation?

18 A. Ask the question -- could you ask
19 the question, please?

20 1420 Q. This statement appears to indicate
21 that through May 31st, 2014, Callidus set up a
22 Facility D to accrue \$600,000 in fees related to
23 XTG, professional fees?

24 A. I don't have a context for that.
25 I see a balance amount, but I don't know -- Allen &

1 Overy is a law firm, so...

2 1421 Q. Okay. Scrolling back up to page
3 137, we have Facility D in Canadian funds in the
4 same time period, payments to Chaitons, one of your
5 law firms; correct?

6 A. Yes.

7 1422 Q. And payments to Duff & Phelps as
8 Receiver, almost \$100,000; correct?

9 A. Well, Chaitons I believe was
10 acting for Duff & Phelps.

11 1423 Q. I seem to agree, from memory. So
12 through this period, Callidus had spent 2.1 million
13 on fees to professionals to that point in time on
14 XTG?

15 A. Well, those were actually charges
16 to XTG for which advances were made to pay XTG's
17 expenses.

18 1424 Q. Okay. So would this 2.1 million
19 be covered under the Catalyst guarantee?

20 A. Is it part of a facility?

21 1425 Q. This is your loan statement. You
22 would probably know better than I would.

23 A. Well, I am looking and it says
24 "Loan Facility D", so Facility D would have been --
25 the principal of Facility D would have been subject

1 to the guarantee.

2 1426 Q. Okay.

3 A. So if advances were made to pay
4 those, then they were covered under the principal
5 of that loan.

6 1427 Q. And so previously you had stated
7 professional fees were not covered by the
8 guarantee?

9 A. I did not say that, I believe.
10 What I said was what is covered is the principal of
11 the loan. To the extent that the loan is advanced
12 to XTG for the purpose of paying the Receiver's
13 fees or the counsel to the Receiver, then those are
14 advances on the loan, principal advances.

15 1428 Q. Okay. So if we could go back to
16 page 133, which is -- let's see which facility is
17 this one. Facility A, U.S. dollars, in this period
18 you charged 657,000, roughly, U.S. dollars. There
19 was an additional 131,000 Canadian dollars. At
20 that point in time, the Canadian dollar was worth
21 roughly -- or the U.S. dollar was worth 1.08
22 Canadian dollars, which means in aggregate Callidus
23 charged XTG \$778,000 in interest in that month;
24 does that sound accurate?

25 A. Sorry, you -- I am not sure that

1 was a question because I'm not sure I am following
2 your math. What amounts are you converting at what
3 rate?

4 MR. DEARDEN: And what date.

5 BY MR. McFARLANE:

6 1429 Q. 131,000 Canadian at 1.08, so
7 divide by --

8 A. Well, I don't see that number you
9 are referring to, the 131.

10 1430 Q. Here it is.

11 A. And is this in U.S. dollars or
12 Canadian dollars?

13 1431 Q. That is a Canadian dollar amount.

14 MR. DEARDEN: What page have you shown,
15 Mr. McFarlane, is in the period of May --

16 [Court Reporter intervenes for
17 clarification.]

18 MR. McFARLANE: We were referring to
19 page 130, XTG Facility A, Canadian dollars, and
20 there is \$131,666, which is at the exchange rate of
21 the day worth approximately \$121,000 U.S.

22 MR. DEARDEN: And again, the date is
23 May 31st, 2014.

24 BY MR. McFARLANE:

25 1432 Q. Correct.

1 A. And assuming your math is correct,
2 I'll agree with you.

3 1433 Q. So if we add that 121,000
4 converted U.S. amount to the 656, we then have
5 approximately \$778,000 U.S. that was charged to XTG
6 in a single month in receivership; correct?

7 A. Yes, and paid for out of the cash
8 sweep.

9 1434 Q. Okay. Cash provided by Callidus?

10 A. Well, no. The cash sweep, as you
11 recall, there was a lock box with every one of our
12 loans, so all of the receivables that come in go
13 into the lock box. From there the cash from the
14 lock box is applied against the loan. The first
15 use of that cash is to pay interest, and the
16 balance goes to pay down principal.

17 1435 Q. Okay. So if XTG were in
18 receivership for 13-plus months, would this level
19 of interest charge have been typical?

20 A. It would have been -- I assume
21 that that is the amount that was payable under the
22 loan agreement.

23 1436 Q. Okay. So if we were to
24 extrapolate that over 14 months, 13 months, sorry,
25 we would be at roughly 10 million U.S. in interest

1 that was charged to XTG during receivership, plus
2 or minus maybe 10 percent?

3 A. I can't do the math that quickly.

4 1437 Q. Okay. And all of that interest
5 would have been recognized after the IPO as income
6 in Callidus's public financial statements?

7 A. I believe that is correct.

8 1438 Q. Okay. Do you recall the effective
9 rate of interest you would charge to XTG or someone
10 in its position?

11 A. I do not recall, but somewhere in
12 the materials I am sure there is a loan agreement
13 that supports those rates.

14 1439 Q. Would it surprise you if it was in
15 the 20 to 21 percent range?

16 A. Does that include fees?

17 1440 Q. No.

18 A. That is just interest?

19 1441 Q. Yes.

20 A. I don't recall what the interest
21 rate was.

22 1442 Q. Okay, so you don't recall the
23 interest rate charged to XTG, but 20 to 21 percent
24 wouldn't surprise you?

25 MR. DEARDEN: He didn't say that.

1 MR. MCFARLANE: I think he did.

2 MR. DEARDEN: He said, "I don't recall
3 what the interest rate was."

4 BY MR. MCFARLANE:

5 1443 Q. Okay, I'll shift gears a little
6 bit here. Multiple documents on the record refer
7 to the Catalyst guarantee. Can you please explain
8 how this works for investors in Callidus? And I'll
9 take us back to the prospectus, if it is helpful.

10 A. Sorry, could you ask the question?
11 Ask it as a question.

12 1444 Q. What is the benefit of the
13 Catalyst guarantee for Callidus investors? Let me
14 ask it that way.

15 A. The benefit was that if a loan was
16 on the watch list or went onto the watch list
17 within 12 -- or its next review period, it would
18 be -- the principal amount would be guaranteed by
19 Catalyst Funds to Callidus, which meant there was
20 not a loss of -- there would not be a risk of loss
21 of principal.

22 1445 Q. Okay. And in the prospectus, I
23 believe you indicated that only applies to
24 principal; correct?

25 A. Yes.

1 1446 Q. Okay. Did that policy change at
2 some point?

3 A. To extending beyond principal?

4 1447 Q. Yes, or in any other way.

5 A. There was one change, and that was
6 to clarify that cash swept from the lock boxes
7 would be applied first to interest.

8 1448 Q. Okay, which I think the initial
9 guarantee statement -- and I am just going to find
10 it here in the prospectus real quick. Where is the
11 Catalyst guarantee.

12 Okay, and --

13 A. Could you increase the size of
14 that, please?

15 1449 Q. Yes.

16 MR. DEARDEN: And what is the date of
17 this? Like what is the title and the date of this
18 document, Mr. McFarlane?

19 MR. MCFARLANE: This is the IPO
20 prospectus April 15, 2014.

21 MR. DEARDEN: And we are on page?

22 BY MR. MCFARLANE:

23 1450 Q. We are on page 11. It speaks
24 to -- it starts to speak to the Catalyst guarantee.
25 And there is another section in here, I misplaced

1 the actual reference, very quickly but I believe
2 Mr. Riley's recollection is correct that it applies
3 to principal because cash sweeps were used to pay
4 interest.

5 So, okay, and the clarification you
6 referred to one more time, what was that in terms
7 of policy change?

8 A. There was a clarification. And it
9 is in my affidavit. Do you have that document? I
10 don't remember the date.

11 MR. DEARDEN: Do you have the exhibit
12 number? Exhibit 86, I think.

13 THE DEPONENT: 86 to the libel?

14 MR. McFARLANE: So 86 to the libel?
15 Okay, I have got it here. I can share it.

16 MR. DEARDEN: It should be a document,
17 Mr. McFarlane, that is dated February 16, 2015, a
18 clarification memorandum.

19 BY MR. McFARLANE:

20 1451 Q. Okay, I think this is the document
21 here, Mr. Riley.

22 A. Yes. Well, that is the exhibit.
23 It is there, thank you. Could you increase it,
24 please?

25 1452 Q. Okay, is that large enough?

1 A. Yes, thank you.

2 1453 Q. And could you take us to the
3 section where that clarification resides?

4 A. I am going to have to read the
5 document.

6 1454 Q. Okay.

7 A. [Witness reviews document.]
8 So in the fourth bullet point.

9 1455 Q. Okay.

10 A. And can you highlight that bullet
11 point, please?

12 1456 Q. So this section?

13 A. Yes.

14 MR. DEARDEN: Read it into the record.

15 THE DEPONENT: And are you going to
16 read this into the record, Mr. McFarlane?

17 BY MR. MCFARLANE:

18 1457 Q. So, Mr. Riley, what I asked for
19 was an explanation.

20 A. Are you going to read this into
21 the record or not?

22 1458 Q. I asked the question, Mr. Riley,
23 if you would explain where the policy change to
24 include -- or any policy change is the question.

25 MR. DEARDEN: It is a clarification.

1 THE DEPONENT: This whole document is a
2 clarification of the principles that were being
3 applied.

4 MR. MCFARLANE: Okay.

5 MR. DEARDEN: And for the record,
6 because no one is going to know what this bullet
7 says, it reads:

8 "The cash sweep on a loan by
9 loan basis arising from blocked
10 accounts or by way of direction or
11 other means will, as between
12 Callidus and Catalyst, be internally
13 allocated in the following priority:
14 firstly, to accrued and unpaid
15 interest and fees on any loan made
16 by Callidus; secondly, to principal
17 and other amounts owing under any
18 such loan; and finally, without
19 duplication, to payables and other
20 cash requirements of the borrower.
21 This will be calculated on a
22 running, cumulative basis.

23 "The above clarifications apply
24 to all loans subject to the
25 above-mentioned guarantees" is the

1 next bullet.

2 BY MR. McFARLANE:

3 1459 Q. Okay.

4 So if Catalyst guaranteed losses in
5 Callidus, who ultimately bore the expense of that
6 guarantee?

7 A. It would be Funds III and IV.

8 1460 Q. What was the primary purpose for
9 including the guarantee in the prospectus?

10 A. Taking XTG as an example, the
11 underwriters wanted to exclude it if Callidus was
12 going to bear the...[inaudible]

13 [Court Reporter intervenes for
14 clarification.]

15 Sorry, do you want me to start over?
16 So could you ask the question again? Could someone
17 read the question for me?

18 MR. DEARDEN: What was the primary
19 purpose for including the guarantee in the
20 prospectus?

21 THE DEPONENT: The underwriters would
22 have excluded, for example, XTG from the
23 transaction; i.e., we would have been required to
24 take it out of corporate solution. With the
25 guarantee in place, there was -- the risk of loss

1 stayed with the funds and it could then be subject
2 to the IPO because the risk was retained by the
3 funds.

4 BY MR. MCFARLANE:

5 1461 Q. Did this have anything to do with
6 the common management between Callidus and
7 Catalyst?

8 A. I don't think that was the
9 purpose. The purpose was to benefit investors by
10 having no risk of loss transferred on the IPO.

11 1462 Q. Did the Catalyst guarantee give
12 rise to any conflicts of interest between Callidus
13 and Catalyst?

14 A. No. Excuse me, let me rephrase.
15 When I say no conflict of interest, in effect any
16 disagreement between Callidus and Catalyst was
17 resolved by having independent directors on one
18 side and the balance of the board on the other
19 side, namely, Newton and I.

20 1463 Q. Was there any discussion around
21 XTG in that context?

22 A. No.

23 1464 Q. Was the guarantee uncapped?

24 A. It was uncapped.

25 1465 Q. And I am going to shift gears to

1 document 7, the 2014 financial statements for a few
2 questions, and go to page 19. So the
3 guarantee -- actually, let me go back to the
4 balance sheet real quick.

5 And so the guarantee asset shows up for
6 the first time in 2014; correct? I'll make it a
7 little bigger. This is the line that relates to
8 the Catalyst guarantee?

9 A. Yes, that is at -- when you say
10 "shows up for the first time", was it in any
11 balance sheet prior to that date? No, 2013, okay,
12 thank you.

13 1466 Q. You have got your 2013 comp right
14 there, so no, correct?

15 A. Yes, now I know. Okay, now I
16 know, because the guarantee was not in place in
17 2013.

18 1467 Q. Right, so if we go --

19 A. And so I see here the asset.
20 Pardon me?

21 1468 Q. Apologies. I think we are clear
22 on that point. It shows up for the first time in
23 2014?

24 A. Yes.

25 1469 Q. And this is the Catalyst

1 guarantee?

2 A. Yes. Could you take me to Note
3 10, please?

4 1470 Q. Sure. So here is the section Note
5 10, sub (c), and that is the preamble.

6 If I could go to the next page, it has
7 probably got the numbers you are looking for. And
8 so this section here would be the relevant point,
9 so 22.6 million was income related to the Catalyst
10 guarantee; correct?

11 A. Well, I see that, but I would want
12 to go back and see if there was a corresponding
13 impairment amount.

14 1471 Q. Yeah, we can go to the -- I think
15 the impairments show up here later.

16 Bear with me. Actually, maybe this
17 statement does not show that. Let me see.

18 So here is the loan loss allowance. Is
19 this what you are looking for?

20 A. Yes. Okay, thank you.

21 1472 Q. So my question was the guarantee
22 shows up for the first time in here on the balance
23 sheet for 22.606 million. Is that all related to
24 XTG?

25 A. I don't know. I don't know

1 whether it was just XTG or whether there was other
2 loans included in there.

3 1473 Q. Okay. And so if we take a look at
4 the income statement for the same period, we have
5 got income of 41.759 million. Included in that is
6 the 22.6 million for the Catalyst guarantee;
7 correct?

8 A. Yes.

9 1474 Q. And so quick math, the net income
10 for that period would have been half the amount if
11 not for the Catalyst guarantee? 41.759 subtract
12 22.606; to be precise, 19.153 million?

13 A. But I think the recovery under the
14 Catalyst guarantee would have been in respect of
15 principal for the loans, the loans in question.
16 And as we looked at Note 10, I believe the amount
17 was in -- the amount of the impairment was included
18 in that 22.606. In other words, the loan was
19 impaired and there was a guarantee. As the loan
20 was impaired, then there was an increase due under
21 the guarantee.

22 1475 Q. Okay.

23 A. So that makes sense to me.

24 MR. DEARDEN: Let's go back to Note 10,
25 please.

1 MR. MCFARLANE: Yeah, we are there now.
2 MR. DEARDEN: Let's get it on the
3 record.
4 BY MR. MCFARLANE:
5 1476 Q. Okay. So we are in Note 10,
6 guarantee asset and related income of 22.606, and
7 there were no other loans at that point subject to
8 the guarantee that required a provision or --
9 A. I said to the best of my -- I
10 don't recall I think is what I said, Mr. McFarlane.
11 1477 Q. Okay, thank you.
12 A. Okay, but if you could scroll down
13 again to the impairment provision, which I think is
14 Note 15 or 16.
15 1478 Q. Actually, it was earlier, but --
16 A. Sorry, 6, I apologize.
17 1479 Q. Is there anything in here that
18 clarifies whether the 22.606 related to anything
19 but XTG?
20 A. I do not know, sir, but I am
21 looking at it and it is saying that the amount
22 there seems to be in excess of the 26.606.
23 1480 Q. Okay. All right, we are going to
24 go to document 5, which is the initial report of
25 the Receiver, page 12.

1 MR. DEARDEN: What is the date of the
2 initial report of the Receiver?

3 MR. McFARLANE: October 25th, 2013.

4 MR. DEARDEN: Thanks.

5 BY MR. McFARLANE:

6 1481 Q. Okay, we are clarifying here that
7 XTG is indebted to Callidus in the amount of 36.97
8 million?

9 MR. DEARDEN: Sorry, where are you, Mr.
10 McFarlane?

11 MR. McFARLANE: 3.1(2), I am just
12 establishing a point of clarity, here.

13 MR. DEARDEN: Is that page 10 as
14 opposed to page 12?

15 MR. McFARLANE: We are on 13 now.

16 MR. DEARDEN: Well, I am looking at the
17 bottom of the -- at the top of the screen it says
18 page 9 of 22.

19 MR. McFARLANE: I'm looking at the PDF
20 page number, which is 13.

21 MR. DEARDEN: Oh, okay, how about we
22 actually refer to the document page number?

23 MR. McFARLANE: No problem.

24 MR. DEARDEN: I didn't know you were
25 referring to --

1 BY MR. MCFARLANE:

2 1482 Q. Okay, so XTG goes into
3 receivership with this level of debt. Callidus I
4 believe credit bid 34 million for the debt;
5 correct?

6 A. I believe that is correct.

7 1483 Q. Okay. Now, if we could go back to
8 the --

9 A. I could double-check if we go back
10 to my affidavit. I think we set forth that amount
11 in my affidavit.

12 1484 Q. Yeah, I believe from memory you
13 are correct, so I don't have an issue with that,
14 because there was the 3 million carve-out left, so
15 that makes sense.

16 So if we go back to the 2014 financial
17 statements, document 7, on the final page in here
18 it refers to "Subsequent Events" and I am going to
19 read 22(b):

20 "In January 2015, one of the
21 Company's borrowers emerged from
22 formal restructuring proceedings in
23 Canada and the U.S. as a going
24 concern. As a result, the Company,
25 as a secured creditor, will own the

1 business of the borrower subsequent
2 to year-end and will be intended to
3 be classified as an Asset Held for
4 Sale. As at December 31, 2014, the
5 carrying value of the loan, net of a
6 provision, was \$60.184 [million]."

7 And again, Canadian dollars in the
8 statement here. How did you arrive at that value?

9 A. I have no specific recollection of
10 how that value was arrived at.

11 1485 Q. Was the --

12 A. That would seem to be -- the
13 carrying value of the loan would be principal and
14 interest, and at December 31, 2014, would be
15 principal and interest and any other amounts that
16 were included under the loan agreement net of
17 whatever the provision was.

18 1486 Q. Okay, and so 60.184 was principal,
19 interest, fees, et cetera, accrued to that point.
20 If we go to document --

21 A. Yes, accrued but unpaid.

22 1487 Q. Accrued but unpaid, okay. If we
23 go to document number 8, which is the PwC report
24 which was your Exhibit 80 to the libel action, I
25 believe.

1 A. Could you please go -- thank you.
2 As at December 31, 2014, okay, thank you.

3 MR. DEARDEN: Paragraph 129 --

4 THE DEPONENT: Of the main action or
5 the --

6 MR. DEARDEN: The libel.

7 BY MR. McFARLANE:

8 1488 Q. I am going to fast-forward here to
9 page 14.

10 A. Paragraph 149?

11 MR. DEARDEN: Uhm-hmm.

12 THE COURT REPORTER: Did you say
13 paragraph 141?

14 MR. McFARLANE: Page 14.

15 THE DEPONENT: No, paragraph 149.

16 MR. DEARDEN: Of his libel action
17 affidavit, Mr. McFarlane, which is where your
18 Exhibit 80 --

19 MR. McFARLANE: Okay. Would you like
20 to take a look at that?

21 MR. DEARDEN: Actually, 148. It starts
22 at 148 of the affidavit.

23 BY MR. McFARLANE:

24 1489 Q. So, Mr. Riley, was this 60.184
25 million the PwC value, or was this the sum of all

1 of the advances and accrued but unpaid interest to
2 XTG?

3 A. Net of a provision.

4 1490 Q. Okay, thank you. And back to the
5 valuation report here, which again for clarity was
6 effective as of December 31st, but according to
7 page 2 was released on April 2nd, 2015.

8 A. Yes, I see that date.

9 1491 Q. Okay. Could you tell me what role
10 Craig Boyer played in developing this report or
11 this valuation?

12 A. I do not know. I don't know what
13 his involvement was. He would have had some
14 involvement, although it would principally be as
15 the CFO.

16 1492 Q. The CFO of who?

17 A. I believe, but would have done it
18 in conjunction.

19 1493 Q. The CFO of Callidus or XTG?

20 A. Callidus, Dan Nohdomi.

21 [Court Reporter intervenes for
22 clarification.]

23 THE DEPONENT: It would have been under
24 the supervision of Dan Nohdomi, the Vice President
25 and CFO of Callidus.

1 MR. DEARDEN: How do you spell Nohdomi?

2 THE DEPONENT: Nohdomi is spelled

3 N-o-h-d-o-m-i.

4 BY MR. MCFARLANE:

5 1494 Q. Okay, so I can take you to Exhibit
6 9, or document 9 rather, which is the Statement of
7 Defence and Counterclaim in the Craig Boyer action,
8 and go to page 3. The allegations against
9 Mr. Boyer as outlined by Callidus start here:

10 "As other underwriters began to
11 review Boyer's work and reporting,
12 several concerns with Boyer's
13 performance were discovered,
14 including that:

15 (a) Boyer had been failing to
16 properly monitor loans in his
17 portfolio, and in particular the
18 loan advanced to Gray Aqua (as
19 defined below);

20 (b) Boyer had encouraged certain
21 portfolio companies, and in
22 particular XTG (as defined below),
23 to artificially inflate the results
24 shown on their financial projections
25 and financial statements;

1 (c) Boyer had directed one
2 company in his portfolio
3 (Horizontal, as defined below) to
4 create a letter on fake Callidus
5 letterhead purporting to make
6 financial commitments on Callidus'
7 behalf, and then to sign the letter
8 for Boyer, even though Boyer did not
9 have authorization from Callidus to
10 make any such commitment or to
11 provide such a letter."

12 How did Boyer's misconduct affect the
13 PwC valuation?

14 A. To the extent that during -- I
15 don't know whether during that relevant period
16 Boyer was doing any of the activities referred to
17 in paragraph (b) or not.

18 1495 Q. So you don't know if this
19 allegation involves the time period around the PwC
20 valuation?

21 A. I do not recollect.

22 1496 Q. Do you know specifically when it
23 does refer to?

24 A. I would have to go back and check
25 our records.

1 1497 Q. Are you willing to provide that
2 undertaking?

3 U/A MR. DEARDEN: We'll take it under
4 advisement.

5 BY MR. McFARLANE:

6 1498 Q. In Callidus's counterclaim against
7 Mr. Boyer, you claim for 150 million dollars. How
8 much of that might be attributable to the
9 XTG-related misconduct?

10 A. I do not know.

11 1499 Q. But it is Callidus's position that
12 Boyer misled the Credit Committee?

13 A. Yes.

14 1500 Q. Specifically around XTG?

15 A. Yes.

16 1501 Q. So let me just clarify the dates
17 here. I am not sure I know the actual date of the
18 Boyer -- do you recall, Mr. Riley, when the Boyer
19 action or the counterclaim was filed?

20 A. If you scroll down, there should
21 be a date at the end of the document. There should
22 be a date somewhere.

23 1502 Q. February 2017. That is when it
24 was filed. Do you remember when you parted ways
25 with Mr. Boyer?

1 A. No. No, I do not. I do not
2 recall that date.

3 1503 Q. And so you don't recall --

4 MR. MOORE: It is David Moore here. I
5 don't want to go too far into this Boyer matter.
6 It is a separate proceeding, as you know. But
7 among other things, I can tell you that Mr. Boyer
8 submitted a letter of resignation as of September
9 6th, 2016, and in early 2017 he commenced legal
10 proceedings.

11 But I don't want to turn this
12 cross-examination into anything approaching an
13 examination for discovery in the Boyer action. So
14 I just want to -- but to your specific question, I
15 can offer that information.

16 I see it is 11:30. I wonder if it is
17 appropriate for a short break?

18 BY MR. McFARLANE:

19 1504 Q. How long would you like, Mr.
20 Riley?

21 A. I think we have been taking 15
22 minutes or so.

23 1505 Q. Okay, then we'll resume at 11:45?

24 A. Sure.

25 1506 Q. Thank you.

1 -- RECESSED AT 11:30 A.M.

2 -- RESUMED AT 11:48 A.M.

3 BY MR. McFARLANE:

4 1507 Q. I am going to try and wrap up
5 quickly where we left off here with respect to some
6 of Boyer's misrepresentations internally to
7 Callidus.

8 In reviewing the dates, if Mr. Boyer
9 left in 2016 and with respect to point 34 that
10 Boyer was involved in the budgeting process, that
11 must have been calendar 2015 or 2016 budget;
12 correct?

13 A. Yes, I would say that is correct.

14 1508 Q. But you are not sure which year it
15 is?

16 A. But I am not sure which year.

17 1509 Q. Okay. Given Boyer's fraudulent
18 misrepresentations with respect to XTG's --

19 MR. DEARDEN: Sorry, Mr. McFarlane, I
20 object to you saying "fraudulent". The
21 counterclaim doesn't say "fraudulent." It deals
22 with fiduciary duties.

23 BY MR. McFARLANE:

24 1510 Q. I will restate. With respect to
25 Boyer's misrepresentations, is it possible that

1 those misrepresentations could have led Callidus to
2 overvalue XTG?

3 A. It is possible, yes.

4 1511 Q. And can you confirm that since XTG
5 emerged from receivership, its financial reporting
6 was consolidated?

7 A. Could you please repeat the
8 question?

9 1512 Q. Sure. There was an echo there.
10 There still is.

11 Just to confirm -- Deana, can you
12 figure out who that is?

13 [Court Reporter intervenes for
14 clarification.]

15 I think we are agreed that since
16 emerging from receivership, XTG's financial results
17 were consolidated with Callidus and a part of the
18 public record?

19 A. Yes.

20 1513 Q. Okay. It would be quite easy then
21 for the founder of the business who spent 16 years
22 building it to spot irregularities in financial
23 reports then, wouldn't it?

24 MR. DEARDEN: Are you giving evidence,
25 Mr. McFarlane?

1 MR. MCFARLANE: I think we are
2 discussing a lot of that today.

3 MR. DEARDEN: Yeah, but you are not
4 supposed to be giving evidence now. You are asking
5 the questions.

6 BY MR. MCFARLANE:

7 1514 Q. I am asking, is it reasonable,
8 given the Boyer misrepresentation, in the budgeting
9 process for somebody with intimate knowledge of the
10 business to be able to spot irregularities?

11 R/F MR. DEARDEN: I object.

12 BY MR. MCFARLANE:

13 1515 Q. I'll withdraw the question.

14 Let's go to document 10, and document
15 10 is the first quarter 2015 Callidus financial
16 statements. We are going to go to page 2, first of
17 all.

18 This is the second time that the
19 guarantee asset has showed up on financial
20 statements. The first was the end of 2014. And at
21 the end of the first quarter of 2015, the guarantee
22 had increased to 23.434 million.

23 And if we go to Note 17 --

24 A. Sorry, could you -- sorry, okay,
25 if you are going to do that, could you let me

1 read -- could you go back? I just want to look at
2 those two numbers again and what the notes are.

3 1516 Q. Sure.

4 A. Thank you.

5 [Witness reviews document.]

6 1517 Q. So the two key figures here would
7 be asset held for sale is now on the financial
8 statements for the first time because there was a
9 subsequent event at 2014 where at the end of 2014
10 the declared value was 60.184 million and it is now
11 62.603, and the Catalyst guarantee asset has
12 increased from 22.606 million to 23.434 million.

13 A. Yes, got it.

14 1518 Q. And the relevant notes are 9 and
15 17. Note 17 is clearly a reference to XTG. I
16 don't think we dispute that one.

17 A. I agree.

18 1519 Q. And I think this is saying that an
19 additional 1.424 million has been charged under the
20 Catalyst guarantee with respect to XTG losses from
21 operations; correct?

22 A. Yes, which would reduce the value
23 of the asset.

24 1520 Q. Would it reduce the value of the
25 asset, because the asset value went up according to

1 the balance sheet?

2 A. That would have gone up with
3 additional advances.

4 1521 Q. Okay, so if we go back to --

5 A. We were just talking about the
6 operations, sorry.

7 1522 Q. So if we go back to the asset held
8 for sale, that increased from 60.184 million to
9 62.603 would have been additional advances?

10 A. Yes.

11 1523 Q. Okay.

12 A. Yes.

13 1524 Q. All right, let's go to document
14 11, which is the third quarter 2015 financial
15 statements of Callidus Capital. If we could take a
16 look at page 2, the guarantee asset has gone from
17 22.606 to 24.795, Note 9, and the asset held for
18 sale --

19 A. Sorry, nothing has changed on the
20 screen.

21 1525 Q. Sorry.

22 A. I don't know what numbers you are
23 reading.

24 1526 Q. I'll share it again. Sorry, let
25 me go back to the beginning.

1 So this is the Callidus Capital third
2 quarter 2015 financial results. The two figures
3 that I want to bring you to briefly are the assets
4 held for sale has now gone up to 66.902. Would it
5 be the same evidence as the first quarter, that any
6 increase would have been additional principal
7 advanced?

8 A. Yes, I think that is correct.

9 1527 Q. Okay, so that is roughly 4.3
10 million. And the 24.795 from 22.606, would that
11 also all relate to XTG or should we go to the note
12 and look?

13 A. I think if we could go to the
14 note, please.

15 1528 Q. Okay, so here, I think this is the
16 relevant portion.

17 MR. DEARDEN: Do you want to just read
18 it into the record, Mr. McFarlane?

19 BY MR. MCFARLANE:

20 Q. "As at September 30, 2015, the
21 Company recorded a guarantee asset
22 of \$24.795 related to the Catalyst
23 guarantee. During the year-to-date
24 period, \$10.916 was received under
25 the Catalyst guarantee."

1 And my question is does that all relate
2 to XTG?

3 **A.** I do not know. I can't tell from
4 that.

5 1529 **Q.** I think if we go to the assets
6 held for sale note, it should become clear. So I
7 think at this point in time, XTG was the only asset
8 held for sale?

9 **A.** Yes.

10 1530 **Q.** Okay. All right, so safe to say
11 at this point Callidus has recognized income of
12 24.795 in income and has recovered that from
13 Catalyst under the guarantee?

14 **A.** But there also would have been an
15 impairment.

16 1531 **Q.** Okay, and that impairment was
17 recoverable from Catalyst?

18 **A.** Well, it represents an impairment
19 in the loan, in effect.

20 1532 **Q.** Whether it is an impairment or
21 operating losses, they were both recoverable under
22 the guarantee, if I am reading section 17
23 correctly?

24 **A.** Yes.

25 1533 **Q.** Okay. And so according to the PwC

1 report, the valuation was based on an assumption
2 that XTG --

3 **A.** Which --

4 1534 **Q.** -- would generate 9.1 million in
5 EBITDA -- would you like me to go back there?

6 **A.** Yes, please.

7 1535 **Q.** This was document 8, Exhibit 80,
8 in the libel action. Let me know if it is big
9 enough. Focussing on the second column from the
10 right here, the projected budget for 2015 was
11 positive EBITDA of 9.1 million?

12 **A.** Yes.

13 1536 **Q.** And just to confirm, going back to
14 the other document which was the third quarter
15 financial statements, the net loss from operations
16 on the asset held for sale being XTG through nine
17 months was negative 4.352 million?

18 **A.** Yes.

19 1537 **Q.** So we have a variance, and I don't
20 know the precise math, but we were expecting
21 positive EBITDA of 9.1 and we are still sitting at
22 minus 4.352?

23 **A.** Could you go back to the PwC?
24 Just as you are going back and forth between
25 documents, and I am looking at the --

1 1538 Q. Sure.

2 A. So just, sorry, could you go back
3 to that document for a second, please?

4 1539 Q. I am. Because it is on a
5 different screen, I have got to stop and then start
6 again.

7 MR. DEARDEN: What page is that of the
8 actual PwC report?

9 MR. MCFARLANE: Page 14.

10 MR. DEARDEN: Okay, thank you.

11 THE DEPONENT: And this document is as
12 at what date? What is the calculation, as at
13 December 31?

14 BY MR. MCFARLANE:

15 1540 Q. Yes.

16 A. What is this document being
17 prepared for?

18 1541 Q. As of December 31st, 2014 was the
19 valuation date, and it was released on April 2nd,
20 2015.

21 A. Okay. Now, take me back to that
22 September document again.

23 1542 Q. The financial statements?

24 A. Yes, please.

25 1543 Q. My point being we were expecting,

1 according to the PwC report, to have positive
2 EBITDA for 12 months of 9.1 million. Through nine
3 months XTG's operating results are negative 4
4 million plus?

5 **A.** Yes.

6 1544 **Q.** Yeah, would it be your practice to
7 re-value an asset when there was a variance of that
8 magnitude emerging?

9 **A.** This is a more complicated -- you
10 are asking a more complicated question than I think
11 you appreciate. To get to the amount that is on
12 the balance sheet on a consolidated basis, you
13 start with the gross loan receivable and then work
14 down to amounts that are taken out of that gross
15 loan receivable to get to --

16 1545 **Q.** I understand -- sorry to
17 interrupt, Mr. Riley, but that wasn't my question,
18 though.

19 **MR. DEARDEN:** Let him finish.

20 **MR. MCFARLANE:** My question --

21 **MR. DEARDEN:** Finish your answer.

22 **BY MR. MCFARLANE:**

23 1546 **Q.** Mr. Riley, go ahead.

24 **A.** Can I finish my answer? You have
25 to work from the gross level receivable down to the

1 carrying value of those assets. The valuation is
2 to test that carrying value.

3 Now, in the case of XTG, it is not a
4 complication, but to the extent that there is a
5 write-down of the XTG asset by the 4.3, there is a
6 write-up in the guarantee.

7 1547 Q. Right.

8 A. And so --

9 1548 Q. So again, I think we have
10 established there is really two components. There
11 is the operating loss and then there is the
12 additional advances being claimed under the
13 guarantee.

14 I guess my question is under your
15 Significant Accounting Policies and the practice of
16 fair market valuation, is it only done once a year,
17 in audit? Are the Significant Accounting Policies
18 applied for each set of quarterly financial
19 statements? How often do you test?

20 A. You have to apply them each
21 quarter.

22 1549 Q. Okay.

23 A. You evaluate each loan each
24 quarter.

25 1550 Q. Okay.

1 **A.** And we didn't necessarily do a
2 valuation each quarter, a third party valuation
3 like a PwC.

4 1551 **Q.** So on that basis, if we go back to
5 the balance sheet here, the asset actually
6 increased by about 4 million. Does that reflect --

7 **A.** All I see is 66.902. What it is
8 increased by, I do not know.

9 1552 **Q.** Okay, if we could go back to the
10 first quarter. Let me make sure I got the right
11 one.

12 **A.** The first quarter or second
13 quarter.

14 1553 **Q.** The first quarter, just as a point
15 of reference, because it is the first time it shows
16 up on the balance sheet.

17 **A.** No, but you are showing me
18 September statements, and you want me to compare it
19 to March. Shouldn't it be June?

20 1554 **Q.** I am looking at the --

21 **A.** Or do you just want to see --

22 1555 **Q.** Because it has the three-month and
23 it has the nine-month reference in the third
24 quarter, so I am going back to the opening number.
25 The first quarter, 62.603 is the asset held for

1 sale. Now --

2 **A.** Yeah.

3 1556 **Q.** Okay?

4 **A.** Okay, yeah, got it.

5 1557 **Q.** Now, in the third quarter, that

6 number has increased to 66.902. What does that

7 increase in value represent?

8 **A.** Those would be advances and

9 effectively were funding losses at that time,

10 negative cash flow.

11 1558 **Q.** Okay.

12 **A.** Because we were trying to rebuild

13 the business.

14 1559 **Q.** But given you have operating

15 losses and given you have a PwC statement that

16 reflects a budget of 9.1 million of positive

17 earnings, it does not appear that you took any

18 measures to re-value this asset as of the date of

19 these statements?

20 **A.** As at September 30th, it appears

21 not.

22 1560 **Q.** Okay.

23 **A.** But again, going back, and I'll

24 say it one more time, to the extent that we wrote

25 down the assets held for sale, which I think there

1 were write-downs over the various time periods,
2 time frame, there would be an increase in the
3 corresponding guarantee asset.

4 1561 Q. What I am having difficulty with
5 is the lack of application of the Significant
6 Accounting Policies in this period.

7 A. I do not have a basis for that
8 statement, but I will go back to the fact that
9 these are audited financial statements prepared by
10 management and then audited, so those policies
11 would have been reviewed and they are tested by
12 KPMG. Their opinion was unqualified.

13 And I am not an accountant by training,
14 so I would defer to our CFO's preparation of the
15 financial statements and the other people involved
16 and the audit of KPMG.

17 1562 Q. My concern arises from this
18 statement here:

19 "The significant accounting
20 policies used in the preparation of
21 these condensed interim consolidated
22 financial statements are consistent
23 with those described in note 3 to
24 the Company's 2014 Audited Financial
25 Statements."

1 I could take you back if you like, but
2 my concern is the fair market and the other
3 valuation instruments or policies were not applied?

4 **A.** I don't know your basis for that.
5 I will have to disagree with that and defer again
6 to the fact that they were audited.

7 1563 **Q.** Okay. Let's go to the fourth
8 quarter Callidus financial statements for the year
9 ending 2015 referred to in my email as document 12.
10 We can see the assets acquired from loans is now
11 represented a little bit differently. It used to
12 be assets held for sale when it was exclusively
13 XTG. I appreciate there is another asset in there
14 now. And the guarantee asset has jumped up to
15 34.755 million.

16 So if we go to note --

17 **A.** Can we go to Note 6 and 17?

18 1564 **Q.** Note 6?

19 **A.** Note 6 and 17.

20 1565 **Q.** Sure.

21 **A.** [Witness reviews document.]

22 1566 **Q.** Okay, ready for 17?

23 **A.** No, sorry, it is a long note, so I
24 want to make sure.

25 1567 **Q.** Sure.

1 **A.** [Witness reviews document.]

2 Okay, thank you.

3 1568 **Q.** I might stop at Note 12 along the
4 way. Actually, I'll stop here first. This is Note
5 9 where the Catalyst guarantee is now up to 3.4 --
6 sorry, 34,755,000.

7 **A.** Okay.

8 1569 **Q.** Interpreting the financial
9 statements, would you say that is all related to
10 XTG?

11 **A.** I do not know.

12 1570 **Q.** So let's take a look at Note 12,
13 "Fair Value of Instruments". I want to take you
14 back for a moment, and I am going to come back to
15 this Note 12, but if we go to the previous quarter,
16 in the same --

17 **A.** Mr. McFarlane, you are jumping
18 around a lot.

19 1571 **Q.** Yes.

20 **A.** And I am not trying to be -- I am
21 trying to answer your questions, but you are
22 jumping around a lot, so you are going to have to
23 put context every time we go to one of these
24 documents.

25 1572 **Q.** Sorry, you may not have heard me.

1 This is I am back one quarter, so September 30th,
2 2015, the same notes section, Note 12, "Fair Value
3 of Financial Instruments".

4 In this section Callidus lists asset
5 held for sale being XTG for 66.902, fair value,
6 carrying value.

7 **A.** Okay.

8 1573 **Q.** Okay, I am going to jump back to
9 the end of the year fourth quarter. It is no
10 longer listed as an asset held for sale with a
11 valuation. Any idea why it is not included in this
12 section anymore?

13 **A.** Sorry, you have -- sorry, which
14 financial statement? We went from September to
15 December?

16 1574 **Q.** Yes, and I said that.

17 **A.** Okay, December, but it is December
18 of the same year; correct?

19 1575 **Q.** That's correct.

20 **A.** And what are you telling me you
21 think the difference is here? What is missing from
22 this?

23 1576 **Q.** There is no longer a fair -- we
24 are in the "Fair Value of Financial Instruments"
25 section, and there is no longer showing an asset

1 held for sale, but as of December 31st, 2015,
2 Callidus still owned XTG; correct?

3 **A.** Mr. McFarlane, we are going to
4 have to pause here. I am going to have to re-read
5 these two sets of financial statements to properly
6 answer that question.

7 1577 **Q.** I can show you in the "Subsequent
8 Events" notes if it helps?

9 **A.** Sorry, I am going to have -- you
10 have jumped around financial statements. I am
11 going to have to look at them more closely, so let
12 me take that time and do it now. What tab? What
13 are the tabs in your --

14 1578 **Q.** 11 and 12 are the document numbers
15 in the email you would have received this morning,
16 or the printed ones if you have hard copies.

17 **A.** Do you want me to look at both?

18 1579 **Q.** Yes.

19 **A.** [Witness reviews document.]

20 Could you ask me the question again,
21 please, and what financial statement are you in in
22 this one?

23 1580 **Q.** We are in the 2015 financial
24 statements full year, document 12 on Note 12. The
25 question was in prior financial statements Callidus

1 had included assets held for sale in the fair value
2 section here and attempted to outline fair value
3 and carrying value?

4 **A.** So if you could please go to the
5 "Subsequent Event" note?

6 [Witness reviews document.]

7 Should I read it --

8 1581 Q. I will read it onto the record
9 here:

10 "Subsequent Events.

11 Assets Held For Sale:

12 In March 2016, the Company
13 required payment by the Catalyst
14 Funds of a guarantee (as described
15 in note 9(c)) with respect to one of
16 the Company's loan assets in an
17 amount equal to the [...]
18 outstanding principal plus accrued
19 and unpaid interest of \$101.3
20 million. The Catalyst Funds
21 acquired the loan in question for an
22 amount equal to the guarantee and
23 are now the owners of the business
24 and are actively restructuring it.
25 The Company primarily used the

1 proceeds from the guarantees to
2 repay a portion of the balance
3 outstanding under the subordinated
4 bridge facility."

5 MR. DEARDEN: I'll just add one thing,
6 Mr. McFarlane, you missed the word "total", "total
7 outstanding principal", just for the record.

8 BY MR. McFARLANE:

9 1582 Q. Okay, thank you.

10 A. And I qualify my answer by saying
11 I am not an accountant, but I think that given that
12 the transaction, the subsequent event transaction
13 was in effect deemed to have occurred at December
14 31, a decision seems to have been made that rather
15 than characterize it as assets held for sale at
16 December 31, it was a loan that was being
17 transferred at the 101.

18 1583 Q. When you say "deemed to have
19 happened December 31st", either it did or it
20 didn't. What do you mean by "deemed"?

21 A. It was effective as of December
22 31.

23 1584 Q. So it was retroactively effective?

24 A. Yes.

25 1585 Q. Then I am confused if it still

1 shows on the balance sheet here.

2 **A.** I am not an accountant, sir, but I
3 do believe that the discrepancy you are trying to
4 point out, you'll notice it says "assets acquired
5 from loans" as opposed to "assets held for sale",
6 so I think that there was a recharacterization of
7 the XTG loan as being a loan as at December 31
8 because effectively it was transferred from that
9 date.

10 1586 **Q.** Okay. Did XTG ever earn a profit
11 under either Callidus -- I guess only under
12 Callidus's ownership?

13 **A.** No.

14 1587 **Q.** If the asset was valued at the end
15 of 2014 but not at 2015, your position is that it
16 wasn't required because of the subsequent event?

17 **A.** Yes.

18 1588 **Q.** Would it not have been more proper
19 to record the re-valuation and then an uptick in
20 the Catalyst guarantee for transparency's sake?

21 **MR. DEARDEN:** What are you talking
22 about, "an uptick in the Catalyst guarantee"?

23 **BY MR. McFARLANE:**

24 1589 **Q.** If you were to re-value the asset
25 and the asset declined in value, Callidus would

1 still be made whole through the Catalyst guarantee;
2 correct?

3 **A.** Yes.

4 1590 **Q.** My point is and my question is,
5 would it not have been clearer reading for the
6 reader of the financial statements and prospective
7 investors in Callidus to know that it had written
8 the asset down to fair value?

9 **A.** I don't know how to answer that
10 question, sir.

11 1591 **Q.** Of the 101.3 million that the
12 Catalyst funds paid for XTG, do you know how much
13 of this was interest that Callidus charged XTG
14 regardless of ownership time since receivership?

15 **A.** I think to the best of my
16 recollection, it was approximately a million
17 dollars, and as you'll recall, I have talked about
18 the cash on numerous occasions and I do not have
19 the numbers in my affidavit, but I think there was
20 available cash in the period between December 31
21 and March 31 of approximately 5 million dollars
22 that could have been used to sweep that -- that
23 could have been used to pay that interest.

24 So it was really just how do you
25 account for that? Whoever the financial types on

1 each side of the transaction were agreed that that
2 was the way to do it.

3 1592 Q. So my question is a two-part
4 question.

5 So your affidavit does indicate that
6 1.4 million of interest was accrued between the
7 timing and the settlement or the agreement and the
8 settlement --

9 A. Mr. McFarlane, can I ask a
10 courtesy?

11 1593 Q. Sure.

12 A. I have not memorized my
13 affidavits. To the extent you are referring to a
14 document before you ask the question, I am now
15 going to ask you to take me to that, please.

16 1594 Q. All I am saying -- I am affirming
17 your answer that you are right, there was a
18 period --

19 A. It is not about affirming my
20 answer. It is just if you are going to refer to
21 one of my affidavits, I would like you to take it
22 to me.

23 1595 Q. Sure.

24 A. And what paragraph?

25 MR. DEARDEN: I think it will be 180.

1 Paragraph 180, Mr. McFarlane.

2 MR. MCFARLANE: Of the libel or the
3 conspiracy affidavit?

4 MR. DEARDEN: The libel, the libel
5 action, page 54.

6 THE DEPONENT: [Witness reviews
7 document.]

8 Okay, thank you, yes, I have read it.

9 BY MR. MCFARLANE:

10 1596 Q. Okay. And that does deal with the
11 interest in that period we discussed from let's
12 call it the first quarter of 2016.

13 My question was from the time XTG went
14 into receivership, and it went into receivership
15 effectively with the 34 million for the credit bid
16 and now it is at 101.3 million, how much of that
17 differential is interest that Callidus charged,
18 whether accrued, whether earned, whether swept, how
19 much of that delta is attributable to interest
20 income?

21 A. I don't know. That would be
22 during the period in receivership only.
23 Post-receivership there would have been no interest
24 relating to income.

25 THE COURT REPORTER: I'm sorry, the

1 last thing you said, did you say "relating to
2 income"?

3 THE DEPONENT: Yes, I believe that is
4 correct. Would you read that back, Rick?

5 MR. DEARDEN: "That would be during the
6 period in receivership only.

7 Post-receivership there would have been
8 no interest relating to income."

9 THE DEPONENT: Yes.

10 BY MR. McFARLANE:

11 1597 Q. Well, we can agree that during the
12 receivership period, Callidus recognized interest
13 income, using that --

14 A. Yes.

15 1598 Q. -- one-month example, 788,000 in a
16 single month?

17 A. Yes.

18 1599 Q. Thank you.

19 A. And that was paid out of the cash
20 sweep.

21 1600 Q. Yes. So some figures I am having
22 trouble getting my head around is the reduction in
23 value between the time that Catalyst acquired XTG
24 in 2015 and the subsequent write-down to 9.7
25 million, which I'll share that document.

1 MR. DEARDEN: Which document number are
2 you going to now?

3 MR. McFARLANE: 13.

4 MR. DEARDEN: Okay.

5 BY MR. McFARLANE:

6 1601 Q. This document here reflects the
7 valuation of XTG once it resides in Funds III and
8 IV. The total of Fund III and IV investment or
9 valuation of its investment in XTG is under 9.4
10 million at this point.

11 A. Sorry, what page, is it 28 of this
12 document?

13 1602 Q. 28 and 29 of this document reflect
14 the unrealized value of XTG.

15 A. Could you do me a favour? Could
16 you blow that up, please?

17 1603 Q. Is that large enough?

18 A. So that is Fund III's portion
19 only.

20 1604 Q. And then on the next page we have
21 got Fund IV.

22 A. Yes, I see the number.

23 1605 Q. Okay. So how does a casual reader
24 make sense of a drop in value from 101.3 million to
25 9.7 million?

1 R/F MR. DEARDEN: He is not going to answer
2 for the casual reader.

3 BY MR. McFARLANE:

4 1606 Q. Okay. If Callidus under its
5 Significant Accounting Policies claims to have
6 valued assets fairly, it was still carrying XTG at
7 66 million in the previous statements we looked at.
8 I can go back if we need to. And in a very short
9 period of time, these fund values that are
10 released, it is 66.9 million is written down to 9.7
11 million.

12 A. I don't think you can compare the
13 two. I don't think you can do that comparison,
14 because Callidus had a guaranteed investment. This
15 was unguaranteed. So the actual value, once it was
16 re-evaluated and a view was taken that it was no
17 longer -- that Catalyst Funds were no longer going
18 to support the business at the level it was being
19 supported at at Callidus, this was the value that
20 was established.

21 1607 Q. So if we go back to the PwC
22 report, document 8, I believe, I'll find the page
23 number. And so towards the end of their
24 conclusions here, the valuation that -- actually, I
25 am going to go back. So we'll read this paragraph

1 first here, that we consider this to be a plus or
2 minus 10 percent around the midpoint of the
3 valuation.

4 **A.** Could you please read the whole of
5 that bullet point?

6 1608

7 **Q.** Sure, "PwC Conclusion":

8 "In developing our conclusions,
9 we have considered the fact that a
10 valuation is not a precise science
11 and the conclusions arrived at, in
12 many cases will of necessity, be
13 subjective and dependent on
14 individual judgment. As such, in
15 arriving at our comments with
16 respect to reasonableness, we have
17 considered whether Management's
18 conclusions fall within a reasonable
19 range, which we consider to be [plus
20 or minus] 10% around a mid-point,
21 given the nature of this
22 engagement."

23 Earlier in this document --

24 **A.** Sorry, and could you read the next
25 paragraph, please?

Q. "Based on the scope of our

1 work, major assumptions and the
2 restrictions and qualifications set
3 out in this Report, we have
4 concluded that Callidus' valuation
5 conclusion for XTG as at December
6 31, 2014 is reasonable."

7 **A.** Yes, thank you.

8 1609 **Q.** And if we go back to -- this
9 document outlines the various methodologies, but at
10 the beginning it outlines that the 52 million --
11 I'll read it:

12 "A \$9 million loan loss
13 provision has since been taken
14 resulting in a \$52 million net loan
15 balance."

16 And paragraph --

17 **A.** And sorry, this is in U.S.
18 dollars?

19 1610 **Q.** Yes, and I'll acknowledge that,
20 it's up top.

21 **A.** Thank you.

22 1611 **Q.** My point being at this point in
23 time, PwC has effectively said 52 million is within
24 plus or minus 10 percent of fair value for XTG. 15
25 months later it is written down to 9.4 --

1 **A.** Sorry, I apologize for a second, I
2 don't know whether they are concluding that 61 -- I
3 don't know whether they are concluding on the 61 or
4 on the 52.

5 1612 **Q.** 52 is within their midpoint, if
6 you read through the whole report.

7 **A.** Okay.

8 1613 **Q.** My point is why was this estimate
9 so far off? The difference is 82 percent, not plus
10 or minus 10 percent.

11 **A.** I'm sorry, I don't understand what
12 you are saying.

13 1614 **Q.** PwC's report substantiates that
14 Callidus's valuation of 52 million U.S. is plus or
15 minus 10 percent of that.

16 **A.** Okay.

17 1615 **Q.** It is within the range of
18 reasonableness.

19 **A.** Okay.

20 1616 **Q.** We go from that point at December
21 31, 2014, the official report date released April
22 2nd, 2015, to this other document I have shared
23 with you that demonstrates the asset is now valued
24 on the Catalyst side at 9.4 million or less.

25 **A.** Yes.

1 1617 Q. Why such a dramatic swing of 82
2 percent?

3 A. Okay, and I apologize, I obviously
4 did not answer your question clearly enough, the
5 prior question, because this is the same question.

6 When you are looking at XTG -- when you
7 are looking at XTG in the hands of Callidus from a
8 value -- from a what can we carry it under a
9 balance at, some of in effect the assets held for
10 sale, which I think is what PwC opined on, and the
11 guarantee. Once they are moved to Catalyst, you
12 don't have the benefit of the guarantee.

13 And it would appear, based on the
14 assumptions, that obviously the valuation
15 assumptions have changed in Catalyst from what they
16 were in Callidus, and you would have to go back to
17 all the assumptions that were in that report,
18 because it is not a function of conclusions. It is
19 a function of what was their assessment based on
20 those assumptions, and obviously some of those
21 assumptions or indicia were wrong.

22 1618 Q. Was any of that value decline
23 attributed specifically to the Boyer
24 misrepresentations?

25 A. I don't know.

1 1619 Q. Okay. All right, I would like to
2 go to your libel affidavit, document 4.

3 A. What paragraph, please?

4 1620 Q. We are going to go to paragraph
5 26.

6 A. Paragraph 2-6?

7 1621 Q. 2-6. Paragraph 26 says:

8 "Since 2006, Callidus has
9 advanced 105 loans respecting total
10 credit facilities of approximately
11 CDA \$2.6 billion, of which 90 loans
12 have been fully paid or realized.
13 Of the 90 loans which have been
14 fully repaid or realized, the vast
15 majority of loans were fully repaid
16 in the normal course. Only 13 loans
17 resulted in a loss."

18 My question is what is the sum total of
19 those 13 loans that were in a loss position?

20 A. I do not know.

21 1622 Q. And do you have any sense --

22 A. And also some of those loans would
23 be subject to -- some of those loans could have
24 been subject to the guarantee.

25 1623 Q. That is my next question. Do you

1 have any sense for how many of those loans were
2 subject to the guarantee and the amount?

3 **A.** I do not.

4 1624 **Q.** Would you undertake to provide
5 that?

6 U/A **MR. DEARDEN:** We'll take that under
7 advisement, Mr. McFarlane. And that is how many of
8 those 13 loans referred to in paragraph 26 of the
9 affidavit were subject to a guarantee?

10 **BY MR. McFARLANE:**

11 1625 **Q.** It is a two-part question. And
12 the quantum of those.

13 Let's go to 139. I am just confirming,
14 and I probably should have recognized this earlier,
15 but November 22nd, 2013, is in fact the vesting
16 date?

17 **MR. DEARDEN:** It's the date of the
18 vesting order.

19 **THE DEPONENT:** The date of the vesting
20 order. It is not the date of the transfer of the
21 asset.

22 **BY MR. McFARLANE:**

23 1626 **Q.** Section 140:
24 "Following receipt of the
25 Court's approval of the sale, the

1 Receiver and Callidus undertook a
2 complex restructuring and
3 right-sizing of XTG's business."

4 When it says "the Receiver and
5 Callidus", does that not constitute control?

6 **A.** No.

7 1627 Q. Why doesn't that constitute
8 control?

9 **A.** Because it doesn't.

10 1628 Q. So the Receiver was free to act on
11 its own volition without influence or veto power
12 from Callidus?

13 **A.** You want me to say that it
14 constitutes control. I do not believe it did
15 constitute control at that time, nor subsequently
16 until there was an actual transfer in 2015.

17 1629 Q. Did you have additional risk of
18 loss at that point?

19 **A.** Yes.

20 1630 Q. And did you have additional upside
21 potential at that point?

22 **A.** Yes -- no, sorry, excuse me, only
23 if we closed the transaction. For example, if we
24 had concluded that we could not avoid the tax
25 inversion, we might have -- we might not have

1 closed that transaction.

2 1631 Q. Okay.

3 A. Because of a risk of a tax
4 inversion, so until that was resolved, I don't
5 think you -- I would not say we were in control.

6 1632 Q. Were you the debtor in possession
7 from a financing perspective?

8 A. No, you are mixing terms. There
9 was no debtor in possession in a receivership. Did
10 we continue to provide funds? Yes.

11 1633 Q. Okay, apologies for the
12 misstatement.

13 A. That's okay.

14 1634 Q. Let's go to 176.

15 MR. DEARDEN: 176, Jim.

16 THE DEPONENT: Yes.

17 BY MR. MCFARLANE:

18 1635 Q. My question is when XTG was sold
19 to Catalyst, there are typically two types of
20 transfers. There is a share sale or an equity sale
21 of the legal entities or there is an asset sale.
22 How would you characterize the sale to Catalyst?

23 A. The loan and the related assets.

24 1636 Q. So they did not acquire the legal
25 entities?

1 **A.** Yes, they did.

2 1637 **Q.** They did. So again, I am not
3 clear then. Was it an asset sale or the share of
4 the legal entities?

5 **A.** I believe it was in effect both
6 were transferred out as a result. In effect, the
7 assets followed that loan.

8 1638 **Q.** I could understand how the assets
9 might give rise to value, but a sale transaction is
10 either an asset purchase where the assets are
11 stripped out and valued individually or it is a
12 sale of the shares to encompass the entire entity.
13 I am not clear which it was.

14 **A.** And I am not sure how to answer
15 your question, sir. What are you trying to get at
16 here? Because I'm not sure I am following what you
17 are trying to get at.

18 1639 **Q.** Those transactions have practices
19 that are implied with respect to how assets or how
20 businesses transfer, and it is not clear in reading
21 176 and some of the other supporting materials if
22 Callidus sold the business or if Callidus sold the
23 assets of the business.

24 **A.** This transaction occurred pursuant
25 to the guarantee arrangement, so in effect there

1 was a subrogation of Catalyst to the position of
2 Callidus, a subrogation, so it was a transfer by
3 way of subrogation.

4 1640 Q. Okay. In 176(c), amounts
5 eliminated on consolidation, do you know what that
6 5 million refers to?

7 A. Yes.

8 1641 Q. And what is that 5 million?

9 A. You would have to go back to how
10 the -- how you get from the gross loan receivable,
11 which is where you start, on an unconsolidated
12 basis to a consolidated basis.

13 When you go from a gross loan
14 receivable, you have above the line, as it were,
15 when you are getting to what is the amount of that
16 gross loan receivable, you take into account
17 essentially the effect of the cash sweep. The cash
18 sweep would go to pay interest, so you would reduce
19 interest. The balance goes to pay principal.

20 Once you go from a gross loan
21 receivable to a consolidated number, you have to
22 back out the interest. The effect of that going
23 from gross loan receivable to assets held for sale
24 is that you have in effect understated the
25 principal amount that is due on that loan because

1 if you take out an amount above the line and below
2 the line, you have the cash sweep in effect going
3 to pay principal only. So you have to adjust for
4 that because of the consolidation.

5 1642 Q. So in that consolidation effort,
6 is any amount in the 5 million interest-related?

7 A. No, it comes from interest, but it
8 has to do with the fact that on the original
9 cash -- when you have the cash sweep on the
10 original loan, on the gross loan receivable, once
11 you go to consolidation, you have understated the
12 principal amount. So in order to get to the
13 correct principal amount, you have to assume the
14 sweep from what was the principal that was due.

15 1643 Q. Okay. All right, so just back to
16 the transaction itself, was there an agreement of
17 purchase and sale between Callidus and Catalyst for
18 the XTG business?

19 A. No. No.

20 1644 Q. No APA.

21 A. It occurred by way of subrogation.

22 1645 Q. Are those documents in your
23 affidavit?

24 A. The --

25 1646 Q. The subrogation?

1 **A.** The subrogation occurs as a matter
2 of law.

3 1647 **Q.** Okay.

4 **A.** It's not a guarantee. And I think
5 I said that in my affidavit.

6 1648 **Q.** All right.

7 MR. DEARDEN: Paragraph 183.

8 THE DEPONENT: Paragraph 183, for the
9 record.

10 BY MR. McFARLANE:

11 1649 **Q.** Section 188, in the highlighted
12 sentence here:

13 "Various claims were made
14 against McFarlane, including breach
15 of fiduciary duty, breach of
16 non-disclosure and non-solicitation
17 agreements [...]"

18 Do you have and can you produce this
19 non-disclosure, non-solicitation agreement?

20 **A.** Those were the claims made against
21 you.

22 1650 **Q.** Those agreements do not exist, yet
23 it is on the record. On what basis did you make
24 this statement?

25 R/F MR. DEARDEN: We are not litigating in

1 this anti-SLAPP motion, Mr. McFarlane, the lawsuit
2 brought against you by the numbered company. As
3 Mr. Riley said, that was a pleading.

4 BY MR. MCFARLANE:

5 1651 Q. Bear with me one second.

6 Okay, I think we have clarified a
7 couple of things here.

8 Section 214, which is --

9 **A.** And, sorry, we are in the libel
10 affidavit?

11 1652 Q. The libel affidavit, 214, Exhibit
12 112. Attached here as document 18, if we flip over
13 to that one, an email from myself to Darryl Levitt.
14 Can you tell me how you came into possession of
15 this email?

16 U/A MR. MOORE: Well, we'll take that under
17 advisement.

18 THE DEPONENT: I --

19 MR. MOORE: We'll take that under
20 advisement. I believe, my belief is that - and it
21 is David Moore talking - my belief is that this was
22 a document that was ordered to be produced and was
23 produced by Mr. Levitt pursuant to a
24 cross-examination.

25 THE DEPONENT: On his affidavit. I

1 think that is right. I think this is, subject to
2 double-checking, but I believe this email came as a
3 result of the cross-examination of Darryl Levitt on
4 his affidavit and that this was produced pursuant
5 to an order of Justice Chiappetta.

6 MR. MOORE: Yes, that is fine, but
7 we'll verify that.

8 BY MR. McFARLANE:

9 1653 Q. I am going to state I believe this
10 to be a breach of the deemed undertaking rule. Do
11 you dispute that?

12 MR. MOORE: Absolutely.

13 THE DEPONENT: Yes.

14 MR. MOORE: Absolutely. You should
15 have been in chambers when this issue arose and
16 when an attempt was made to quote Justice
17 Chiappetta's order in a completely false manner and
18 Justice Hainey's reaction to that, but I won't go
19 into that for this and clutter up this transcript
20 any further, but absolutely that is disputed.

21 And Mr. Levitt, when confronted with
22 that situation, promptly withdrew his motion based
23 upon an alleged breach of the deemed undertaking
24 rule.

25 BY MR. McFARLANE:

1 1654 Q. And on to section 215, the second
2 line, there is a comment here:

3 "McFarlane was bitter and angry
4 [...]"

5 On what basis do you say that?

6 **A.** It is my belief you were.

7 1655 Q. And what is your evidence for
8 that?

9 **A.** You just read it. That is my
10 evidence.

11 1656 Q. So that is your belief, and that
12 is your evidence, okay.

13 **A.** And then down below you will see,
14 if you can highlight it, "he was at war with us".
15 That is taken from notes of Mr. Copeland.

16 1657 Q. And do you know the origin of
17 those notes or that statement?

18 **MR. DEARDEN:** Well, he took them.

19 **THE DEPONENT:** He took them. He took
20 the notes and put them in evidence.

21 **BY MR. MCFARLANE:**

22 1658 Q. Okay, so you are attributing
23 something from a reporter's note pad to me with no
24 context?

25 **MR. DEARDEN:** No, there is a lot of

1 context, which would include all the exhibits to
2 this affidavit, some of which refer to you, sir.

3 BY MR. McFARLANE:

4 1659 Q. But the context for the "at war"
5 comment came from your very own Craig Boyer and was
6 not attributable to myself, while I may have
7 repeated it, since you bring it up.

8 The third line in 215:

9 "[...] eventually dismissed by
10 the company."

11 Multiple times there was reference to
12 being bitter because --

13 A. And where? Can you just read
14 that --

15 1660 Q. 215.

16 A. Thank you.

17 1661 Q. "[...] eventually dismissed by the
18 company."

19 How long was McFarlane involved in the
20 XTG post-receivership application approval?

21 A. I do not know that time frame.

22 1662 Q. A matter of minutes, for interest.
23 And so these allegations that --

24 MR. DEARDEN: Mr. McFarlane, you can't
25 give evidence, sir. You can't give evidence.

1 BY MR. McFARLANE:

2 1663 Q. Let's go to the conspiracy
3 affidavit, document 14, section 63.

4 A. Sorry, paragraph 63?

5 1664 Q. Paragraph 63, sorry.

6 A. And it is in the libel or the
7 conspiracy?

8 MR. DEARDEN: In the conspiracy.

9 THE DEPONENT: 63?

10 BY MR. McFARLANE:

11 1665 Q. 63 in the conspiracy affidavit.

12 My question for you on this one is are
13 you aware that there was an offer to settle for
14 \$250,000 before this ever went before a judge in a
15 motion for summary judgment?

16 R/F MR. DEARDEN: I don't think he should
17 be answering questions, Mr. McFarlane, about offers
18 to settle.

19 BY MR. McFARLANE:

20 1666 Q. On what basis? It is a simple
21 question.

22 Okay, let me rephrase.

23 Go to document 15. This is the
24 supplemental motion record of the Defendant
25 McFarlane, Exhibit 001. Have you seen this

1 document before, Mr. Riley?

2 A. Not that I recall, until it was in
3 your documents.

4 1667 Q. Okay. So you are not aware this
5 was provided to Callidus three months before the
6 motion for summary judgment?

7 R/F MR. DEARDEN: I am objecting. What is
8 the relevance? I still wonder how you can talk
9 about an offer to settle, but at any rate, I'm
10 objecting to any questions about what offers you
11 made.

12 THE DEPONENT: And when was this
13 so-called offer put in? When was it put in?

14 MR. DEARDEN: We are not answering
15 questions about it.

16 THE DEPONENT: Okay, sorry.

17 MR. DEARDEN: The point of the
18 paragraph, Mr. McFarlane, was that you were found
19 liable on your --

20 MR. McFARLANE: If we are not going to
21 talk about it, we are not going to talk about.

22 MR. DEARDEN: No, I am not talking
23 about the offer. I am talking about the paragraph
24 that says you were liable on your guarantee and it
25 got reduced to \$250,000 by the Ontario Court of

1 Appeal.

2 MR. MCFARLANE: I'll refer to Exhibit
3 108.

4 MR. DEARDEN: Of the conspiracy?

5 MR. MCFARLANE: Of the conspiracy.

6 MR. DEARDEN: 108.

7 BY MR. MCFARLANE:

8 1668 Q. Which is referred to in 171(n),
9 document 16, Exhibit 108. And where did you
10 acquire this email from?

11 A. Sorry, 171 -- sorry, what
12 paragraph, please, again, Mr. McFarlane?

13 MR. DEARDEN: 171.

14 BY MR. MCFARLANE:

15 1669 Q. 171(n), an email from Levitt --

16 A. Sorry, please give me a chance to
17 read it. Thank you.

18 [Witness reviews document.]

19 MR. DEARDEN: I think you are in the
20 libel action exhibits and affidavit, Mr. McFarlane,
21 in --

22 MR. MCFARLANE: Yes, sorry, it is the
23 libel 108.

24 MR. MOORE: This is David Moore
25 speaking. This is an email from Mr. Levitt, and I

1 believe the same answer applies as was stated
2 previously.

3 MR. McFARLANE: And that answer was?

4 MR. MOORE: Produced as a result of the
5 cross-examination and an undertaking and a consent
6 order, in effect, of Justice Chiappetta during
7 cross-examination.

8 THE DEPONENT: On an affidavit.

9 MR. McFARLANE: So again, it is your
10 evidence this is not a breach of the deemed
11 undertaking rule?

12 MR. MOORE: It is not a matter of
13 evidence. It is a matter of crystal clear law.

14 And I'll repeat that Mr. Levitt brought
15 a motion on that basis in which he misquoted, to
16 put it generously, the order of Justice Chiappetta
17 that made it clear what the context was, and when
18 that misquote was brought to his attention, he
19 promptly withdrew any such motion. And that is the
20 way the matter was left.

21 So there is no basis of any breach of
22 any implied undertaking rule connected with this
23 document. It is not a matter of evidence. It is a
24 matter of plain law.

25 BY MR. McFARLANE:

1 1670 Q. I'll take you to 353 where it
2 speaks to -- let me read the whole --

3 A. 353 of which affidavit, please?

4 1671 Q. Of the conspiracy affidavit. And
5 just for interest, I'll read in section or
6 paragraph 353:

7 "Prior to the publication of
8 the WSJ Fraud Articles, Callidus was
9 able to originate 102 new loans. In
10 the three and a half year period
11 before the WSJ Fraud Articles were
12 published, Callidus originated 29
13 new loans. In 2014, Callidus
14 originated 17 new loans. In 2015,
15 Callidus originated 11 new loans.
16 In 2016, there were no new loans as
17 Callidus implemented a slowdown of
18 new loan underwriting and focussed
19 on addressing the impact of the
20 first short attack. As Callidus
21 restarted growth of its loan
22 portfolio, Callidus originated one
23 new loan in Q2 2017. Since the
24 publication of the WSJ Fraud
25 Articles, Callidus was only able to

1 originate three new loans, one new
2 loan in the fall of 2017, and two
3 loans in 2018."

4 I want to take you to document 15,
5 which is back to the supplemental motion record of
6 the Defendant. We are going to go to page 24, and
7 in here -- actually, we are going to go to Exhibit
8 002. Let me get the page number for you.

9 So starting on page 19, Exhibit 002,
10 scrolling down to page 24.

11 **A.** What is the date of this document,
12 please?

13 1672 **Q.** September 12, 2019.

14 **A.** Thank you.

15 1673 **Q.** And this is an affidavit of David
16 Sutin with respect to --

17 **A.** Sutin.

18 1674 **Q.** Sutin, got it -- an application
19 under section 182 of the Business Corporations Act.
20 "Background to Proposed Arrangement", and I am
21 going to read from section 15:

22 "The Arrangement has resulted
23 from negotiation of a transaction by
24 the Special Committee, CCGI and
25 Braslyn following a lengthy process

1 to solicit privatization proposals
2 for Callidus commenced in September
3 2016 (the 'Privatization Process').
4 The length of time over which the
5 Privatization Process and
6 negotiation of the Arrangement were
7 conducted, and the inability to
8 develop interest of third parties in
9 addition to Braslyn in a
10 privatization or other transaction,
11 were the result of a number of
12 factors, including the following:

13 (a) Over the period in which the
14 Privatization Process and
15 discussions regarding the
16 Arrangement have been conducted, the
17 operating and financial performance
18 of Callidus declined significantly,
19 reflecting a number of factors
20 including:

21 (i) on a quarter by quarter basis
22 beginning with the quarter ended
23 September 30, 2016, ongoing
24 operating losses and negative cash
25 flows from operations resulting from

1 non-performing loans made by
2 Callidus and quarterly increases in
3 loan loss provisions;

4 (ii) negative operating
5 performance of, and the extent of
6 the capital required by, a number of
7 the non-core subsidiaries;

8 (iii) deterioration in the
9 financial condition of Callidus,
10 leading to an inability to obtain
11 additional financing to invest in
12 Callidus' existing business and to
13 pursue new loan origination;

14 (iv) a number of senior personnel
15 issues, including the medical leave
16 of Mr. Glassman, Callidus' Executive
17 Chairman and Chief Executive
18 Officer, announced by Callidus on
19 August 13, 2018; the resignation of
20 Callidus' Interim Chief Executive
21 Officer, Patrick Dalton, announced
22 by Callidus on March 11, 2019
23 following his appointment effective
24 November 5, 2018; Callidus'
25 inability to recruit a new [CEO]

1 with appropriate experience, and in
2 April 2019, the departure of
3 Callidus' Chief Credit Officer,
4 James Rogers; and

5 (v) increasing inability to
6 retain personnel despite retention
7 programs."

8 Nowhere in here does it mention a
9 conspiracy, short sellers or the Wall Street
10 Journal articles, does it?

11 **A.** No, but could you -- first of all,
12 I was not involved in the preparation of this for a
13 number of reasons, not the least of which was this
14 originated from the Special Committee, and during
15 the relevant time frame I was in Australia, which
16 has a significant time differential, because my
17 granddaughter, my oldest granddaughter, as my
18 second granddaughter wasn't born during this
19 period, was undergoing treatment for leukemia. So
20 I was in Australia spending a lot of time in
21 isolation with her.

22 So I didn't see this document at the
23 time, but I would like to go to -- and this would
24 not have been -- Catalyst would not have been
25 actively involved in this.

1 If you go to the -- and sorry, when I
2 say that, sorry, the people involved in the
3 litigation around the conspiracy were not actively
4 involved in this, to the best of my knowledge.

5 If you go to -- do you have the proxy
6 circular that was associated with the going private
7 transaction? Do you have that document?

8 1675 Q. I do not have it handy, at least.
9 I am not sure if I have it or not.

10 A. Is it in my materials? Is it in
11 my materials?

12 MR. DEARDEN: What is it, Jim, that you
13 are looking for?

14 THE DEPONENT: It is the proxy circular
15 relating to the going private transaction, because
16 I would like to review that document in the context
17 of what was actually put to the shareholders.

18 BY MR. McFARLANE:

19 1676 Q. Well, let me ask you this. Mr.
20 Sutin would have knowledge as a director of
21 Callidus of the primary reasons for its performance
22 or non-performance; correct?

23 A. He wouldn't be -- I would not
24 agree that David was totally apprised of, among
25 other things, the effect of the litigation.

1 1677 Q. Okay.

2 A. That was primarily being carried
3 by Catalyst at that point. Catalyst would have the
4 relevant knowledge and a view on the effect, namely
5 the allegations of fraud.

6 1678 Q. Would your COO of Callidus, David
7 Reese, have intimate of the causal factors in
8 Callidus's performance?

9 A. I can't speak for -- I can't speak
10 for David, David Reese.

11 1679 Q. All right. Now let's --

12 A. Sorry, could I pause? Is it in my
13 materials, the proxy circular?

14 MR. DEARDEN: I don't know offhand.

15 THE DEPONENT: Is one of them?

16 MR. DEARDEN: We are going to check to
17 see if that proxy circular that Mr. Riley is --

18 MR. MCFARLANE: Well, why don't we
19 leave that perhaps for after lunch, because I am
20 going to try and wrap up here in five minutes if we
21 can.

22 MR. DEARDEN: All right.

23 BY MR. MCFARLANE:

24 1680 Q. I want to take you to, still in
25 the supplementary motion, Exhibit 3, page 43, and

1 this is a transcript of the proceedings of
2 Callidus's annual shareholder meeting held on July
3 2019. And I am just going to fast-forward here a
4 little bit. I think it is page 70.

5 A. Page 70 of the -- what is the --

6 1681 Q. Document 15.

7 A. Sorry, page? What page?

8 MR. DEARDEN: 70.

9 THE DEPONENT: This only goes to 32.

10 MR. DEARDEN: It was -- Mr. McFarlane,
11 we have that transcript with a page number 842 at
12 the top.

13 BY MR. McFARLANE:

14 1682 Q. Yeah, could we go to page 868
15 then, which is 70 in the PDF. So starting at row
16 16:

17 "Mr. Reese: Our pipeline is
18 much reduced, much reduced from
19 where it was. And I think a lot of
20 that ties to the transactions that
21 we're looking at, the dollar size,
22 where our own rate hurdles are in
23 terms of where we think risk is.
24 And also, clearly our name has
25 been -- it's harder for our

1 originators to find deals given the
2 recent performance of the company."

3 And later on -- sorry, I lost my --

4 **A.** Just before you go on, I want to
5 note something in there because I was at this
6 meeting.

7 1683 **Q.** Okay.

8 **A.** Where he says "And also, clearly
9 our name has been --", he stopped himself. I do
10 not know why he stopped himself, but I would say
11 that he was starting to refer to the fact that the
12 name had been trashed in the marketplace - my
13 words, not his - and I think we were being
14 sensitive at that time as to how much we wanted to
15 say about the litigation.

16 1684 **Q.** And so the point being nowhere in
17 here does he point to the litigation as a reason
18 for the performance; is that accurate, if you were
19 at the meeting?

20 **A.** I do not recall this. I am going
21 by the transcript, but I think it is answered in
22 the next -- if you keep going, the "Unidentified
23 Speaker: Is that referable to the litigation
24 specifically"? "No, not specifically", but that
25 would mean it was a factor.

1 MR. DEARDEN: What page was that on?

2 THE DEPONENT: Page 27 -- sorry, 869 on
3 whatever that number is.

4 MR. DEARDEN: Of the record.

5 THE DEPONENT: Of the record, 869 of
6 the record, and it is the opening of Mr. Reese's
7 statement.

8 BY MR. McFARLANE:

9 1685 Q. All right, I am going to jump
10 ahead to document number -- sorry, it is the 2018
11 MD&A report, and I am just looking for the document
12 number. I am going to start sharing.

13 Apologies, it may not have made it into
14 the package I sent you. I'll re-send that.

15 I will find it in your affidavits here.
16 What I am looking for is the 2018 Callidus MD&A.

17 A. The 2018 MD&A. Do you have it
18 from my -- sorry, can you give us, what tab is it
19 in my affidavits?

20 1686 Q. That is what I am checking here.

21 Actually, you know what, it is embedded
22 in my motion materials, apologies.

23 So document 15, starting on page 77 you
24 will see is the 2018 Management Discussion &
25 Analysis.

1 MR. MOORE: Sorry, where are you
2 exactly? We are trying to follow where you are at.

3 MR. McFARLANE: Let me screen share
4 again.

5 MR. MOORE: Tell us where you are at?
6 We may have the document.

7 MR. DEARDEN: It's document 15.

8 MR. McFARLANE: It's document 15 and it
9 starts on page 78.

10 MR. DEARDEN: Well, we have page
11 numbers --

12 MR. MOORE: Document 15 is not this
13 document, so just tell us what specific document
14 you are referring to.

15 BY MR. McFARLANE:

16 1687 Q. It is the supplemental motion
17 record of McFarlane, document 15. Starting on 77,
18 we have the 2018 Callidus MD&A.

19 **A.** Before I do anything, I am going
20 to turn some pages. Could you please tell me what
21 page number, because I don't want to interfere with
22 the recording of your questions and my answers.

23 1688 Q. Sure. Let's go -- it is document
24 page 6 or PDF page 83.

25 MR. DEARDEN: That is page 6 of the

1 MD&A, Mr. McFarlane?

2 BY MR. MCFARLANE:

3 1689 Q. Yes.

4 A. There it is, yes, I have got it
5 now.

6 1690 Q. Okay, thank you. So if I am
7 reading this correctly, the net loss in Callidus
8 for 2017 was 218.486 million; is that correct?

9 A. Yes.

10 1691 Q. And the 2018 loss was 183 million?

11 A. Yes.

12 1692 Q. For a combined total of 402
13 million in a two-year period?

14 A. I'll take your addition.

15 1693 Q. Is short-selling illegal?

16 A. Yes, in certain circumstances.

17 1694 Q. So it is your position
18 short-selling is illegal?

19 A. No, that is not my position. I
20 think there is a difference between short-selling
21 and short-selling during a short and distort
22 campaign.

23 THE COURT REPORTER: I'm sorry, could
24 you repeat, during a what?

25 THE DEPONENT: During a short and

1 distort campaign, so you can put it in quotes, so
2 open quote "short and distort" campaign.

3 BY MR. MCFARLANE:

4 1695 Q. Do you recall how much equity was
5 left after writing off 402 million?

6 A. I do not.

7 1696 Q. Is it plausible that losses of 402
8 million might attract a short seller?

9 A. During the period that I think we
10 are interested in, this information was not in the
11 marketplace. So we are looking at the period
12 principally around August 9th, and there was no
13 information, no corporate information in the
14 marketplace other than what was in the Wall Street
15 Journal article for the period I think about seven
16 or eight days before that article and for two days
17 afterwards. It was the dominant piece in that
18 relevant time period.

19 1697 Q. Mr. Riley, I appreciate your time.
20 That concludes my questions.

21 A. Thank you.

22 MR. MCFARLANE: And, Deana, could I ask
23 for what the next exhibit number is, so I can
24 prepare a brief to submit all of these on the
25 record?

1 THE COURT REPORTER: The next Exhibit
2 is 5.

3 EXHIBIT NO. 5: Electronic document
4 brief of exhibits referred to by Mr.
5 McFarlane in the cross-examination of
6 Mr. Riley.

7 MR. MCFARLANE: Exhibit 5, okay, I'll
8 summarize that and submit that.

9 I think next -- who is up next after
10 lunch?

11 MR. DEARDEN: I don't know, but I hope
12 they identify themselves.

13 MR. LEVITT: It is me, Darryl Levitt,
14 thank you.

15 MR. DEARDEN: Darryl Levitt, and then
16 who is after you, Darryl?

17 MR. LEVITT: It will be Phil and
18 Dimitri tomorrow.

19 MR. DEARDEN: And you are going to be
20 the rest of the afternoon?

21 MR. LEVITT: Maybe, maybe not. I am
22 not quite sure. I'll probably be at least two
23 hours.

24 MR. DEARDEN: And then Dimitri and then
25 Phil?

1 MR. LEVITT: Yeah, I think that is the
2 order for tomorrow.

3 MR. DEARDEN: Okay.

4 MR. LASCARIS: Yes, that is correct,
5 Rick. I am planning to go in the morning tomorrow,
6 and Phil in the afternoon, although I don't think I
7 am going to take the whole morning.

8 MR. DEARDEN: Okay.

9 So we'll resume at 2:15; is that okay,
10 Mr. Levitt?

11 MR. LEVITT: Yes.

12 (DISCUSSION OFF THE RECORD.)

13 -- RECESSED AT 1:15 P.M.

14 -- RESUMED AT 2:15 P.M.

15 CROSS-EXAMINATION BY MR. LEVITT:

16 1698 Q. All right. Mr. Riley, thanks for
17 attending today. I am going to start with the
18 conspiracy affidavit. Do you have it in front of
19 you? Because I am not technically good with these
20 things, I am going to just try and find a way to
21 put it up on the screen. Otherwise, I am going to
22 have to just point you to the document and maybe
23 ask you questions on the document because we all
24 have it.

25 So if I can refer you to the document

1 in front of you, okay, which is the conspiracy
2 affidavit, and if you can turn to point 54,
3 paragraph 54 of the conspiracy affidavit. To
4 identify what you actually specifically say I did,
5 I understand that you are suggesting that I was
6 part of some grand conspiracy to help Callidus or
7 Catalyst, so I want to ask you about specifically
8 what you allege I did to further the conspiracy.

9 In terms of paragraph 54, I understand
10 this to be a summary of what you say the conspiracy
11 was. Do you have any specific evidence showing
12 that I spread rumours through the Bay Street rumour
13 mill about Catalyst and Callidus?

14 **A.** May I take a moment to read this,
15 please?

16 1699 **Q.** Yes.

17 **A.** [Witness reviews document.]

18 It wouldn't have to be -- in my view,
19 it would not have to be everybody in the conspiracy
20 spreading those. It could be an individual doing
21 it. And I think if you want, I can take some time
22 to go through emails that I think indicate some of
23 that, and I think we outline those in the
24 conspiracy affidavit.

25 1700 **Q.** Can you perhaps point me to --

1 okay, I mean, take your time. I have got -- I hope
2 to finish relatively quickly, but take a few
3 minutes to have a look, please. And it is the
4 emails that you are relying on; correct?

5 **A.** Well, just let me -- could I take
6 a moment to go through my affidavit just to --

7 1701 **Q.** Sure, yes, you may.

8 **A.** [Witness reviews document.]

9 Do you remember that list of
10 communications? I can't remember which affidavit
11 it is in.

12 (DISCUSSION OFF THE RECORD.)

13 BY MR. LEVITT:

14 1702 **Q.** Please take your time, Mr. Riley.

15 **A.** Thank you.

16 One of the most important things, and I
17 won't try and go through every piece that you have
18 asked me, is the link that particularly what we
19 call the guarantor group and others had with
20 whoever Lex Lucifer/Stop the Scandal is and also
21 with William Struth, because those are -- that was
22 Twitter traffic that was spreading rumours and I
23 believe was picked up by -- that is the evidence, I
24 believe, that shows that somebody was spreading
25 rumours through the rumour mill.

1 Whether you did it individually, I
2 don't know and I didn't make that allegation.

3 1703 Q. Yes, so I understand, okay. So me
4 or anybody else, that is your answer?

5 Moving on to the next question --

6 MR. DEARDEN: Sorry, we didn't hear
7 you, Darryl.

8 BY MR. LEVITT:

9 1704 Q. How about this. The whistleblower
10 as it applies to myself, this refers to the
11 overseer report?

12 MR. DEARDEN: No, Darryl, sorry, we
13 didn't hear what you said, and I am now looking at
14 the screen and you were saying, "So me or anybody
15 else, that is your answer?"

16 MR. LEVITT: I am asking Mr. -- that is
17 not my answer. It is Mr. Riley's answer that I am
18 seeking, and he has given the answer. I believe he
19 has given the answer. I haven't asked another
20 question on that.

21 MR. MOORE: No, Mr. Levitt, this is a
22 very lengthy affidavit, as you know, and throughout
23 the affidavit interwoven are a large, large number
24 of emails from you, to yourself, among the
25 conspirators, the Defendants that we say are

1 conspirators. You can't kind of isolate one email.
2 I can't give you an exact count, but I'll bet you
3 there are probably at least 50 or more emails to
4 and from you that are interwoven with all the
5 evidence.

6 So to ask the question or to purport to
7 say to the witness, "So you have identified one
8 document", you have to read the affidavit and all
9 the emails in their entirety.

10 MR. LEVITT: So it is the affidavits,
11 the materials and the emails that you are
12 suggesting?

13 MR. MOORE: Well, if you start at page
14 70 and if you go through about 50 pages, you will
15 see over and over and over again examples of emails
16 to and from you.

17 Now, do you really want to take -- I
18 don't know how long it would take to identify and
19 go through every single solitary one. I suppose
20 that could be done. I don't think it is a
21 particularly useful way to spend your questioning.

22 But there is a whole raft of emails
23 throughout the affidavit that refer to you
24 specifically, emails to and from you, in the
25 context of other emails among people that you were

1 talking to at the same time.

2 So you have to consider the whole body
3 of evidence is our position.

4 MR. LEVITT: So thank you for providing
5 the answer for Mr. Riley.

6 MR. MOORE: No, no, I am not going to
7 put up with that. That is not the case, okay. I
8 am --

9 MR. LEVITT: Mr. Moore --

10 MR. MOORE: If you are -- that is not
11 the case and your characterization of what he said
12 is not accurate. So let's just get on with it.

13 MR. LEVITT: The record will reflect
14 for itself.

15 MR. MOORE: Yes, it will.

16 BY MR. LEVITT:

17 1705 Q. Mr. Riley, the whistleblower you
18 are referring to is the OSC report?

19 A. Excuse me, what paragraph in my
20 affidavit are you referring to?

21 1706 Q. We have just spoken about it,
22 which is paragraph 54, "filed false whistleblower
23 complaints against Catalyst and Callidus".

24 A. Is that your question?

25 1707 Q. My question is, are you referring

1 to me as filing a whistleblower report, the OSC
2 whistleblower report?

3 **A.** Two things. This list of -- this
4 list is referring to the Defendants to the
5 conspiracy as a group.

6 1708 **Q.** Right, but I am asking you
7 specifically as it relates to me. Are you
8 talking --

9 **A.** Well --

10 1709 **Q.** You have included me as a
11 conspirator, so I am saying to you, and my question
12 is simple, where you say "filed false whistleblower
13 complaints against Catalyst and Callidus", are you
14 referring to an OSC whistleblower report?

15 **A.** Yes.

16 1710 **Q.** Okay. Are you referring to any
17 other whistleblower reports that I filed or
18 allegedly filed?

19 **A.** Those are the ones I am referring
20 to, the ones filed with the OSC.

21 1711 **Q.** Okay. Where you talk about
22 disclosing a whistleblower report to the media,
23 what evidence are you relying on that the OSC --
24 the OSC whistleblower reports were never disclosed
25 to the public by me. What evidence do you have

1 that I disclosed my whistleblower report?

2 MR. DEARDEN: Okay, Mr. Levitt, you
3 have to be careful, right. You are now in the role
4 of counsel and you are not giving evidence.

5 MR. LEVITT: I am asking --

6 MR. DEARDEN: And you just gave
7 evidence, sir, that --

8 BY MR. LEVITT:

9 1712 Q. Mr. Dearden, these are very
10 serious allegations that have been levelled against
11 me, and I am trying to ask Mr. Riley where and what
12 he bases his statements in his affidavit.

13 What evidence do you have that I --
14 that my whistleblower report was filed in the
15 public or disclosed to the public? Do you have
16 any?

17 MR. DEARDEN: And that question is
18 proper.

19 MR. LEVITT: Okay, so I take it that
20 you refuse to answer that question?

21 MR. DEARDEN: No, I just said the
22 question is proper.

23 THE DEPONENT: The Wall Street Journal
24 article refers to at least four whistleblowers.
25 You have a whistleblower complaint that was filed

1 with the OSC that I think you have put forward as
2 part of your disclosure; am I correct? Am I
3 correct that Mr. Levitt has produced his
4 whistleblower complaint?

5 BY MR. LEVITT:

6 1713 Q. I am not here to answer your --
7 Mr. Riley, I am just asking you very simply, what
8 do you rely on --

9 A. Mr. Levitt, I am trying to answer
10 your question and I am trying to do it
11 respectfully. I am --

12 1714 Q. I am asking --

13 A. I do not remember all of the
14 documents that have been proffered in this case, so
15 I am asking my counsel if they could remember that
16 document.

17 1715 Q. Okay, so you'll come back -- are
18 you going to --

19 A. Mr. Levitt, I am conferring with
20 my counsel off the record.

21 MR. DEARDEN: Well, you can't do that
22 off the record, but we'll do it on the record.

23 Ben, do you recall if Mr. Levitt
24 produced his OSC whistleblower complaints?

25 THE DEPONENT: It is the same ones that

1 was filed by --

2 [Court Reporter intervenes for
3 clarification.]

4 MR. DEARDEN: Why don't we come back to
5 that question after the break where I can look to
6 see if it was produced, or you could tell us, Mr.
7 Levitt, if you did produce your whistleblower
8 complaint.

9 BY MR. LEVITT:

10 1716 Q. Well, let's come back to that
11 question, Mr. Dearden. I am happy to do that.

12 Mr. Riley, do you have any evidence
13 that I provided any whistleblower report to the
14 media?

15 A. The statement by the Wall Street
16 Journal, and again I am going by memory, but I
17 believe they identified you as a source for the
18 story, one of the sources for the story.

19 1717 Q. But nothing insofar as giving them
20 a copy of my whistleblower report, right?

21 A. I'm sorry, Mr. Levitt, what -- I
22 didn't hear what you said?

23 1718 Q. Okay, we'll move on to the next
24 question. You have answered my question.

25 A. Well, I don't know if I have

1 answered your question. I don't know what your
2 question was that you just asked.

3 1719 Q. I asked you, do you have any
4 evidence that I gave a whistleblower report to the
5 Wall Street Journal?

6 A. Yes, and I have answered that by
7 saying that they have identified you as a source.

8 1720 Q. As a source, okay.

9 My evidence is that I have never had a
10 short position in Callidus, so I see nothing in
11 your affidavit to the contrary. Am I correct that
12 you have nothing to show that I ever held a short
13 position in Callidus?

14 A. No, I do not have evidence to
15 that, but remember, it is not just about short and
16 distort.

17 1721 Q. All right, so similarly, you are
18 not aware of any evidence that I made a profit from
19 closing any short position in Callidus?

20 A. That is correct, I do not have
21 evidence at this time of you.

22 1722 Q. Understood.

23 A. Other than there may be other
24 evidence relating to other conspirators.

25 1723 Q. But none insofar as me?

1 **A.** No.

2 1724 **Q.** So regarding the Wall Street
3 Journal article, do you have any evidence that I
4 had control of the Wall Street Journal's choice to
5 publish that article or the timing when it was
6 going to be published?

7 **A.** No.

8 1725 **Q.** Mr. Riley, was a RICO action --
9 let me put it this way. A RICO action was never
10 brought against Callidus by myself or others; is
11 that correct?

12 **A.** No RICO action was commenced.
13 Where are you referring in my affidavit?

14 1726 **Q.** Well, there is a large section in
15 your affidavit that refers to guarantors bringing a
16 RICO action or attempting to bring an action, and
17 my question is simple. A RICO action was never
18 brought against Callidus by myself or others? That
19 is the question. Was a RICO action brought?

20 **A.** No RICO action was brought.

21 1727 **Q.** Thank you. You refer in your
22 affidavit to a whistleblower syndicate and an
23 agreement to share proceeds of any monetary reward.
24 So if I go to paragraph 174, yes, 174, the monetary
25 award that you refer to would be money paid out by

1 the OSC, right?

2 A. I have just managed to get to that
3 page and paragraph.

4 1728 Q. Yes, okay.

5 A. [Witness reviews document.]
6 Yes, that relates to the monetary
7 reward.

8 1729 Q. Okay. So in essence, that would
9 be money paid out by the OSC if the whistleblower
10 report led to successful proceedings by the OSC
11 against Callidus; correct?

12 A. Yes, that would be the monies
13 payable pursuant to the whistleblower program.

14 1730 Q. Thank you, Mr. Riley. And no such
15 proceeding has been brought by the OSC based on any
16 whistleblower report to your knowledge?

17 A. There are no proceedings against
18 us.

19 1731 Q. Okay, so to your knowledge, there
20 are no proceedings?

21 A. Yes, there are no proceedings.

22 1732 Q. Thank you. In paragraphs -- I'm
23 getting a bit of an echo, Deana.

24 In paragraphs 442 and 443 of your
25 conspiracy affidavit, you refer to -- and perhaps

1 you can read that paragraph out for me, please.

2 MR. DEARDEN: Want to go to 442 first?

3 BY MR. LEVITT:

4 1733 Q. Yes, Mr. Dearden, thank you, 442,
5 yes, and then 443.

6 **A.** Do you want me to read it?

7 MR. DEARDEN: Yes, he wants you to read
8 442 first.

9 THE DEPONENT: Paragraph 442:

10 "Contrary to Levitt's
11 allegations, I obtained a copy of
12 Levitt's email to Cohodes from
13 Derrick Snowdy. Snowdy is a private
14 investigator who, from time to time,
15 worked with Danny Guy, the
16 individual who alerted us that
17 Catalyst and Callidus were the
18 subject of a short-selling attack."

19 BY MR. LEVITT:

20 1734 Q. Okay, and the next paragraph, Mr.
21 Riley, please?

22 **A.** Paragraph 443:

23 "I was told by Snowdy that he
24 obtained a copy of Levitt's email
25 from Cohodes, with whom he had been

1 communicating as early as November
2 20, 2016. Attached as Exhibit 266
3 are copies of emails exchanged among
4 Cohodes, Spears, Langstaff and
5 Snowdy."

6 1735 Q. Thank you. When did you receive
7 the email from Mr. Snowdy?

8 A. It was in the fall of 2017. What
9 the precise date was, I don't know. It was at a
10 meeting at John Phillips.

11 1736 Q. And would you undertake to provide
12 me with the exact date that you received that
13 email?

14 U/T A. Yes.

15 1737 Q. Thank you. How did --

16 A. And sorry, I'm looking to my
17 counsel, that is appropriate to give that
18 undertaking?

19 MR. DEARDEN: We'll make best efforts
20 to find the exact date.

21 MR. LEVITT: Thank you, so that is an
22 undertaking, Mr. Dearden.

23 MR. DEARDEN: Mr. Riley has given you
24 that undertaking to make efforts to pin down what
25 the exact date was that he received that email from

1 Mr. Snowdy.

2 BY MR. LEVITT:

3 1738 Q. Thank you. How did Mr. Snowdy
4 come to provide you with this email?

5 R/F MR. MOORE: Well, I don't think that
6 question is relevant, and I think it may be getting
7 into some of your without prejudice discussions as
8 well.

9 MR. LEVITT: It is absolutely not. You
10 have disclosed this document in your Schedule B, so
11 I am trying to understand --

12 MR. MOORE: Well, that's right, and
13 that is why I say that.

14 MR. LEVITT: But I can disagree with
15 you, Mr. Moore. I'll put the question to Mr.
16 Riley, and I would like Mr. Riley to answer that
17 question. If you have an objection to it --

18 MR. MOORE: Well, here is the way it
19 works. You can -- sorry, finish your question and
20 then I'll speak.

21 BY MR. LEVITT:

22 1739 Q. How did Mr. Snowdy come to give
23 you this document? Did he send it by email? Did
24 he -- how did he give it to you? How did he come
25 to provide you with this?

1 U/A MR. MOORE: I don't think that is
2 relevant. I think it is probably privileged, but
3 we'll take that question under advisement.

4 So what is your next question?

5 BY MR. LEVITT:

6 1740 Q. When did you have this discussion
7 with Mr. Snowdy?

8 MR. MOORE: I just dealt with that line
9 of inquiry. You don't have to put all your
10 questions on the record about that.

11 MR. LEVITT: I am going to ask again,
12 when did you get this --

13 R/F MR. MOORE: Well, no, I have refused.
14 Refused. Get on with your next question. We can
15 agree to disagree --

16 MR. LEVITT: It is my examination.

17 MR. MOORE: Let me finish. Let me
18 finish. Give me the courtesy of letting me finish,
19 and I will let you finish.

20 We can agree to disagree about whether
21 a given question is proper or not proper. The way
22 it works is I state an objection. We don't argue
23 about it and clutter up the transcript and waste
24 time. You move on to the next line of questions.
25 So let's get on with it.

1 BY MR. LEVITT:

2 1741 Q. Mr. Riley, who initiated the
3 discussion with Mr. Snowdy? Was it you?

4 R/F MR. MOORE: Don't answer the question.

5 MR. LEVITT: So that is a refusal.

6 MR. MOORE: Yeah, that is a refusal
7 where I come from, yes.

8 BY MR. LEVITT:

9 1742 Q. Okay, thank you. Mr. Riley, has
10 Callidus or Catalyst ever retained Mr. Snowdy to --
11 [Court Reporter intervenes for
12 clarification.]

13 Mr. Riley - and let me try a bit slower
14 and maybe that might help - has Callidus or
15 Catalyst ever retained Mr. Snowdy to do work on
16 their behalf?

17 A. No.

18 1743 Q. Has Callidus or Catalyst, to your
19 knowledge, ever had any court proceedings against
20 Mr. Snowdy?

21 A. No, no court proceedings.

22 1744 Q. Have you had other occasions to
23 speak to Mr. Snowdy about communications between
24 myself and Mr. Cohodes?

25 R/F MR. MOORE: Don't answer that question.

1 That is way too broad. It gets into probably areas
2 of privilege, and I object to the form of the
3 question.

4 MR. LEVITT: What privilege, Mr. Moore?

5 MR. MOORE: I am not going to debate it
6 with you. Move on to your next question.

7 MR. LEVITT: I am not going to debate
8 it with you either, sir. We'll address it in the
9 proper forum.

10 MR. MOORE: Fine.

11 BY MR. LEVITT:

12 1745 Q. I am going to take you to page 17,
13 paragraph 13 of your affidavit. How many Catalyst
14 Funds are there, Mr. Riley?

15 A. There is the five funds, plus two
16 parallel that proceed together with a parallel fund
17 in Fund IV and Fund V. So there is five -- there
18 is six, of which I is being wound down, and II is
19 in the course of being wound down, so what I have
20 described there are the funds.

21 1746 Q. Thank you. What was the maturity
22 date of Fund II?

23 A. Fund II? It originally was a
24 five -- I believe a five-year fund with two
25 one-year extensions.

1 1747 Q. Expiring --

2 A. One-year extensions at our -- that
3 we could initiate, subject to extensions in Fund II
4 have been agreed to by the LP's in those funds.

5 1748 Q. And Mr. Riley, when was the
6 initial maturity date of Fund II?

7 A. It would have been several
8 years -- 2012.

9 1749 Q. 2012, so how much has been paid
10 back to investors from Fund II?

11 A. I do not know that off the top.

12 1750 Q. Would you undertake to provide me
13 with that information?

14 U/A MR. MOORE: We'll take that under
15 advisement.

16 BY MR. LEVITT:

17 1751 Q. Thank you. Mr. Riley, what was
18 the redemption date of Fund III or maturity date?

19 MR. MOORE: Mr. Levitt, if you want to
20 ask the redemption date for each and every fund and
21 parallel fund, it strikes me that the more
22 effective way to do that is to say you want that
23 information and we'll take it under advisement,
24 rather than going through each one with Mr. Riley
25 and have him try to remember and sometimes guess

1 what is the date or not the date. If you want to
2 put that question in a general way, we'll take it
3 under advisement and we'll advise you of our
4 position.

5 BY MR. LEVITT:

6 1752 Q. Perfect. Will you -- you have
7 taken it under advisement, so I am seeking for
8 Funds II, III and IV.

9 U/A MR. MOORE: I hear you.

10 BY MR. LEVITT:

11 1753 Q. Thank you. How many times have
12 you extended the maturity dates of II, III and IV,
13 and if Mr. Moore would like to take that under
14 advisement, I would also ask that the same be
15 related to that question.

16 MR. DEARDEN: Do you remember, Mr.
17 Riley, those dates?

18 THE DEPONENT: Sorry, could you ask the
19 question? Could someone read me the question,
20 please?

21 BY MR. LEVITT:

22 1754 Q. How many times have you extended
23 the redemption dates of Funds II, Funds III and
24 Funds IV, if you can take that under advisement or
25 you have said you would take it under advisement

1 with your counsel?

2 **A.** Well, let me answer. Catalyst
3 Fund IV was a -- is a 12-year fund, so it had a
4 five-year investment period, a five-year harvest
5 period, and then two one-year extensions as of
6 right or as permitted to us. So it is still within
7 its realization period with no extension. I
8 believe that is correct. I'll double-check that,
9 because we didn't put the months in.

10 Catalyst Fund III would be also a
11 ten-year fund with two one-year extensions, so it
12 would have reached the end of its initial harvest
13 period in 2019, and it would still have two
14 one-year extensions. Whether we have exercised the
15 second one or not, I do not know.

16 1755 **Q.** Okay, that is --

17 **A.** So both of those are in their
18 term.

19 1756 **Q.** All right, so you will take it
20 under advisement for Funds II or III, right?

21 U/A **A.** Yes.

22 1757 **Q.** I --

23 **A.** Well, Fund III, I just want to
24 check whether we exercised that second extension.

25 1758 **Q.** Mr. Riley, has Catalyst ever --

1 has any fund of Catalyst ever merged or combined a
2 portfolio company from one fund with a portfolio
3 company in another fund?

4 MR. DEARDEN: Do you understand that
5 question?

6 THE DEPONENT: Well, I do, but I don't
7 know the answer to that because, remember, I have
8 not been with Callidus since its inception --
9 Catalyst --

10 BY MR. LEVITT:

11 1759 Q. I understand. Would you undertake
12 to provide me with that information?

13 U/A MR. MOORE: We'll take that under
14 advisement.

15 MR. DEARDEN: Mr. Levitt, do you have a
16 particular time period in mind and can you tell me
17 what you mean by "merged or combined"?

18 BY MR. LEVITT:

19 1760 Q. Has any portfolio company of any
20 of the funds been merged or combined with an asset
21 that Catalyst owns in another fund? That is all I
22 am asking. It is a simple question.

23 MR. DEARDEN: But I don't understand
24 what you mean by "merged or combined".

25 BY MR. LEVITT:

1 1761 Q. Merged, combined, acquired,
2 amalgamated. Has any corporate transaction
3 occurred between a portfolio company of one fund
4 with a portfolio company of another?

5 MR. DEARDEN: And what time period are
6 you talking?

7 MR. LEVITT: Since the inception of the
8 funds, sir.

9 MR. DEARDEN: All funds?

10 BY MR. LEVITT:

11 1762 Q. There is only five or six funds.
12 It shouldn't be difficult. There is not that
13 many -- respectfully, there aren't that many
14 portfolio companies within the funds.

15 A. The only -- I will try and give an
16 answer. The only company that I am aware of that
17 was transferred from one fund to another was
18 Richtree, and Richtree, that transaction was
19 approved by the limited partners of both Fund I and
20 Fund II.

21 1763 Q. Thank you, that is -- thank you
22 for that. Let's go to the conspiracy affidavit,
23 pages 36 to 41. Oh, I think I have already dealt
24 with that.

25 MR. DEARDEN: Page 36 would have

1 paragraph 55. Is that where you want to go?

2 BY MR. LEVITT:

3 1764 Q. Yes, Mr. Dearden, thank you.

4 Mr. Riley, is it true that Callidus
5 owns or owned the assets of Esco Marine?

6 A. Where are we?

7 1765 Q. If you go to paragraph --

8 A. What paragraph are you in? What
9 paragraph are you in, Mr. Levitt?

10 1766 Q. 64, Andrew Levy in relation to
11 Esco Marine.

12 Perhaps I can ask you a more general
13 question, sir, just to help facilitate the
14 examination. Is it true that Callidus or Catalyst
15 ever owned the assets of Esco Marine?

16 A. They were put into a joint venture
17 that was with Hilco.

18 1767 Q. Right. Is it true that Callidus
19 owns or owned the assets of Alkin Basin Drilling
20 from Mr. Baumann?

21 A. Yes, in a company called Altair.

22 1768 Q. Right, and that Altair was a
23 wholly-owned subsidiary of Callidus, right?

24 A. Yes.

25 1769 Q. Is it true that Callidus owned the

1 assets or business of Xchange Technologies at one
2 point?

3 **A.** Yes.

4 1770 Q. Is it true that Callidus owned the
5 assets of Fortress Resources at some point?

6 **A.** No.

7 1771 Q. So you never acquired the assets;
8 you never took the assets through any process of
9 Fortress Resources?

10 **A.** We may have taken some of the
11 equipment, but the business of Fortress was I think
12 the subject of a sale out of the Chapter 11 case in
13 the --

14 1772 Q. Okay, so my question was, did
15 Catalyst own any of the assets of Fortress at any
16 point?

17 **A.** I think it may have owned some of
18 the equipment.

19 1773 Q. Is it true that Callidus at one
20 point owned the assets of Bluberi?

21 **A.** It acquired those, yes, under a
22 court-supervised process in the CCAA.

23 1774 Q. What role did BDO play in that
24 process, Mr. Riley? I am just curious.

25 **MR. DEARDEN:** The question is what role

1 did BDO play in that process?

2 BY MR. LEVITT:

3 1775 Q. In the Bluberi process.

4 A. And when you say "in the Bluberi
5 process", at what time, sir?

6 1776 Q. At any point in time, did BDO play
7 any role of providing any reports regarding
8 Bluberi?

9 A. BDO, I -- the one thing that I do
10 know that BDO did was in connection with the sale
11 of Bluberi out of Catalyst -- out of Callidus to
12 the Catalyst Funds because of regulatory issues in
13 the U.S.

14 1777 Q. All right, let's move on. What
15 was Callidus's relationship with Hilco?

16 A. They were one of the people
17 that -- they were one of the parties that we used
18 to value assets, do valuations in connection with
19 providing loans.

20 1778 Q. So they would be a party that
21 would prepare an appraisal that would assist you or
22 that you would be guided by making lending
23 decisions based on their appraisals; would that
24 be --

25 A. Yes.

1 1779 Q. Was Hilco involved in the
2 appraisal of Esco?

3 A. I do not recall because the Hilco
4 party that was party to the Esco transaction was a
5 different arm of Hilco, totally different aspect.
6 It wasn't the valuation side or the appraisal side.

7 1780 Q. But it was part of Hilco,
8 irrespective Hilco landed up co-owning a portion --
9 you are saying it is a different department of
10 Hilco?

11 A. Yeah, totally different personnel.

12 1781 Q. Was Hilco involved in the
13 appraisal of Bluberi?

14 A. I do not recall.

15 1782 Q. And will you undertake to provide
16 that?

17 MR. DEARDEN: The relevance is what?

18 MR. LEVITT: The relevance is I am
19 establishing a pattern, Mr. Dearden.

20 MR. DEARDEN: A pattern of what?

21 MR. LEVITT: Well, I'll get there. Let
22 me finish my questioning, please, sir.

23 U/A MR. DEARDEN: Well, in that case we'll
24 take under advisement your question.

25 BY MR. LEVITT:

1 1783 Q. Was Hilco involved in the
2 appraisal of Fortress Resources?

3 A. I do not recall.

4 1784 Q. Will you undertake to provide that
5 information? It is common knowledge, Mr. Riley.
6 We have the appraisal reports.

7 A. Mr. Levitt, your memory is better
8 than mine.

9 1785 Q. Okay, so if appraisal reports were
10 done, can we accept that Hilco provided or prepared
11 appraisal reports for Fortress Resources?

12 MR. DEARDEN: If you don't take him to
13 the appraisal report in issue, we are not agreeing
14 or accepting.

15 BY MR. LEVITT:

16 1786 Q. Okay, so can you undertake to
17 confirm, not provide the reports, but confirm
18 whether an appraisal was done for Fortress?

19 MR. DEARDEN: I want to know the
20 relevance.

21 BY MR. LEVITT:

22 1787 Q. I'll establish it very shortly,
23 Mr. Dearden, thank you, sir.

24 Was Hilco involved in the appraisal of
25 Alkin Basin's assets at any point?

1 **A.** I think they may have been, but I
2 am going by memory, so my memory may be in error.

3 1788 **Q.** So would it be fair to say that
4 Callidus loaned money on the basis of appraisal
5 reports, confirming asset values, et cetera?

6 **A.** Yes.

7 1789 **Q.** How many other companies or
8 borrowers did Hilco provide appraisal reports for
9 in all of the loans that Hilco did -- that Callidus
10 provided? Would you undertake to provide me with
11 that information?

12 R/F **MR. DEARDEN:** No. That is a little too
13 overreaching.

14 **MR. LEVITT:** It is a refusal, Mr.
15 Dearden?

16 **MR. DEARDEN:** Yes.

17 **BY MR. LEVITT:**

18 1790 **Q.** Mr. Riley, has any member of
19 Callidus ever requested Hilco to appraise assets of
20 a borrower at a value that Callidus wants to see?

21 **A.** Not that I am aware of.

22 1791 **Q.** Did Hilco offer to buy the
23 assets -- sorry, I have got an echo.

24 Did Hilco offer to buy the assets of
25 Fortress?

1 **A.** I don't recall.

2 1792 **Q.** Will you undertake to provide
3 that, sir, please?

4 **MR. DEARDEN:** What is the relevance?

5 **BY MR. LEVITT:**

6 1793 **Q.** The relevance is the very
7 appraiser that provides lending decisions, provides
8 support to lending decisions of Callidus to
9 borrowers, either lands up owning the assets at
10 times or offers to provide services after the
11 assets are seized.

12 So my question is simple, Did Hilco
13 offer to buy the assets of Fortress?

14 R/F **MR. DEARDEN:** I am refusing.

15 **MR. LEVITT:** Okay.

16 **MR. DEARDEN:** This is a conspiracy
17 action, Mr. Levitt.

18 **BY MR. LEVITT:**

19 1794 **Q.** You have accused us of making
20 false police reports and making false whistleblower
21 reports. I think it is important to establish that
22 there is a lot of information available, Mr.
23 Dearden, but I think once I get through my
24 cross-examination, perhaps we can -- you know, it
25 will all kind of tie together, I guess.

1 I am going to go to page 124 of your
2 conspiracy affidavit. Can you see that, Mr. Riley,
3 paragraph 303?

4 **A.** Yes.

5 1795 **Q.** Okay.

6 **A.** Do you want me to read 303?

7 1796 **Q.** No, that is okay, thank you, sir.

8 I am going to ask you whether you are aware that a
9 defence of fraud and inducement or a claim of fraud
10 and inducement was actually relevant and is
11 relevant in all the other cases that you say
12 guarantors are having actions with Callidus. What
13 I am asking and my question is as follows.

14 Why haven't you produced any of the
15 documents, disclosed any of the documents that
16 parties are saying induced them into a loan? What
17 you have got here is only half the story, and I am
18 not even agreeing to some of the facts in here.

19 What I am saying to you is are you
20 aware that inducement is an issue that has been
21 raised by various guarantors and borrowers?

22 **MR. MOORE:** Just a minute. In the
23 affidavit of documents, there was a schedule
24 listing U.S. District Court proceedings. Rather
25 than replicate the listing of all the documents of

1 the various District Court jurisdictions, those
2 documents were referred to and made part of the
3 affidavit of documents.

4 So the premise of your question or
5 assertion that they were never identified or
6 referred to, they are referred to in that schedule
7 and all of the filings that were made in the U.S.
8 District Court proceedings are available on Pacer
9 and online for anyone who chooses to use them or
10 review them.

11 BY MR. LEVITT:

12 1797 Q. All right, and so I am going to
13 ask Mr. Riley, but thank you, Mr. Moore.

14 At the time -- and you talk about
15 Pacer, which would be a U.S. court service
16 provider. My question to you is, are you aware
17 that there have been claims made by Fortress
18 Resources and others that Callidus makes loans and
19 induces parties to enter into loans? Are you
20 aware -- I am asking, are you aware of that?

21 MR. DEARDEN: What is the relevance of
22 that to this conspiracy action?

23 MR. LEVITT: It is very important. You
24 have claimed that we have made false reports, false
25 statements. I am not here to prove the accuracy or

1 the contents of those reports.

2 What I am asking is, and it is a simple
3 question, is Mr. Riley aware that there are claims
4 from multiple borrowers about fraud and inducement?
5 That is the question I am asking. Very simple.
6 Are you aware that claims have been made?

7 MR. DEARDEN: Tell him which borrowers
8 and tell him what claims specifically.

9 BY MR. LEVITT:

10 1798 Q. All right, let's go -- how about
11 this. I am going to bring up a document here. Can
12 you see that? Let me make it bigger.

13 This is a chart that is in my
14 production. I don't expect you to admit the
15 accuracy of these inputs because this is a
16 self-made chart.

17 But we have here Esco Marine, Xchange
18 Technology, Fortress Resources, Alkin Basin, and I
19 believe Bluberi might be in here. I can't see from
20 the screen. Yeah, the affidavit Gerald Duhamel.
21 I'm still getting the hang of this technology.

22 So what we have got here is -- what
23 this document is is a Callidus Capital lending
24 pattern. And again, Mr. Dearden, I am not going to
25 ask you, it would be unfair to ask you to admit the

1 accuracy of this document, but for purposes of
2 establishing my question, I am going to ask you if
3 other borrowers in other loans that Callidus made
4 said Callidus represents that it can close
5 financing arrangements quickly with very few
6 covenants and works with borrowers, and it gives a
7 whole lot of activity, 1 to -- sorry, 1 to it looks
8 like 15. I am still getting the hang of this
9 technology.

10 My question is -- let's put it this
11 way. I am going to save you some time. I would
12 like to know whether Callidus, outside the
13 so-called guarantor parties referred to in your
14 conspiracy claim, whether Callidus had received
15 complaints about any of these items raised in
16 affidavits?

17 Will you please, Mr. Dearden, if I
18 could ask you to please -- I can -- you know, we
19 can spend time going through each one of these.
20 All I am seeking to do, as Mr. Moore had suggested
21 previously, is to rather put it can you please take
22 a look at this document and let me know if there
23 are other parties that have made these claims in
24 affidavits?

25 R/F MR. DEARDEN: No. These are -- no.

1 MR. MOORE: Other parties beyond this
2 chart --

3 MR. LEVITT: Let's stick to --

4 MR. MOORE: -- on affidavits that you
5 are now telling us about?

6 BY MR. LEVITT:

7 1799 Q. I'll rephrase the question. Can
8 you please confirm that these allegations are made
9 in affidavits from borrowers Esco Marine, Xchange
10 Technologies, Fortress Resources and Alkin Basin,
11 in affidavits and declarations?

12 R/F MR. DEARDEN: No.

13 MR. LEVITT: So you are refusing --

14 MR. DEARDEN: And by the way, what
15 production number is this chart that you have made
16 up yourself, Mr. Levitt? I would like to know
17 that.

18 MR. LEVITT: This is in volume -- let
19 me get to it. I can do it the hard way, if you
20 wish, and we can just sit here and go through each
21 one.

22 MR. DEARDEN: Well, we can do it the
23 easy way and just tell me what production number it
24 is, and I'll find this chart in your productions,
25 in your affidavit of documents.

1 MR. LEVITT: One second, let's get to
2 it.

3 So this would have been in my motion,
4 the anti-SLAPP motion. Let me see if I can find
5 it. There we go.

6 I am just going to go to the index.
7 Wow, you really are keeping me busy with this one,
8 Mr. Riley.

9 MR. MOORE: Well, you are raising it.
10 We just want to know where it is. That's all.

11 MR. LEVITT: Okay, no, I am getting
12 there.

13 MR. MOORE: If it is an exhibit to your
14 affidavit --

15 MR. LEVITT: It is in my affidavit,
16 yes. It is in my affidavit, which is Exhibit O,
17 page 2263. The numbering was a little out of
18 whack.

19 MR. MOORE: Is this your -- which
20 affidavit are we talking about? I'm sorry.

21 MR. LEVITT: This is the initiating
22 affidavit for the anti-SLAPP.

23 MR. DEARDEN: This would be November of
24 2019?

25 MR. LEVITT: I think so, yeah.

1 MR. DEARDEN: Okay.

2 BY MR. LEVITT:

3 1800 Q. So all I'm asking is, there are
4 multiple claims from various borrowers. And the
5 five so-called parties that you complained entered
6 into conspiracies, what my question to you is, were
7 there other parties that complained of any of the
8 similar treatment or conduct that I have referenced
9 in this document and has been referenced in
10 affidavits and declarations of other parties? If
11 you want to take that under advisement? I am not
12 going to answer for you, sir, but I am asking if
13 you are aware of other claims by other borrowers?

14 R/F MR. DEARDEN: Mr. Levitt, we are
15 objecting. That is a fishing expedition, and it is
16 way, way, way, way too broad.

17 MR. LEVITT: Okay.

18 MR. DEARDEN: And we are not doing that
19 homework for you --

20 MR. LEVITT: Okay, I have already done
21 the homework.

22 MR. DEARDEN: -- on a document you
23 created.

24 BY MR. LEVITT:

25 1801 Q. That is okay, I have done the

1 homework.

2 Let's go back to Fortress on page 124,
3 because what I see in this affidavit is a number of
4 times you referenced settlements with Smith, and I
5 am just going to ask you a few questions that maybe
6 you do and maybe you don't know the answer to.

7 Was Callidus aware that Fortress
8 Resources had another offer of financing on the
9 table from another lender?

10 **A.** At what time frame?

11 1802 **Q.** Before entering into the loan
12 agreement with Callidus.

13 **A.** I don't recall.

14 1803 **Q.** Okay. Were you aware that -- you
15 don't recall, but perhaps I'll ask you this. Would
16 it be fair to say that a lender that is charging
17 interest rates at under 5 percent with requiring a
18 guarantee would move to a lender charging 16
19 percent to 18 percent requiring a guarantee? Would
20 that make any commercial sense? As a sophisticated
21 borrower, sir, and you are in the business, would
22 it make commercial sense if you were --

23 **MR. DEARDEN:** Don't answer that.

24 **MR. LEVITT:** You are objecting?

25 **MR. DEARDEN:** Yes, it is a

1 hypothetical.

2 MR. LEVITT: I'm just asking an
3 opinion.

4 R/F MR. DEARDEN: Yeah, and I am not going
5 to let you get one.

6 BY MR. LEVITT:

7 1804 Q. Okay. Were you aware, Mr. Riley,
8 that any guarantees that were presented or that
9 were acquired of any guarantors in Fortress were
10 initially limited to any priority liens that stood
11 higher than Callidus or senior to Callidus? Are
12 you aware of that? I am only asking --

13 MR. DEARDEN: Mr. Levitt, you have got
14 to be more specific.

15 MR. LEVITT: Mr. Riley was a member of
16 the Credit Committee --

17 MR. DEARDEN: That is far too general.

18 BY MR. LEVITT:

19 1805 Q. -- and knew the terms. I am
20 asking you, in the Fortress loan, in the Fortress
21 loan, a guarantee was limited to any liens that
22 were priority to Callidus. That is in the record.
23 That is documents that have been produced already
24 from your lawyer, Kristi Katsma. I'm asking if you
25 were aware.

1 MR. DEARDEN: I don't see a question in
2 there.

3 BY MR. LEVITT:

4 1806 Q. Were you aware, Mr. Riley, that
5 any guarantees required of guarantors from Fortress
6 was limited to any liens that were senior to
7 Callidus? That is the question. Were you aware?

8 R/F MR. DEARDEN: Okay, and my objection to
9 that is you have got to take him to a specific
10 guarantee, the specific lien. Like it is just too
11 general, Mr. Levitt.

12 BY MR. LEVITT:

13 1807 Q. Okay, I am going to ask you
14 another question. Were there any internal
15 discussions at Callidus that the guarantees from
16 guarantors at Fortress would never be released?

17 A. Sorry, is that the question?

18 1808 Q. Yes, a very simple question.

19 A. I am not aware of that discussion.
20 I think they were to be released under certain
21 circumstances.

22 1809 Q. All right, okay. I am going to
23 enter into evidence, which has already been --

24 A. Have we seen this before?

25 1810 Q. You have. Actually, it is your

1 document.

2 **A.** Okay, I just -- I can't see, where
3 the document is, who is producing it and where it
4 was produced from. Where was this -- and was this
5 in the evidence in this case?

6 1811 **Q.** Let's have a look. It is entered
7 into evidence already. So I am asking you, Mr.
8 Riley --

9 **A.** Scroll down. Scroll down, please.
10 So that was produced on the examination of David
11 Reese.

12 1812 **Q.** Yes.

13 **A.** At what time?

14 1813 **Q.** This was in -- I think this was in
15 through refusals and undertakings or examination of
16 Mr. Reese. I don't know. I wasn't at that --

17 **A.** In what proceeding?

18 1814 **Q.** This may have been in the
19 guarantee action, sir. So I am going to ask to
20 have this admitted as evidence here.

21 **MR. MOORE:** Let's identify where it
22 came from, just for the record, so we can
23 understand.

24 **MR. LEVITT:** I think, Mr. Moore, I am
25 going to ask to have it entered into evidence, and

1 we can fight about whether it is admissible or not
2 so --

3 MR. MOORE: Well, it is not a matter of
4 fighting about it. Why don't you mark it for
5 identification, and then you can subsequently
6 clarify where it came from or where -- it looked
7 like it was marked, according to that exhibit
8 stamp. It is just that the exhibit stamp was not
9 filled out to indicate the date or indicate what
10 the proceeding was. I think it would be useful to
11 find that out, that's all. It is not a matter of
12 fighting about it. Mark it for identification, and
13 then you can fill in that detail.

14 MR. LEVITT: Mr. Moore, why hasn't this
15 document been produced in this case? It is a
16 relevant document, so --

17 MR. MOORE: I don't know whether it has
18 been produced or not. Again, my understanding is
19 that, as I said a few minutes ago, that rather than
20 list every document that has been produced in every
21 other case and every other jurisdiction, those
22 legal proceedings were referred to in Schedule A-1
23 or A-2 of the affidavit of documents for use if
24 deemed appropriate.

25 Now, whether this category -- or

1 this document falls into that category or not, I am
2 not sure.

3 MR. LEVITT: It has been entered
4 into --

5 MR. MOORE: But in principle, that is
6 what was done, okay, and I am asking you just to
7 let us know in due course, if you can, which
8 proceeding this document was marked in.

9 MR. LEVITT: It has been -- I
10 understand it has been entered into evidence from
11 Mr. Molyneux's counsel as part of production in
12 this case.

13 MR. DEARDEN: Okay, and let's get on
14 the record what it is we are referring to. So this
15 is an email from Lorne Morein, M-o-r-e-i-n, sent to
16 Craig Boyer, cc'd to Duane Morrison, September 4,
17 2014, at 3:56 p.m., the subject is "FW: Fortress".

18 BY MR. LEVITT:

19 1815 Q. Okay, and would this be -- and who
20 is Lorne Morein, Mr. Riley?

21 **A.** He was a junior loan officer.

22 1816 Q. And I take it that Craig Boyer was
23 the loan officer for Fortress?

24 **A.** Yes. He was the underwriter for
25 Fortress.

1 1817 Q. Understood. So who is Duane
2 Morrison?

3 A. The originator.

4 1818 Q. So can you read the sentence that
5 has been highlighted, please?

6 A. In the first -- or the email at
7 the top?

8 1819 Q. Can --

9 A. Could you do me a favour, please?
10 Could you go all the way down to the bottom of this
11 email chain?

12 1820 Q. That is it.

13 A. Okay, so let me just read the
14 email that it is responding to, please, okay, the
15 3:54 p.m. email.

16 1821 Q. Yes.

17 A. [Witness reviews document.]

18 MR. DEARDEN: Which is Morein to Boyer.

19 THE DEPONENT: And when was the loan
20 originated? When was the loan made?

21 BY MR. LEVITT:

22 1822 Q. I don't know. Could you undertake
23 to provide me with that information, please, sir?

24 A. Well, I am just trying to get a
25 context for when this email was sent. Was this

1 email sent at the time when the loan was being
2 originated or was this subsequent? I just don't
3 have a time frame, sir.

4 1823 Q. I am just --

5 A. I don't know the time frame of --

6 1824 Q. I understand, sir, and I am not
7 trying to argue with you and I am really not trying
8 to trick you in any way. All I am asking you is
9 the email is Thursday, September the 4th, 2014, at
10 3:54 p.m.; correct?

11 A. Yes.

12 1825 Q. In response --

13 MR. MOORE: So all Mr. Riley is trying
14 to -- just a minute. You have --

15 MR. LEVITT: The --

16 MR. MOORE: Well, just a minute. You
17 have brought forward this document and want to ask
18 questions about it. You have covered off or we are
19 trying to cover off where it came from.

20 All Mr. Riley is doing is trying to get
21 some context as to how this time frame fits with
22 the origination of the loan so that he can consider
23 what it is referring to and in light of your
24 questioning of him. That is all.

25 You are the one --

1 MR. LEVITT: I understand, Mr. Moore.

2 MR. MOORE: Just a minute. Since you
3 are the one who is producing the document for
4 questioning, presumably you can assist in providing
5 that context for the witness.

6 MR. LEVITT: I understand, Mr. Moore.
7 This document is in your possession. It is your
8 document. I am asking you a simple question. Can
9 you please read the paragraph --

10 MR. MOORE: Well, sir --

11 MR. LEVITT: No, please, it is my
12 cross-examination, Mr. Moore. If you object to it
13 and you refuse to answer, let me know and it will
14 go on the record. Are you refusing --

15 MR. MOORE: What I am suggesting, just
16 a minute, is there are thousands or tens of
17 thousands or hundreds of thousands of documents
18 pertaining to all of these loans, and you are
19 pulling up one document --

20 MR. LEVITT: Which you are --

21 MR. MOORE: Just a minute -- with
22 respect to one of these loans. It is not a memory
23 contest.

24 All Mr. Riley is asking you to do, if
25 you can, is provide some context to him for the

1 purpose of your questions about this document. I
2 think that is perfectly fair and reasonable. If
3 you don't want to do that, then he'll probably have
4 difficulty answering the question.

5 MR. LEVITT: Okay, Deana, can you
6 please enter this into evidence, this document into
7 evidence.

8 MR. MOORE: Mark it for identification.

9 MR. LEVITT: The identification is an
10 email from Lorne Morein to Craig Boyer and Duane
11 Morrison, "FW: Fortress". The contents of it, if
12 Mr. Riley could just read it out; otherwise, I'll
13 read it out.

14 MR. MOORE: Just a minute, when I
15 say -- I'm sorry, let me clarify. When I say "mark
16 it for identification", there is a protocol with
17 documents that are being marked formally as part of
18 the record are Exhibits 1, 2, 3, 4, et cetera, and
19 "identification" usually means you give a letter
20 for the document. So I am suggesting this be
21 marked for identification as Exhibit A.

22 MR. LEVITT: Thank you.

23 MR. MOORE: That is what I meant for
24 identification.

25 EXHIBIT A FOR IDENTIFICATION: Email

1 from Lorne Morein, sent to Craig Boyer,
2 cc'd to Duane Morrison, September 4,
3 2014, at 3:56 p.m., subject "FW:
4 Fortress".

5 BY MR. LEVITT:

6 1826 Q. I appreciate that, Mr. Moore.

7 Thank you very much.

8 Based on this, I would ask you to
9 provide all documentation, Credit Committee to and
10 from -- sorry, all Credit Committee notes,
11 discussions and correspondence between anybody,
12 including originators Lorne Morein, Craig Boyer,
13 Duane Morrison, and any party at the Credit
14 Committee prior to entering into the loan with
15 Fortress Resources?

16 R/F MR. DEARDEN: No.

17 MR. LEVITT: Okay, that is an
18 objection.

19 MR. DEARDEN: It is too broad, and you
20 are fishing.

21 MR. LEVITT: I am not fishing. The
22 document speaks for itself.

23 MR. MOORE: No, this is not an
24 examination for discovery. We have produced
25 somewhere around 150- or 170,000 loan documents,

1 including many, many loan documents with respect to
2 Fortress, but this is not an examination for
3 discovery. So let's get on with the next set of
4 questions.

5 BY MR. LEVITT:

6 1827 Q. You didn't produce this document,
7 so you didn't produce this one, I understand.

8 All right, let's move on, please.

9 Let's move on, please.

10 A. Can you scroll up to the top,
11 please? Can you scroll up to the top?

12 1828 Q. That is the top.

13 A. There is no identification mark,
14 so it is not produced in this action.

15 Okay, sorry, we are just talking
16 quietly. This was not produced in this action to
17 my knowledge, was it?

18 1829 Q. Mr. Riley, I think -- and I may
19 stand corrected, it may -- I understand this was
20 produced by Mr. Molyneux's production in this case.
21 I stand corrected. And so this is something -- I
22 am just asking you that if you have this document
23 in your production, perhaps -- sorry, if you have
24 this document in your possession, if you can
25 perhaps produce it, and all other documents prior

1 to entering into the loan with Fortress Resources?
2 And is that a --

3 MR. MOORE: We are not giving that
4 undertaking.

5 MR. LEVITT: I beg your pardon?

6 MR. MOORE: You have heard what I said
7 already about that.

8 MR. LEVITT: I didn't quite get the
9 simple answer, Mr. Moore. I got a long --

10 MR. MOORE: You have heard what I said
11 already about that. We have produced thousands and
12 thousands and tens of thousands of loan documents.
13 Whether this is one of them or not I can't tell you
14 off the top of my head.

15 From what you scrolled down to before
16 on this document, it appears to have been produced
17 on some examination of Mr. Reese and marked as
18 Exhibit C, which suggests to me that it may have
19 been marked for identification back at that time,
20 whenever it was.

21 So that is why I invited you to clarify
22 for us when and where this was produced, but I
23 don't want to belabour that and take up more of
24 your time, so let's get on with the next question.

25 BY MR. LEVITT:

1 1830 Q. I am just going to ask if you can
2 produce this document in this case and all other
3 documents related. Mr. Moore --

4 R/F MR. MOORE: We are not going to give
5 that undertaking.

6 MR. LEVITT: You have objected, okay.

7 MR. MOORE: We have produced thousands
8 of documents. Let's get on with it.

9 MR. LEVITT: You didn't produce 170,000
10 documents in Fortress Resources but, Mr. Moore, I
11 would like to move on, please.

12 MR. MOORE: Good.

13 BY MR. LEVITT:

14 1831 Q. Mr. Riley, has there been ever a
15 communication within Callidus whereby the borrowing
16 base formula was in any way different to a term
17 sheet or a loan agreement?

18 A. Sorry --

19 R/F MR. DEARDEN: That is too broad.

20 THE DEPONENT: That's a heck of a
21 question.

22 BY MR. LEVITT:

23 1832 Q. Okay, let me break it down for
24 you. Sir, you are from Harvard, but I'll try and
25 break it down for you.

1 paragraph 303, right under the heading "Fortress",
2 the conspiracy affidavit.

3 THE DEPONENT: Okay, I am there.

4 BY MR. LEVITT:

5 1836 Q. Is it your position that based on
6 paragraph 304, a loan was made to Fortress, based
7 on your evidence you have just given, that a loan
8 was made to Fortress of 11.35 million dollars and a
9 guarantor signed a guarantee for it, but then on
10 January the 9th Fortress entered into an Amended
11 and Restated Loan Agreement for a revolver of 5
12 million dollars; is that your evidence?

13 A. Yes.

14 1837 Q. So if I were to ask you on
15 paragraph 304 - and correct me if I'm wrong - you
16 are suggesting that the parties took a loan to
17 acquire assets of a company with no... [inaudible]
18 ...in place for working capital or --

19 THE COURT REPORTER: I'm sorry, with no
20 what in place? The echo distorted what you were
21 saying.

22 THE DEPONENT: Working capital, sorry,
23 Deana.

24 You are saying that would it be fair to
25 say that you entered into a loan for 11.35 million

1 dollars, and then it has no revolver in place only
2 four months later; is that your evidence? A simple
3 question --

4 MR. DEARDEN: And you are in paragraph
5 305 now?

6 BY MR. LEVITT:

7 1838 Q. 304 and 305.

8 A. Okay, so my -- as I read -- let me
9 read 305 and maybe you could ask me the question
10 based on that:

11 "On January 9, 2015, Fortress
12 entered into an Amended and Restated
13 Loan Agreement that provided for a
14 demand revolving loan of up to US
15 \$5,000,000, and a non-revolving loan
16 facility of up to US \$13,500,000."

17 1839 Q. Right.

18 A. That is what I read. So the
19 revolver -- there is a term loan and a revolver.

20 1840 Q. So the term loan was on --

21 A. Or non-revolver. Sorry, there was
22 a revolver and a non-revolver.

23 1841 Q. So the term loan was 11.35 million
24 dollars on September the 5th and a revolver on
25 January the 9th, 2015; would that be fair to say,

1 according to your affidavit?

2 **A.** Well, but it seems, looking at 304
3 and 305 together, the non-revolver or the facility
4 goes from 11.350 to two components, a 5 million
5 revolver and a 13,500,000 non-revolver.

6 1842 **Q.** My question is -- that is not my
7 question, Mr. Riley. My question is at 304 and
8 when you look at paragraph 304, 11.35 million
9 dollars did not include a revolver; correct?

10 **A.** That is correct.

11 1843 **Q.** Right, and a revolver was only put
12 in place on January the 9th; correct?

13 **A.** It would appear, yes.

14 1844 **Q.** Right. Mr. Riley, how much do you
15 know about mining? What do you -- have you had any
16 experience with operating mines, operating coal
17 mines?

18 **A.** Yes, I have had experience in
19 operating coal mines.

20 1845 **Q.** Right.

21 **A.** Although they didn't operate very
22 long. It was the Westray Coal Mine.

23 1846 **Q.** And I am sure that was fun, wasn't
24 it.

25 **A.** No, it was not. It was not.

1 1847 Q. Are you aware that mining
2 contracts are seasonal, so that you get contracts
3 and you put out for contracts generally through one
4 period throughout the year?

5 A. I don't know. I don't know
6 Kentucky Coal Mines. Westray Coal Mine was based
7 on a particular supply contract to power plants in
8 Nova Scotia.

9 1848 Q. All right, so Kentucky Coal
10 Mining, for your own benefit, relied heavily on
11 seasonal contracts. So where there is a delay in
12 producing coal and selling to the market, one could
13 expect that they would miss that seasonal contract
14 pitch and therefore be subject to spot pricing,
15 which is substantially lower than contract prices,
16 okay?

17 MR. DEARDEN: No, it is not okay
18 because you just gave evidence.

19 MR. LEVITT: Pardon me?

20 MR. DEARDEN: It is not okay because
21 you just gave evidence.

22 BY MR. LEVITT:

23 1849 Q. I asked Mr. Riley if he is aware
24 of that. Are you aware?

25 A. I am not aware of that.

1 1850 Q. Okay. Are you aware that any
2 delayed funding in any type of coal mining
3 operation could be catastrophic in terms of coal
4 fires going into the environment, toxic sludge
5 going into water, accumulation of methane gas;
6 would you agree with that? Any unplanned --

7 A. Those are some of the
8 environmental risks I would associate with coal
9 mines, particularly if it is an underground and not
10 a surface coal mine.

11 1851 Q. Understood, let's move on, sir,
12 thank you. I think we share the same view.

13 A. But those are also risks in other
14 mining ventures.

15 1852 Q. Understood, sir, thank you.

16 Mr. Riley, can you please identify
17 again -- I am going to enter this into evidence,
18 and, Mr. Moore, we can -- I suppose we are going to
19 have to -- let me just see if this was -- this is
20 your -- okay, let me do it this way, okay.

21 Was there ever, ever a discussion
22 amongst anybody at Callidus to withhold funds to
23 ensure or to try and force guarantors or borrowers
24 to put more equity into it when there was still
25 availability? Are you aware of that?

1 MR. DEARDEN: To put more equity into
2 it; what is "it"?

3 THE DEPONENT: Can you read me the
4 question, please?

5 MR. LEVITT: Into the borrowing --

6 MR. DEARDEN: Your question is:

7 "Was there ever, ever a
8 discussion amongst anybody at
9 Callidus to withhold funds to ensure
10 or to try and force guarantors or
11 borrowers to put more equity into it
12 when there was still availability?
13 And I have asked you what the "it" is.

14 BY MR. LEVITT:

15 1853 Q. "It" would be the company that has
16 taken a loan.

17 A. I need context to the question.
18 It is a very large question.

19 1854 Q. It is not a large question, but
20 I'll rephrase it. Has any discussion -- are you
21 aware of any discussion between any parties at
22 Callidus that availability of funds -- that funds
23 should not be provided where there is availability
24 and that it should be withheld to encourage or
25 force parties to put more equity into it?

1 R/F MR. DEARDEN: That is an unfair
2 question, Mr. Levitt. How on earth would Mr. Riley
3 know whether there was discussion between all the
4 parties at Callidus on the question that you are
5 talking about? You have got to be specific. Who
6 within Callidus are the parties you are referring
7 to, and what funds, what borrower, what guarantor?
8 You have got to be specific, sir.

9 BY MR. LEVITT:

10 1855 Q. Okay, Fortress is the borrower,
11 Molyneux, myself and Smith were guarantors of
12 Fortress Resources, a loan from Callidus. All I am
13 asking is was Mr. Riley aware of any discussion
14 about withholding of any funds when there was
15 availability? That is all. Were you aware, Mr.
16 Riley? It is yes or no. Were you aware?

17 A. Is there a document that you have
18 in mind that will refresh my memory? Because I
19 have no recollection right now.

20 1856 Q. I am going to enter into
21 evidence --

22 A. I asked -- sorry, I want to ask a
23 question of my counsel on the record. These very
24 issues are the subject matter of the guarantee
25 action.

1 MR. MOORE: Well, that's right. Mr.
2 Levitt, we have not been objecting here, but these
3 issues, if they exist at all, are surely ones that
4 have been raised or could be raised in the actual
5 guarantee collection actions.

6 MR. LEVITT: Yeah, I am --

7 MR. MOORE: And so I don't -- that is
8 not this action. Besides that --

9 MR. LEVITT: Well, I --

10 R/F MR. MOORE: Just let me finish.
11 Besides that, in any event, to ask that kind of
12 question, you would have to have the loan document
13 in front of the witness. You would have to be more
14 specific as to the context.
15 My recollection, and whether it is for Fortress or
16 not I don't have a photographic memory, but the
17 loan documents give a lot of discussion on the
18 borrower in terms of assessing what is available
19 and their judgment, et cetera, et cetera.

20 So it is such an open-ended question
21 that I don't think really arises in this case, but
22 even if it did, I don't think it is a proper
23 question in the way that you have put it.

24 MR. LEVITT: I have noted your
25 assessment of it, Mr. Moore, and thank you.

1 And I think this is a time to take a
2 break. We can come back. I have got a few more
3 sections. I am going to try and hopefully finish
4 before 5:00. I can't promise. But let's take a
5 break and come back at what time? 3:50, I guess.

6 MR. DEARDEN: All right, 3:55, give the
7 reporter a break.

8 MR. LEVITT: No, unfortunately, the
9 extra five minutes counts.

10 -- RECESSED AT 3:35 P.M.

11 -- RESUMED AT 3:50 P.M.

12 BY MR. LEVITT:

13 1857 Q. All right, Mr. Riley, can you
14 confirm that Craig Boyer was the underwriter or
15 loan officer for Fortress Resources, and then we
16 can move on?

17 A. Yes, he was.

18 1858 Q. Thank you.

19 A. Yes, he was.

20 1859 Q. Okay, thank you. And would you
21 agree with me that the settlement agreements
22 between Levy and Smith, and I am talking about the
23 settlement agreements themselves were not signed
24 under oath? There was nothing in that document
25 that said this document is under oath?

1 **A.** No, it was an agreement.

2 1860 **Q.** Sorry, can you repeat that,
3 please?

4 **A.** It was a settlement agreement.

5 1861 **Q.** Right, but there is nothing in
6 there that says it is signed under oath?

7 **A.** No. No, there is not.

8 1862 **Q.** Thank you.

9 **A.** I am not sure what that means. I
10 just don't know what -- I am responding because to
11 me "under oath" means like, for example, this kind
12 of testimony.

13 1863 **Q.** Right, but when you sign a
14 settlement agreement, it is not necessarily under
15 oath, and those agreements were not signed -- there
16 was no provision in the agreement that says "we are
17 signing under oath"? It is a simple question. Is
18 there a provision in the settlement agreement --

19 **A.** Sorry, I am having trouble
20 understanding why you are asking the question.
21 Sorry, I am just trying to understand the context,
22 because I am not familiar with agreements and I am
23 not familiar with any category of agreements that
24 are done under oath.

25 1864 **Q.** Okay, so I take it that -- can you

1 show me, not right now, undertake to show me in the
2 settlement agreements that they were signed under
3 oath?

4 **A.** No, I didn't say -- that isn't --
5 sorry, that is not my evidence.

6 1865 **Q.** Well, what is your evidence?

7 **A.** What I am asking you is I am not
8 familiar with any class of document that would be
9 signed under oath other than affidavits or
10 testimony.

11 1866 **Q.** Thank you. That is all I wanted,
12 sir.

13 Let's go to yield enhancements, okay.
14 I am trying to make it easy for all of us because I
15 know it is a long day.

16 **A.** Okay.

17 1867 **Q.** Mr. Riley, would you say that
18 unrecognized yield enhancements are not capable of
19 being audited under IFRS?

20 **A.** Yes, they are not audited.

21 1868 **Q.** Okay. Mr. Riley, were the --

22 **A.** Did he say unrecognized? He said
23 unrecognized?

24 **MR. DEARDEN:** Yes, unrecognized.

25 **THE DEPONENT:** Okay, thank you.

1 BY MR. LEVITT:

2 1869 Q. Mr. Riley, were there any interim
3 financial statements where -- sorry, let me take a
4 step back. Will you agree with me that Callidus's
5 interim financial statements were not audited?

6 A. That is correct, although there
7 was a process by which the auditors would attend
8 the quarterly meetings when those statements were
9 approved by the Audit Committee.

10 1870 Q. Okay.

11 A. But they were not audited.

12 1871 Q. Thank you. Were there any
13 quarters, quarterly financial statements where an
14 unrecognized yield enhancement amount was put into
15 the financial statements?

16 A. There would have been some where
17 they were taken as fees, and then I believe there
18 was one where we took in a derivative into income
19 but then wrote it off over time because the value
20 was not proving up.

21 1872 Q. That is not my question, sir. My
22 question is, were there at any time in any of the
23 quarterly financials an unrecognized yield
24 enhancement that was put into the unaudited -- that
25 was put into the interim financial statements?

1		A.	Sorry, you said unrecognized?
2	1873	Q.	Correct.
3		A.	Unrecognized were not brought into
4			the financial statements.
5	1874	Q.	So it was not brought even into
6			the interim financial statements?
7		A.	That is correct.
8	1875	Q.	Were there any unrecognized yield
9			enhancements that were highlighted in the MD&A?
10		A.	Sorry, I realize now why I made my
11			mistake when I answered that question. Could you
12			say the word "unrecognized" or "recognized" --
13			there is something about the way you are saying the
14			"un" that I can't hear it. I apologize.
15	1876	Q.	I'll repeat my question. At any
16			time in any of the quarterly unaudited financial
17			statements was there an unrecognized yield
18			enhancement?
19		A.	Taken into the financial
20			statements?
21	1877	Q.	Into the interim financial
22			statements.
23		A.	No.
24	1878	Q.	Okay.
25		A.	Unrecognized yield enhancements

1 were in the MD&A.

2 1879 Q. Okay, but there were no
3 unrecognized yield enhancements in the interim
4 financial statements?

5 A. That is correct.

6 1880 Q. Would it be fair to say -- let's
7 ask the obvious question here, sir. Let's go -- I
8 am going to just take you to -- so unrecognized
9 yield enhancements would not be capable of being --
10 CPAB would not have given an opinion on
11 unrecognized yield enhancements; would that be
12 correct?

13 MR. DEARDEN: What is CPAB?

14 MR. LEVITT: CPAB, the Canadian Public
15 Accountancy --

16 MR. DEARDEN: What is --

17 MR. LEVITT: It is in Mr. Riley's
18 affidavit saying that CPAB didn't audit.

19 MR. DEARDEN: Sorry, what paragraph of
20 the affidavit?

21 THE DEPONENT: He is referring to the
22 audit that CPAB, if that is the way you pronounce
23 it, did of KPMG.

24 BY MR. LEVITT:

25 1881 Q. In other words, what I am asking

1 is CPAB -- would it be fair to say that CPAB would
2 only look at IFRS measures?

3 **A.** Yes. They would only look at the
4 financial statements.

5 1882 **Q.** Which would be IFRS; correct?

6 **A.** And also appropriate audit
7 standards.

8 1883 **Q.** Right, and unrecognized yield
9 enhancements would not be part of those?

10 **A.** That is correct.

11 1884 **Q.** Okay. I am now going to take you
12 to Q2 2016 earnings -- well, let me ask you
13 another -- let me take a step back and ask you a
14 question. Was Callidus a major portfolio holding
15 of Catalyst?

16 **A.** It was a significant portfolio
17 holding of Funds III, Fund IV and to a lesser
18 extent Fund II. Fund II had some shares remaining.

19 1885 **Q.** Okay, and there were significant
20 debt facilities extended by Catalyst to Callidus?

21 **A.** Yes, again, Funds III and Fund IV.

22 1886 **Q.** So would it be fair to say that if
23 the performance of Callidus -- would it be fair to
24 say that the performance of Callidus would affect
25 the performance of Catalyst?

1 **A.** It would have an effect, yes.

2 1887 **Q.** Is it your position that Callidus
3 would not -- that Callidus would not suffer a loss
4 if it called on the guarantee from Catalyst on a
5 loan?

6 **A.** Well, if the loan was subject to a
7 guarantee, yes.

8 1888 **Q.** Right, so there wouldn't be --

9 **A.** But not all loans were subject --

10 **MR. DEARDEN:** Go ahead, Jim, answer the
11 question.

12 **THE DEPONENT:** Not all loans were
13 subject to the guarantee.

14 **BY MR. LEVITT:**

15 1889 **Q.** I understand, but, okay, I think
16 you have answered the question. Thank you, sir.

17 Do you take the position that Callidus
18 and Catalyst always fairly and accurately presented
19 their financial position to its investors?

20 **A.** Which entity?

21 1890 **Q.** Do you take the position --

22 **A.** Which entity?

23 1891 **Q.** -- that Callidus and Catalyst
24 fairly and accurately presented their financial
25 position to its investors, to their investors?

1 **A.** Yes.

2 1892 **Q.** And do you take the position that
3 Catalyst and Callidus fairly and accurately
4 presented the operational status and financial
5 situation of its loans and portfolio companies?

6 **A.** Sorry, I had trouble hearing that
7 question as well.

8 1893 **Q.** Do you take the position that
9 Callidus and Catalyst always fairly and accurately
10 presented the operational status and financial
11 situation of its loans and portfolio companies?

12 **A.** So you are saying on the one hand
13 Callidus representing its loans properly and on the
14 other Catalyst representing its portfolio holdings?

15 1894 **Q.** Did Callidus represent fairly and
16 accurately the operational status and financial
17 situation of its loans and portfolio companies?

18 **MR. DEARDEN:** He just asked you for
19 clarification.

20 **THE DEPONENT:** Callidus doesn't have
21 portfolio companies.

22 **BY MR. LEVITT:**

23 1895 **Q.** Did Callidus -- does Callidus or
24 did Callidus represent the operational status of
25 its loans or borrowers accurately and the status of

1 its performance of its portfolio?

2 **A.** I believe so.

3 1896 Q. You believe so, okay. How many
4 loans did Callidus provide -- sorry, how many loans
5 did Callidus claim yield enhancement on?

6 MR. MOORE: What is the question again?

7 BY MR. LEVITT:

8 1897 Q. How many loans did Callidus claim
9 yield enhancements on?

10 **A.** Recognized or unrecognized?

11 1898 Q. Recognized and unrecognized.
12 Unrecognized.

13 **A.** I would be estimating four,
14 perhaps, unrecognized.

15 1899 Q. And how --

16 **A.** But I would have to go back. I
17 mean, it is not -- Mr. Levitt, it is not a memory
18 contest, and I don't memorize that kind of thing.

19 1900 Q. I understand that, Mr. Riley. So
20 because it is not a memory contest, can you
21 undertake to provide me with that information,
22 please?

23 **A.** What time period are we looking
24 at?

25 1901 Q. Since from the time of going

1 public until the time you were wound down.

2 U/A MR. DEARDEN: We'll take that under
3 advisement.

4 BY MR. LEVITT:

5 1902 Q. Thank you. Would you say that 40
6 percent of loans that claimed yield enhancement
7 would be a significant part of the portfolio of
8 loans?

9 A. How are you calculating 40
10 percent?

11 1903 Q. It is your statement to the
12 public, sir, not mine.

13 MR. MOORE: Show him the statement.

14 MR. LEVITT: Let's go to your Q2 and
15 Q1.

16 MR. MOORE: Q2 and Q1 for what?

17 MR. LEVITT: The 2016 earnings
18 transcript.

19 MR. MOORE: Do you have that document?

20 MR. LEVITT: I am trying to get it.

21 MR. MOORE: Okay. I don't want to
22 interject. I am just trying to help identify it
23 for the record so we can get the questions.

24 MR. LEVITT: It is actually in my
25 supplementary affidavit, Exhibit -- let's go to

1 Exhibit 8 of my supplementary, Mr. Moore.

2 MR. DEARDEN: Do you have it there?

3 MR. MOORE: Yeah, I don't have that
4 right at hand, but someone here does.

5 THE DEPONENT: Exhibit "H"?

6 MR. MOORE: 8.

7 MR. DEARDEN: I think he said "H".

8 MR. MOORE: Did you say "H"?

9 MR. LEVITT: 8. Here we go. Let me
10 pull it up for you and help you.

11 MR. DEARDEN: Thank you.

12 BY MR. LEVITT:

13 1904 Q. Oh, boy. I am never good with
14 these things. Let me ask you another question
15 while I'm finding this. Would you say that
16 anything that Mr. Glassman said publicly you could
17 rely on?

18 MR. DEARDEN: Well, you take him to
19 whatever statement that Mr. Glassman -- that you
20 are saying Mr. Glassman said so that he can read
21 it.

22 MR. LEVITT: Well, that yield
23 enhancements are an undeniable and fundamental part
24 of the business such as Callidus.

25 MR. DEARDEN: Do you want to take

1 him -- that is what you are looking for, I take it?

2 MR. LEVITT: Yes.

3 THE DEPONENT: You asked a question --
4 well, is that the -- sorry, you asked a question
5 and then you asked another question, so I'm
6 confused. You started asking questions about
7 financial statements.

8 BY MR. LEVITT:

9 1905 Q. I am not asking questions about
10 financial, I never did. I am going to ask you --
11 how about this one. Let's go to Callidus Capital
12 reports for second quarter dated August 11, 2016.

13 A. And where is this document
14 produced?

15 1906 Q. It is in my supplementary motion
16 record.

17 A. So you are B00225, or you are
18 "BOO"?

19 1907 Q. Let me see if I can get the
20 earnings transcripts. Let's come back to this
21 question, sir. We'll come back to it, while I find
22 it, okay.

23 I guess I am going to ask you a
24 straightforward question. Why don't we go here.
25 Do you see this "Callidus Statement Regarding

1 Allegations in the Wall Street Journal"? This is
2 your document dated August the 9th, 2017.

3 **A.** Could I just ask you one thing?
4 There were two questions on the table. Are those
5 questions off the table for now, because I
6 haven't --

7 1908 **Q.** We'll come back to them, sir.

8 **A.** Okay, but there are two questions
9 that you asked that are off the table for now.

10 1909 **Q.** We'll come back to them, Mr.
11 Riley.

12 Can you see where my cursor is?

13 **A.** Yes, I do.

14 **MR. DEARDEN:** Let's first put on the
15 record, Mr. Levitt, this is a Callidus statement
16 regarding allegations in the Wall Street Journal
17 dated - and I am going from memory here, but you
18 can take us to the top - it is August 9, 2017?

19 **BY MR. LEVITT:**

20 1910 **Q.** That is correct, Mr. Dearden.
21 Thank you.

22 Can you read what I am reading here,
23 sir, where my cursor is, Mr. Riley? Or would you
24 prefer me to read it?

25 **MR. DEARDEN:** What is your pleasure?

1 BY MR. LEVITT:

2 1911 Q. I'll read it:

3 "Callidus employs a proprietary
4 system of monitoring collateral and
5 exercising control of the cash
6 inflows and outflows of each
7 borrower, enabling Callidus to very
8 effectively manage risk and loss."

9 Would you agree with that statement?

10 A. Yes.

11 1912 Q. Would you agree that a lock box is
12 part of an asset-based lending loan?

13 A. Yes.

14 1913 Q. What then is this proprietary
15 system of monitoring collateral and exercising
16 control of the cash flows and outflows of each
17 borrower? What is the proprietary system? Can you
18 explain that to me?

19 A. I think it is our -- I think that
20 is referring to our software system.

21 1914 Q. So the software.

22 A. Yes, and the training we give to
23 our staff.

24 1915 Q. I am going to take you to the
25 Staff Notice which talks about -- this is Staff

1 Notice 51-711 that you referred to in your
2 affidavit; correct? It talks about re-filings and
3 corrections of errors.

4 **A.** Yes.

5 1916 Q. Would you agree with me that when
6 you are put on the list, the errors and re-filings
7 list, that would constitute corrective disclosure?

8 **A.** Well, the -- sorry, if I may
9 answer the question, reading this notice again, I
10 don't believe we were obliged to do anything on a
11 retroactive basis other than the re-filing of that
12 or we had to re-file a press release to show IFRS
13 information second -- non-IFRS information second
14 and IFRS information at the front.

15 But that is the only thing we would
16 come close to that. We didn't have to re-state and
17 re-file financial statements. Any changes we made
18 were on a prospective basis, and they were in
19 primarily I think the yield enhancements and the
20 depth of disclosure of the assumptions --

21 1917 Q. Okay, that doesn't really answer
22 my question, Mr. Riley. I am just really asking
23 when you are put on the list to provide any
24 information of any sort, would you consider what
25 was required of Callidus to be corrective

1 disclosure?

2 **A.** Well, I did answer your question,
3 and I'll answer it again. We were required to make
4 clarifications on a prospective basis, so the
5 corrective disclosure was on a prospective basis,
6 whereas the list of things that are there was
7 immediate, for example, amending and re-filing.

8 1918 **Q.** Would it be that you consider that
9 to be corrective disclosure, not -- it is very
10 simple. It is a yes or no. Do you consider being
11 put on the errors and omissions -- there isn't --
12 this errors list, would it be for corrective
13 disclosure?

14 **A.** I believe I answered that
15 question. You may not like my answer --

16 1919 **Q.** You haven't answered it.

17 **A.** -- but I believe I have answered
18 it.

19 1920 **Q.** Okay, we'll move on. We'll move
20 on.

21 **MR. DEARDEN:** He has answered it.

22 **BY MR. LEVITT:**

23 1921 **Q.** I disagree with you, Mr. Dearden.
24 Is Callidus an asset-based lender, sir?

25 **A.** Is Callidus an asset-based lender?

1 1922 Q. Yes.

2 A. Yes.

3 1923 Q. So Callidus would have made a loan
4 to Horizontal Well Drillers on the basis of assets;
5 correct?

6 A. Yes.

7 1924 Q. Your previous evidence has been,
8 sir, that you claim the 32 million dollar yield
9 enhancement on a loan to Horizontal Well Drillers.
10 Are you aware that sanctions were imposed just I
11 think it was a few days after you made the loan to
12 Horizontal Well Drillers; are you aware of that?

13 A. I am not aware of the timing, but
14 there were sanctions relating to Venezuela.

15 1925 Q. Can you please explain to me how
16 when you wrote predominantly the whole loan down,
17 you still claimed the yield enhancement of 32
18 million dollars?

19 A. No, the yield enhancement was
20 written down over time. That was a recognized
21 yield enhancement that between the date of its
22 recognition and the year-end I believe was written
23 down to zero.

24 1926 Q. But you still claimed the 32
25 million dollar yield enhancement. I would like you

1 to please produce documentation supporting that 32
2 million dollar yield enhancement?

3 R/F MR. DEARDEN: No.

4 MR. LEVITT: Okay, I'll note that as an
5 objection.

6 MR. DEARDEN: Correct. What is the
7 relevance?

8 BY MR. LEVITT:

9 1927 Q. Mr. Riley, when you were giving
10 evidence to Mr. McFarlane's questions previously,
11 you and your counsel both said that -- the question
12 is Mr. McFarlane put to you emails that were
13 supposedly obtained in another case, correct, in
14 the guarantee case, and that Mr. Moore said it was
15 a consent, a consented order; correct?

16 MR. MOORE: Sorry, I didn't hear you.
17 You are attributing that I said what?

18 MR. LEVITT: You said it was a
19 consented order, an order that was consented to?

20 MR. MOORE: Well, I think Justice
21 Chiappetta regarded it that way.

22 MR. LEVITT: And --

23 MR. MOORE: If what you are referring
24 to is the same --

25 MR. LEVITT: Deana, can you please

1 enter this into evidence, please. This is Justice
2 Chiappetta's order that Mr. Moore refers to.

3 THE COURT REPORTER: Sorry, is this an
4 exhibit for identification or a numbered exhibit?

5 MR. LEVITT: A numbered exhibit.

6 EXHIBIT NO. 6: Electronic brief of
7 documents referred to in the course of
8 Mr. Levitt's cross-examination.

9 MR. MOORE: Hold on, just go slowly,
10 please.

11 MR. LEVITT: Sorry.

12 MR. MOORE: No, no, I don't have that
13 whole record in front of me, Mr. Levitt. My
14 recollection is that there was an earlier order of
15 that in which you were required to answer certain
16 undertakings or provide certain undertakings and
17 when according to Callidus you did not do that, the
18 contempt application was brought; and when that
19 contempt application was brought on, this was the
20 order.

21 My recollection is that if we go to the
22 decision of Justice Myers on your stay application
23 in the Divisional Court, you will find a convenient
24 summary of the sequence of events, and my
25 recollection is Justice Myers, in articulating that

1 summary, refers to the consent order that was
2 originally made for the answers to be given by a
3 certain date.

4 So all of which is to say there is more
5 than one order and more than one court attendance
6 that is applicable to the proceedings before
7 Justice Chiappetta, not just this order.

8 BY MR. LEVITT:

9 1928 Q. Okay. I know that we disagree on
10 a few things, Mr. Moore, but I am going to put the
11 questions to Mr. Riley.

12 "On Reading the Notice of
13 Motion dated January 31, 2018 [...]
14 the Affidavit of James Riley sworn
15 February 8, 2019, the Affidavit of
16 Joshua Suttner sworn February 8,
17 2019, the Factum of Callidus and the
18 Book of Authorities of Callidus; and
19 on hearing the submissions of
20 counsel for Callidus and Levitt
21 appearing in person:"

22 The court made an order; correct? It
23 stands for itself, this document. It is a public
24 document.

25 MR. MOORE: Well --

1 MR. LEVITT: Please, I am asking the
2 witness the question, Mr. Moore.

3 MR. MOORE: Let me know when you are
4 finished your question, and then I'll see if I have
5 an objection.

6 BY MR. LEVITT:

7 1929 Q. Okay, I am asking you do you see
8 what I am putting here, what I have just read, "on
9 reading [...] the Affidavit of James Riley"?

10 MR. MOORE: We can see what is on the
11 screen.

12 MR. LEVITT: It is not a trick
13 question, sir. I am not trying to trick you.

14 MR. MOORE: Yes, we can see what is on
15 the screen.

16 THE DEPONENT: We can see what is on
17 the screen, but I am not sure what the question is.
18 What is the question?

19 BY MR. LEVITT:

20 1930 Q. My question is that Justice
21 Chiappetta gave an order based on the reading of
22 your affidavit and the affidavit of Joshua Suttner;
23 correct? That is what it says here?

24 A. Well, and I will quibble with
25 that. If I read it --

1 1931 Q. You are going to quibble with --

2 MR. MOORE: Just a minute here. Mr.

3 Levitt --

4 MR. LEVITT: You are --

5 MR. MOORE: Mr. Levitt, let me just put
6 something on the record here before you go too far.

7 You see the paragraph of that order
8 that is stroked out? It is right on the screen
9 there now.

10 MR. LEVITT: You sought a contempt
11 order --

12 MR. MOORE: It is --

13 MR. LEVITT: -- against me that --

14 MR. MOORE: You will see that refers to
15 an earlier order dated January 7, 2019, okay. That
16 is what I was alluding to earlier when I made
17 reference to a consent order.

18 My recollection is -- and if you get
19 the whole record of the complete chronology of
20 events, that will be the most accurate summary of
21 it. But my recollection is that Justice Chiappetta
22 regarded that January order - and you are flipping
23 around now so we can't see what you are referring
24 to - that January 9th order was a consent order.
25 That was the origin of the proceedings -- or of

1 your question. That is what I was referring to.

2 MR. LEVITT: I am just --

3 MR. MOORE: And so my position -- just
4 a minute, let me finish. My position is if you are
5 going to ask questions of this witness about that
6 chronology of events, you should have all of the
7 documents in one place so that we can examine them
8 in totality, not one here and one there and
9 cherry-pick.

10 BY MR. LEVITT:

11 1932 Q. I have. Deana, can you please
12 enter this into evidence as an exhibit. It is an
13 affidavit from Symon Zucker. You raised the issue
14 with Mr. McFarlane, and it is a relevant issue now.
15 You raised the issue about Justice Chiappetta's
16 order.

17 Mr. Zucker says:

18 "I did not say he had docs. I
19 said that I would ask him to do a
20 search of his docs and meet with me
21 so I can review them. He has done
22 that and he has not found much..."

23 Now, your affidavit, sir, stated --

24 MR. MOORE: Just a minute, sir.

25 MR. LEVITT: No, no, Mr. Moore, let me

1 finish my --

2 MR. MOORE: As you well know -- just a
3 minute. As you well know, this provision of the
4 affidavit is something that we have had emails
5 about. It falls into the category of settlement
6 discussions and --

7 MR. LEVITT: No, it doesn't.

8 MR. MOORE: -- and it is not to be
9 dealt with now.

10 MR. LEVITT: No.

11 MR. MOORE: Yes.

12 MR. LEVITT: Mr. Moore, we can agree to
13 disagree, and I am going to ask the question and it
14 will be up to judge McEwen to make this
15 determination. I am going to ask the question. If
16 you refuse -- if the witness refuses, the witness
17 refuses. I am going to ask --

18 MR. MOORE: What is your question?

19 BY MR. LEVITT:

20 1933 Q. I am going to ask you, sir, you
21 obtained -- you put forward an affidavit in the
22 guarantee case to cite me in contempt of court by
23 saying I had discussions with Anson about funding
24 our defence. I am saying to you, sir, you have now
25 seen the affidavit from Mr. Zucker which has

1 disputed your affidavit, and you had emails from
2 Mr. Zucker prior to you entering your affidavit
3 into court. I will leave it at that and -- I'll
4 leave that and move on.

5 MR. MOORE: Just a minute, sir, for the
6 record, can you go back to the place in your
7 affidavit where Mr. Zucker's affidavit, Exhibit A,
8 is identified?

9 MR. LEVITT: Yes.

10 MR. MOORE: Please do that, sir, before
11 we finish this segment of your questions.

12 MR. LEVITT: It is in my --

13 MR. MOORE: Please go back to the
14 paragraph where this Exhibit A is referenced.

15 MR. LEVITT: It is in my initial
16 affidavit, and you brought it, you brought this
17 in --

18 MR. MOORE: No, it is not. No, it is
19 not, sir. This --

20 MR. LEVITT: Really? It is page 2808,
21 Mr. Moore. Please don't interfere with my
22 cross-examination. Your affidavit --

23 MR. MOORE: I don't understand where
24 you are getting this.

25 MR. LEVITT: Mr. Moore, please, let me

1 finish my questioning. You can interrupt me at
2 another stage, please.

3 MR. MOORE: Well, go ahead. Let me
4 just explain to you something, sir.

5 MR. LEVITT: No.

6 MR. MOORE: There is two Zucker
7 affidavits --

8 MR. LEVITT: No.

9 MR. MOORE: Just a minute.

10 MR. LEVITT: Mr. Moore --

11 MR. MOORE: There is two Zucker
12 affidavits, okay. I am trying to figure out which
13 one you are talking about. So you say this is from
14 your first affidavit?

15 MR. LEVITT: Mr. Moore, let me finish
16 my cross-examination. Stop putting answers into
17 the witness's mouth.

18 MR. MOORE: I am not putting answers.
19 Listen, sir, do you see on the left there it says
20 "EE. Symon Zucker Affidavit"? That is the exhibit
21 reference, to my understanding, okay.

22 What you had on the screen a few
23 minutes ago or a minute ago was a document that
24 appeared to be Exhibit A.

25 Now, there is two Zucker affidavits

1 that you have attached to your materials, as you
2 know. One of them is in an area which I have
3 identified as a part that we believe should not be
4 on the record because it is part of a settlement
5 discussion, and we just want to clarify --

6 MR. LEVITT: And Mr. --

7 MR. MOORE: Just a minute. I want to
8 clarify which Zucker affidavit you were asking
9 about earlier.

10 BY MR. LEVITT:

11 1934 Q. Exhibit 17 on my supplementary
12 affidavit, and it is here in Exhibit DD and EE in
13 my filing affidavit. And I am going to move on,
14 because I don't want you to waste any more of my
15 time to finish the cross-examination of the
16 witness, or I will be seeking to continue my
17 examination.

18 [Court Reporter intervenes for
19 clarification.]

20 I want you to mark the affidavits of
21 Symon Zucker, and I will send it to the parties
22 afterwards around again.

23 I would like to move on with my
24 cross-examination, but, Deana, I will send them to
25 all the parties because Mr. Moore stated I made a

1 false representation in chambers relating to the
2 deemed undertaking. I asked Mr. Moore to produce
3 all the motions, the corrected motions that I
4 brought to Justice Hainey of which he claims was
5 false. Will you give me that undertaking, Mr.
6 Moore?

7 U/A MR. MOORE: I will provide you -- I
8 don't think it is really relevant to this
9 proceeding, but I will take that under advisement.

10 And I guess, sir, you don't remember
11 Justice Hainey's reaction when he saw how you
12 blatantly misquoted Justice Chiappetta's order and
13 inserted the word "discovery" instead of
14 "cross-examination". I guess you don't recall
15 that, but I'll take that question under advisement.

16 MR. LEVITT: You accuse me of making a
17 false representation to Justice Hainey. I am
18 asking you to produce the motion and the amended
19 motion that I made, of which you actually
20 misrepresented to Justice Hainey.

21 So let's move on, please, sir.

22 Mr. Riley, were there any --

23 MR. MOORE: Do you remember how Justice
24 Hainey talked about if you wanted to proceed with
25 that ill-founded motion, we could do so the

1 following week, but if it --

2 MR. LEVITT: Mr. Moore --

3 MR. MOORE: -- associated in terms of
4 costs, do you remember that, sir?

5 MR. LEVITT: Mr. Moore, I am not going
6 to argue with you, and please stop interrupting my
7 cross-examination.

8 MR. MOORE: Well, I'm just responding
9 to your accusations, so let's move on.

10 BY MR. LEVITT:

11 1935 Q. Mr. Riley, were there over 200
12 million dollars worth of assets in Horizontal Well
13 Drillers for you to make a loan that is
14 collateralized?

15 MR. DEARDEN: So the question is, were
16 there over 200 million dollars worth of assets in
17 Horizontal Well Drilling for you to make a loan
18 that is collateralized?

19 BY MR. LEVITT:

20 1936 Q. Yes, was this -- you are an
21 asset-based lender? Did you make a loan on the
22 back of assets in Horizontal Well Drillers?

23 A. Well, one of the assets that I
24 think was included in that loan was the anticipated
25 benefits of the so-called Venezuelan contract.

1 1937 Q. Right. Mr. Riley, has Callidus or
2 Catalyst ever been the subject of an inquiry or
3 probe by the RCMP?

4 A. I can answer. The answer is no.

5 1938 Q. Mr. Riley, you received a
6 confidential email -- or sorry, an email from a
7 person called Vincent Hanna and which you
8 identified as a fictional movie character from
9 Heat. By the way, I liked that movie as well. I
10 share that with you, okay.

11 You received that email and you went to
12 IMET, according to your affidavit? According to
13 your evidence that you have given, you went to IMET
14 on learning supposedly of a conspiracy against you;
15 correct? You went to IMET?

16 A. No, we actually went to -- we went
17 to IMET, but we went to them when Reuters raised
18 that issue.

19 1939 Q. Can you provide --

20 A. So that would be in June or July.

21 1940 Q. Can you provide evidence -- can
22 you provide disclosure of all the communications
23 with IMET that you had?

24 R/F MR. DEARDEN: No.

25 BY MR. LEVITT:

1 1941 Q. So that is a refusal.

2 Have you ever been the subject of an
3 investigation or inquiry from the SEC or OSC
4 relating to matters in the whistleblower reports?

5 R/F MR. MOORE: Don't answer that question.
6 That question or a similar question was put by
7 Mr. Lucas a couple of weeks ago. The question is
8 an improper question and not just in this case, but
9 in my practice of the law, for that kind of
10 broad-ranging question to be asked, it is an
11 improper question. So I am instructing the witness
12 not to answer, and you should know better than to
13 ask it. We have already dealt with this before.

14 BY MR. LEVITT:

15 1942 Q. Thank you, so that is a refusal.
16 I get it.

17 So you were approached by Danny Guy
18 after you had gone to IMET; is that correct? You
19 said IMET, that you went in July and then you
20 were -- Danny Guy contacted you about the Wall
21 Street Journal article or something like that?

22 A. Yes, that is correct. That is
23 correct.

24 1943 Q. Okay. Have you, as a result of
25 the guarantee action that you are faced with, you

1 obtained possession of attorney-client and
2 solicitor-client privileged materials. Have you
3 actually segregated those emails; yes or no?

4 MR. MOORE: As a result of what?

5 MR. LEVITT: Your claims. You are in
6 possession, sir, of materials that were
7 solicitor-client privileged; correct?

8 MR. MOORE: Not correct. I have no
9 idea what you are referring to.

10 MR. LEVITT: Well, I'll move on.

11 MR. MOORE: What we received, sir, from
12 you -- we are not going to get into the whole
13 details of it. You know what we received and who
14 it came from. I am not going to debate all of
15 that.

16 BY MR. LEVITT:

17 1944 Q. I am going to move on here, and
18 this is number 9 of the Wall Street Journal
19 statement that you put out after the appearance of
20 the Wall Street Journal article, right. Can you
21 identify --

22 MR. DEARDEN: Are you referring to the
23 August 9, 2017, "Callidus Statement Regarding
24 Allegations in the Wall Street Journal"?

25 BY MR. LEVITT:

1 1945

Q. Right, it says here:

2 "These allegations presented
3 are primarily based on anonymous
4 sources and are believed to have
5 been initiated by individuals
6 against whom Callidus has current
7 litigation relating to the
8 enforcement of guarantees. Those
9 individuals have already had the
10 opportunity to present their
11 allegations in court without
12 success. That is because the
13 allegations are false."

14 Did I read that correctly, sir?

15 **A.** Yes.

16 1946

Q. Would it be fair to say at that
17 time that you were still in litigation with Bluberi
18 or a principal of Bluberi?

19 **A.** We were still -- we were in CCAA
20 proceedings.

21 1947

Q. Mr. Riley, were you in
22 proceedings, any litigation with Mr. Duhamel?

23 **A.** No, we were not. As relating to
24 the enforcement of guarantees, we were not.

25 1948

Q. So were the --

1 **A.** There was no guarantee enforcement
2 action against Mr. Duhamel at that time, and nor is
3 there today.

4 1949 **Q.** There is no proceedings whatsoever
5 against Duhamel?

6 **A.** Excuse me --

7 MR. MOORE: No, you have to read that.
8 Stop --

9 THE DEPONENT: Excuse me, I am going to
10 read this again, and I want you to listen:

11 "These allegations presented
12 are primarily based on anonymous
13 sources and are believed to have
14 been initiated by individuals
15 against whom Callidus has current
16 litigation", for emphasis, "relating
17 to the enforcement of guarantees."

18 There was no guarantee enforcement
19 action Mr. Duhamel at any time, nor is there
20 currently any enforcement action.

21 BY MR. LEVITT:

22 1950 **Q.** Read the next sentence, please.

23 **A.** "Those individuals have already
24 had the opportunity [...]", but those individuals
25 are the ones who are providing the anonymous

1 sources.

2 1951 Q. Can you please just read the next
3 sentence?

4 A. "Those individuals have already
5 had the opportunity to present their
6 allegations in court without
7 success."

8 1952 Q. And the next sentence?

9 A. "That is because the allegations
10 are false."

11 1953 Q. Were you in litigation with
12 Mr. Baumann from Alkin at that time?

13 A. He had had an opportunity to put
14 forward those allegations.

15 1954 Q. I am asking you, sir, were you in
16 litigation with Mr. Baumann?

17 A. Yes.

18 1955 Q. Were you in litigation with myself
19 and Mr. Molyneux?

20 A. Yes.

21 1956 Q. So that statement isn't exactly
22 true, is it?

23 A. No, you have presented those
24 allegations in connection with the original claim
25 relating to -- for example, in using the example

1 Opus.

2 1957 Q. Well, you are not addressing --

3 A. Opus?

4 1958 Q. You are not answering my question.

5 I am asking you --

6 MR. MOORE: No, no, let him answer. He
7 is answering your question.

8 BY MR. LEVITT:

9 1959 Q. I am asking the question, were you
10 in litigation with Mr. Baumann? It is as simple as
11 that. Were you in litigation with Mr. Baumann?

12 A. Yes.

13 1960 Q. Were you in litigation with Mr.
14 Levitt, myself and Mr. Molyneux?

15 A. Yes.

16 1961 Q. And were there any form of court
17 proceedings whatsoever in relation to Bluberi at
18 all?

19 A. We weren't addressing Bluberi in
20 that, so I will answer there was a CCAA proceeding
21 but that doesn't -- that was not addressed in that
22 statement.

23 1962 Q. That statement is false, sir, and
24 you released a public statement which is false and
25 actually went to the credibility of Mr. Baumann,

1 myself and other parties. That statement is false.
2 I am going to move on.

3 MR. MOORE: Well, you can make that
4 speech all you like. We don't agree with that, so
5 let's move on.

6 BY MR. LEVITT:

7 1963 Q. So you don't agree that Callidus
8 was -- that parties had the opportunity to present
9 their allegations in court without success because
10 the allegations are false. You are saying has
11 current litigation, okay, and have had their day in
12 court. Have I had my day in court? Mr. Riley,
13 have I had my day in court with you on the
14 guarantee?

15 A. Could I step back for a second,
16 sir. In the case of Opus, let's deal with Opus,
17 there was an order made by the court in which they
18 determined that Callidus had done nothing wrong
19 vis-a-vis Opus. You are claiming in your --

20 1964 Q. Well --

21 A. You are claiming in your guarantee
22 action that we did something that will get you off
23 the guarantee.

24 1965 Q. What?

25 A. In the same proceeding, in the

1 same proceeding in the United States relating to
2 Smith's guarantee the court found no fraudulent
3 misrepresentation. It found that Mr. Smith was a
4 sophisticated businessman and was given legal
5 advice at the time, and that was --

6 1966 Q. And he --

7 A. And that was the judgment of
8 the --

9 1967 Q. And he appealed that order and you
10 settled with him for \$10,000 on a 20 million dollar
11 guarantee; correct?

12 A. We settled that because we wanted
13 to get information on the conspiracy.

14 1968 Q. Right, you --

15 A. And Mr. Smith was virtually
16 bankrupt at the time.

17 1969 Q. Exactly, as you have almost
18 bankrupted all of us, sir. But let's go back here.

19 MR. MOORE: Let's get on with the
20 questioning, as most of this is argument back and
21 forth.

22 BY MR. LEVITT:

23 1970 Q. Did you offer to settle with
24 Mr. Smith for \$10,000 on a guarantee for 20 million
25 dollars provided he withdraw any statement critical

1 of Callidus; correct?

2 **A.** Correct.

3 1971 Q. And would that be the same for
4 Mr. Levy?

5 **A.** I would have to go back and look
6 at that settlement again, but I think essentially
7 they had to admit that they had no basis for
8 asserting a fraudulent misrepresentation claim.

9 1972 Q. Right, and that would have been in
10 a settlement agreement which wasn't under oath, so
11 I --

12 **A.** No, but that was a settlement
13 agreement -- it is interesting, that provision in
14 that part of the settlement agreement was drafted
15 by his counsel, Levy's counsel, Levy and Molyneux's
16 counsel.

17 1973 Q. Thank you for your --

18 **A.** Those were his words.

19 1974 Q. Besides the editorial that you
20 have just given us, you really didn't answer my
21 question. I am asking you --

22 MR. DEARDEN: That is unfair. That is
23 unfair, Mr. Levitt. It wasn't an editorial. It
24 was a fact.

25 BY MR. LEVITT:

1 1975 Q. Well, I disagree with you, sir.
2 We'll agree to disagree.

3 Mr. Riley, did you have any
4 disagreements with your auditors at Callidus
5 relating to accounting treatment of assets or
6 loans?

7 A. There would be discussions each
8 period, but ultimately they had to be satisfied in
9 order to sign their audit opinion.

10 1976 Q. Okay. So I would like you to
11 please produce the communications and discussions
12 with the auditors relating to how your assets and
13 portfolio loans were dealt with, and my question --

14 R/F MR. DEARDEN: I object. He is not
15 going to do that.

16 MR. LEVITT: All right, so it is a
17 refusal.

18 MR. DEARDEN: It is too broad. You are
19 fishing. There is no specifics. It's not
20 happening.

21 BY MR. LEVITT:

22 1977 Q. Okay, I am talking about the
23 accounting treatment of any loans, but anyway,
24 we'll move on because we are short on time and I
25 needed the extra five minutes there that was taken.

1 Did Callidus have any internal
2 controls?

3 MR. DEARDEN: Are you talking
4 accounting controls, security controls? What are
5 you talking about?

6 BY MR. LEVITT:

7 1978 Q. Accounting controls.

8 A. Yes.

9 1979 Q. And would you agree that Callidus
10 intentionally slowed down its loan book?

11 A. At one point, yes, because we
12 wanted to make sure we had taken appropriate
13 corrective action. I think that was stated in
14 March of 2015 in I think the quarterly MD&A.

15 1980 Q. All right, Mr. Riley, you have
16 stated -- you have stated that -- hang on, sorry.

17 Do you have a disclosure policy at
18 Callidus?

19 MR. DEARDEN: What do you mean by a
20 "disclosure policy"?

21 BY MR. LEVITT:

22 1981 Q. Well, a lot of public companies
23 have disclosure policies. Do you have disclosure
24 policies? In other words --

25 MR. DEARDEN: I don't understand what

1 you are talking about.

2 BY MR. LEVITT:

3 1982 Q. What would constitute a threshold
4 for any disclosure? Normally public companies
5 would have a disclosure policy. Do you have that
6 or did you have that? I guess Callidus is no
7 longer operating. Did you have that?

8 A. I don't -- I really don't, I mean,
9 I don't understand.

10 1983 Q. It is very simple. Sir, you
11 were --

12 A. No, it's not. Sorry, I apologize,
13 you think it is simple. I don't understand the
14 question.

15 1984 Q. Did Callidus --

16 MR. MOORE: Disclosure has many --

17 MR. LEVITT: It is --

18 MR. MOORE: Disclosure is --

19 MR. LEVITT: Mr. Moore --

20 MR. MOORE: Companies don't have a
21 policy where they say, well, this will be our
22 version of disclosure --

23 MR. LEVITT: Mr. Moore, no --

24 MR. MOORE: -- the OSC requirements.

25 [Court Reporter intervenes for

1 clarification.]

2 MR. LEVITT: Mr. Moore, respectfully
3 you are putting the answer into the mouth of the
4 witness, and I don't appreciate that.

5 MR. MOORE: No, I am not.

6 MR. LEVITT: I am asking you --

7 MR. MOORE: This is pretty many basic.

8 BY MR. LEVITT:

9 1985 Q. Mr. Moore, please --

10 A. Mr. Levitt, what are you holding
11 up in your hand that you are trying to get me to
12 look at?

13 1986 Q. These are my questions, sir. I
14 want you to --

15 A. Sorry, I just didn't know what it
16 was. You were holding up something and I didn't
17 know what it was.

18 1987 Q. It is nothing from the movie Heat.

19 MR. MOORE: No, no, Mr. Levitt, if you
20 have some document that you think in your
21 terminology constitutes a disclosure policy,
22 then --

23 MR. LEVITT: Well --

24 MR. MOORE: No, just let me finish --
25 I'm inviting you to put it to the witness so that

1 he can comment.

2 My comment was simply reflecting the
3 fact that public companies have a common obligation
4 in terms of what the rules are, and they don't
5 normally, to my understanding, have a whole series
6 of different policies that are different and
7 discrete from what the overall rules are.

8 Now, if you have got some document that
9 you think that would amount to a disclosure policy,
10 please identify it and we'll see what the questions
11 are.

12 BY MR. LEVITT:

13 1988 Q. I don't have the document, sir.
14 I'm asking if it exists at Callidus.

15 A. Okay, we are talking just about
16 Callidus. I don't recall whether we had a separate
17 disclosure policy, but our disclosure -- our public
18 disclosures were mandated by the Securities Act
19 where we are having to report material changes; the
20 TSX rules which we were subject to for disclosure;
21 and the accounting disclosure that is mandated
22 by -- and MD&A disclosure that is mandated by the
23 Ontario Securities Act and the rules under that
24 Act.

25 1989 Q. Right, so you had a disclosure

1 policy. Can you please produce it?

2 MR. DEARDEN: Well, that is not what
3 the witness said.

4 THE DEPONENT: That is not what I said,
5 sir. I said I don't believe we had a separate
6 disclosure policy. Do you want me to -- are you
7 suggesting that I give you a copy of The Securities
8 Act?

9 BY MR. LEVITT:

10 1990 Q. No, I didn't --

11 A. Because that is really what you
12 are saying.

13 1991 Q. No, my question is do you have a
14 disclosure document. Sir, you are arguing with me.
15 And I am only asking if you had a disclosure
16 policy; yes or no?

17 A. Okay, I --

18 MR. DEARDEN: He is not arguing with
19 you. That is unfair. He gave you the answer.

20 BY MR. LEVITT:

21 1992 Q. Sir, out of the amount of yield
22 enhancements that were recognized versus
23 unrecognized, how much did unrecognized yield
24 enhancement constitute out of the total yield
25 enhancements that you claimed?

1 **A.** Sorry, when? Sorry, do you have a
2 document you want to take me to?

3 1993 **Q.** You claimed yield enhancement from
4 2015 or early 2016. I am asking you, out of the
5 total yield enhancements that you claimed for
6 Callidus, how much constituted unrecognized and how
7 much was recognized? Simple question, sir. Why
8 are you --

9 **A.** I don't have an answer to that. I
10 would have to go back through the public documents
11 which are available to you, and I would have to
12 look at which ones were recognized and which ones
13 were unrecognized. Recognized went through the
14 financial statements and unrecognized stayed in
15 MD&A.

16 1994 **Q.** Can you please undertake to
17 provide that?

18 R/F **MR. DEARDEN:** No, he is not doing your
19 homework for you.

20 **MR. MOORE:** It has been provided
21 through the continuous disclosure references.

22 **MR. LEVITT:** Actually, it is not
23 because a lot of the yield enhancements were
24 relating to discussions with auditors, Mr. Moore,
25 of which you publicly stated that yield

1 enhancements are vetted by auditors and outside
2 parties.

3 MR. MOORE: Well, this is a complete
4 distortion of the record. Let's not debate this.

5 MR. LEVITT: Okay, let's go --

6 MR. MOORE: What I am telling you is --
7 what the witness has said is if there are
8 recognized yield enhancements, they will be
9 adverted to in the financial statements. If there
10 are unrecognized yield enhancements, they will be
11 adverted to in the MD&A. All of that documentation
12 has been produced. That is what I am saying.

13 BY MR. LEVITT:

14 1995 Q. I am asking you, were there any
15 discussions with auditors about the treatment of
16 unrecognized yield enhancements, simple as that?

17 A. No, the reason being that auditors
18 do not take a view on your MD&A.

19 1996 Q. Right, so it would have been dealt
20 with internally; correct?

21 A. Well, it would have been -- no,
22 not just internally, externally with the
23 independent directors who are the Audit Committee.

24 1997 Q. Okay, independent directors and
25 valuers; correct?

1 **A.** Yes.

2 1998 **Q.** I would like you to produce all of
3 those records and discussions relating to
4 discussions of unrecognized yield enhancements of
5 which the OSC, sir, stopped you from using?

6 **A.** I disagree with that
7 characterization --

8 1999 **Q.** You can disagree with --

9 **A.** -- and the -- but let me answer it
10 because you asked a question there, I think, or you
11 tried to. What is this -- you keep putting things
12 up --

13 2000 **Q.** Don't worry about it. I am
14 trying --

15 **MR. MOORE:** No, no, Mr. Levitt, when
16 the witness is in the middle of providing an
17 explanation in response to an unfinished exchange
18 between you and him, you should let him do that
19 rather than pull up a new document on the screen
20 and move on and distract him from what he was
21 doing. That is what Mr. Riley is asking.

22 **MR. DEARDEN:** So just to refresh his
23 memory of the question that he was about to answer,
24 it is:

25 "I would like you to produce

1 all of those records and discussions
2 relating to discussions of
3 unrecognized yield enhancements of
4 which the OSC, sir, stopped you from
5 using?"

6 BY MR. LEVITT:

7 2001 Q. Thanks, that is a very -- can you
8 undertake that?

9 MR. DEARDEN: He is answering the
10 question.

11 BY MR. LEVITT:

12 2002 Q. No, the question is will you
13 undertake to produce it? Why am I getting a whole
14 editorial about it? You are either going to refuse
15 it or you are going to say -- I don't want an
16 explanation. I am asking you to produce it.

17 **A.** I am going to say this for the
18 record, as it were, because I am answering the
19 question you are asking.

20 I think you have to go back. If you
21 look at each individual item and the evolution of
22 yield enhancement disclosure, we responded each
23 time to further questions from the OSC, and
24 ultimately, we decided that we were not going to be
25 able to satisfy their standards as they perceived

1 them. It was not worth going to any kind of
2 hearing as to whether or not we were obliged or how
3 we were obliged to disclose it, so therefore, we
4 chose consensually to stop disclosing yield
5 enhancement, consensually.

6 2003

 Q. All right, can you please provide
7 all the responses to the OSC and inquiries from the
8 OSC relating to yield enhancements?

9 R/F MR. MOORE: No, we have already dealt
10 with the OSC exchanges on a prior day and our
11 position remains the same.

12 MR. LEVITT: That is a refusal, Mr.
13 Moore.

14 MR. MOORE: Yes, that's right. That's
15 right.

16 BY MR. LEVITT:

17 2004

 Q. All right, that's all I'm asking.

18 I guess the obvious question we all
19 want to know, Mr. Riley, is based on the collateral
20 coverage that Callidus had, often, you know, 112 to
21 500 percent in some cases, and an asset-based
22 lender, how did you lose so much money? The
23 obvious question, how did you lose so much money,
24 400 million dollars, sir, over 400 million dollars?

25 R/F MR. MOORE: Well, that is -- probably

1 might be in the terms of reference for a royal
2 inquiry of some kind that would take a very, very
3 long time to get into, which is not this case. So
4 I don't think that is a proper question in that
5 form at all.

6 MR. LEVITT: I am going to put it to
7 Mr. Riley anyway. If it is refused, we'll take it
8 as a refusal.

9 MR. MOORE: You have my answer and my
10 position already.

11 MR. LEVITT: That is a refusal, Mr.
12 Moore?

13 MR. MOORE: Well, put it again. Go
14 ahead, put it again to him.

15 BY MR. LEVITT:

16 2005 Q. Okay, that is a refusal. Please
17 note it as a refusal.

18 Mr. Riley, you claimed that parties
19 like myself filed a police report and in Ontario
20 and an SEC filing in order to get a benefit. Would
21 that -- what would that benefit -- you have stated
22 that it would be to get off personal guarantees; is
23 that correct? Is that your position?

24 MR. DEARDEN: Can you take him to where
25 you say he claims that parties like yourself filed

1 a police report in Ontario --

2 BY MR. LEVITT:

3 2006 Q. Well, I am sued in a conspiracy
4 about filing false reports to SEC, OSC, police, et
5 cetera, in order to short sell. Well, there is no
6 evidence of that. There is no evidence of any --
7 what benefit do you think I got, sir, Mr. Riley?
8 What benefit do you think I would have achieved;
9 can you please explain that? To get off a personal
10 guarantee, is that your position?

11 A. That would be one of the benefits.
12 Another benefit might be revenge.

13 2007 Q. Revenge, really?

14 A. Because you felt you were
15 mistreated.

16 2008 Q. We don't have the kind of deep
17 pockets, sir, that Catalyst has, the billions of
18 dollars of luxury to litigate against you, and you
19 know that.

20 And so I am going to ask you, did you
21 propose that our guarantees be settled? I am not
22 asking about the terms of the settlement. Did you
23 propose that my personal guarantee would be settled
24 at some point?

25 R/F MR. MOORE: Don't answer the question.

1 You know that that is an area that is in dispute as
2 to whether it is admissible or permissible to
3 include in your affidavit in terms of whatever
4 settlement discussions are in issue and that have
5 taken place. You know that is an area we have
6 identified separately and which remains an
7 outstanding issue.

8 BY MR. LEVITT:

9 2009 Q. Well, for the record, I never
10 accepted a withdrawal, for a number of reasons,
11 being public policy, sir.

12 R/F MR. MOORE: Sir, you can keep putting
13 the questions as long as you like and keep going if
14 you want, but you know that this is an area which
15 is the subject of privilege, settlement privilege.

16 So ask all your questions. Go ahead to
17 your heart's content. I am going to instruct the
18 witness not to answer this one. We'll hear your
19 next one and see if it falls in the same category.

20 BY MR. LEVITT:

21 2010 Q. Mr. Riley, how much of the
22 unrecognized yield enhancements actually
23 materialized that you claimed? Can you please
24 undertake to provide me with that information?

25 MR. DEARDEN: Are you going to give him

1 specifics, since you brought the question --

2 BY MR. LEVITT:

3 2011 Q. No. On any loans -- let me put it
4 this way, Mr. Dearden. On any loans that Callidus
5 claimed unrecognized yield enhancements, please
6 provide me information as to which of those
7 unrecognized enhancements actually materialized,
8 actually materialized? How much of it
9 materialized? Are you refusing that?

10 R/F MR. DEARDEN: Yes.

11 BY MR. LEVITT:

12 2012 Q. Okay. Mr. Riley, Mr. Dalton was
13 an Interim CEO who prepared a report for the board
14 titled -- it is some type of remediation report.
15 Did Callidus take any of his recommendations in
16 that report?

17 R/F MR. MOORE: It is impossible to answer
18 that question without getting into the substance of
19 a document over which privilege has already been
20 claimed. You know that that has been an issue
21 previously. It came up on a prior examination.
22 The same position, don't answer that question.

23 BY MR. LEVITT:

24 2013 Q. Mr. Riley, FrontWell Capital is 85
25 percent owned by Catalyst Capital --

1 [Court Reporter intervenes for
2 clarification.]

3 FrontWell Capital, the successor
4 company to Callidus Capital, of which Mr. Dalton is
5 the President or CEO or something like that.

6 **A.** I think he is President and CEO,
7 but I am not -- I would have to confirm his title,
8 but he is the senior executive.

9 2014 Q. Mr. Riley, did FrontWell Capital
10 adopt any of Mr. Dalton's recommendations in the
11 report?

12 R/F MR. MOORE: Don't answer the question.

13 MR. LEVITT: So that is a refusal. So,
14 sir, this --

15 MR. DEARDEN: And what do you mean by
16 "successor", Mr. Levitt?

17 MR. LEVITT: I beg your pardon?

18 MR. DEARDEN: "Successor company"?

19 MR. LEVITT: Sorry, I don't understand
20 your comments.

21 MR. DEARDEN: I didn't understand what
22 you meant by "successor company" in your question
23 about FrontWell Capital.

24 BY MR. LEVITT:

25 2015 Q. Is FrontWell Capital -- well, most

1 of the people that left Callidus Capital appears to
2 be working at FrontWell Capital. I am not going to
3 get into a debate about that because I have ten
4 minutes left and I have more pressing issues.

5 So my question to you is, FrontWell
6 Capital is owned 85 percent by Catalyst Capital,
7 and it has 350 million dollars of seed capital
8 presumably from Catalyst; would that be correct,
9 Mr. Riley?

10 **A.** I --

11 MR. MOORE: Well --

12 MR. LEVITT: Mr. Moore, I would ask --

13 U/A MR. MOORE: We'll take that question
14 under advisement. I am not sure what the relevance
15 is of questions about FrontWell Capital to this
16 proceeding, so --

17 MR. LEVITT: It is relevant --

18 MR. MOORE: I am going to instruct the
19 witness not to answer that question, but we'll take
20 it under advisement. If you have got more
21 questions like that, put them on the record and
22 we'll consider them.

23 BY MR. LEVITT:

24 2016

25 Q. It doesn't seem like you have
suffered any reputational damage to be getting 350

1 million dollars in seed capital from anybody.

2 MR. MOORE: Well, that is a statement.
3 If you have a question, please put a question. If
4 it pertains to that company you just mentioned,
5 we'll likely take it under advisement, but put
6 whatever additional questions you have about that
7 as opposed to making a statement.

8 BY MR. LEVITT:

9 2017 Q. Mr. Riley, you are familiar with
10 the litigation with Mr. Duhamel and Bluberi where
11 the Supreme Court ruled from the bench and
12 reinstated the court of first instance reasoning
13 for the judgments, right?

14 A. Yes, they overturned the Court of
15 Appeal.

16 2018 Q. So, Deana, I am going to enter
17 into evidence the court of first instance and the
18 Supreme Court. I haven't got it now,
19 unfortunately, Mr. Riley, but I will send it to Mr.
20 Dearden and Mr. Moore. If I can send it across, if
21 that is okay, Mr. Dearden, a little bit later? I
22 am not that tech-friendly, so I'll try my best to
23 send it around.

24 MR. DEARDEN: That is okay.

25 MR. MOORE: So you are going to reserve

1 an exhibit number for the Quebec initial decision
2 and the Court of Appeal decision for the record,
3 and I take it then the Supreme Court subsequent
4 decision?

5 MR. LEVITT: Yeah, well, I think --

6 MR. MOORE: That is fine.

7 MR. LEVITT: I think the Court of
8 Appeal is really irrelevant because the Supreme
9 Court reinstated the court of first instance, so I
10 am only going to put those two; it is the court of
11 first instance and the Supreme Court.

12 MR. MOORE: That is fine. I think we
13 saw the other one elsewhere in the record, but I
14 just want to understand what you are doing. That
15 is fine.

16 BY MR. LEVITT:

17 2019 Q. Now, I do have here, Mr. Riley,
18 where you say in the Q1 and Q2 2016 -- well, let me
19 just see if I can find it. Oh, boy. I am really
20 trying my best here.

21 Actually, it is Exhibit 8 and 9 of my
22 supplementary. Let me see if I have got it here.
23 No.

24 I am also going to enter into evidence,
25 by the way, Mr. Baumann's updated Defence and

1 Counterclaim in the guarantee action in Alberta.

2 MR. DEARDEN: What is the relevance of
3 that?

4 BY MR. LEVITT:

5 2020 Q. In Mr. Riley's affidavit, he gave
6 just the first action, the first defence
7 Mr. Baumann entered in, not the most recent, which
8 he had possession of at the time he entered his
9 affidavit. It is half the story.

10 And, Mr. Riley, just for the -- I think
11 we are going to close out in a few minutes. You
12 only became aware of the whistleblower report, by
13 the way, or you and anybody at Callidus or Catalyst
14 when we made production, and I am talking about me;
15 is that correct? That has been your evidence --

16 MR. DEARDEN: Sorry, Mr. Levitt, what
17 whistleblower report are you referring to?

18 MR. LEVITT: You have told --

19 MR. DEARDEN: The Wall Street Journal
20 reported four of them.

21 BY MR. LEVITT:

22 2021 Q. Okay, so I am asking you, I am
23 asking when did -- I am asking whether Callidus
24 only became aware of my whistleblower report or a
25 whistleblower report that I filed when it was

1 production time. That is all I'm asking. It is
2 really -- it is just that's what I am asking. When
3 was the time you became aware of my whistleblower
4 report?

5 A. We did not see whistleblower
6 complaints until they were proffered in this
7 proceeding.

8 2022 Q. Okay, I am just going to put on
9 the screen here March 31st, 2020, and it is an
10 article that "Catalyst Capital Sees Spike in
11 Distressed, Rescue Deals with Prolonged COVID-19
12 Downturn", and it will -- I don't know why it is
13 printed like this, but let's have a look.

14 MR. DEARDEN: And this article appears
15 in what publication?

16 MR. LEVITT: It is in Buyout.

17 MR. DEARDEN: The date? March 31st,
18 2020?

19 BY MR. LEVITT:

20 2023 Q. Yeah. I am going to read a
21 paragraph:

22 "Catalyst is also being
23 'overwhelmed' by inbound requests
24 for rescue financing [...]"

25 You have been overwhelmed by inbound

1 requests for rescue financing. Do you see where
2 I'm going here with this, where my cursor is?

3 **A.** I do.

4 2024 Q. Can you please enter this, Deana,
5 into an exhibit.

6 MR. DEARDEN: Mr. Levitt, I don't
7 believe Mr. Riley has read this exhibit you have
8 just --

9 MR. LEVITT: I am going to just --

10 MR. DEARDEN: Well, now you have just
11 taken it off the screen.

12 MR. LEVITT: I'll put it up, sir. I'll
13 put it up, Mr. Dearden.

14 How do we do this? Oh, boy. Sorry,
15 this would be the Supreme Court of Canada, and
16 this -- let's move on. I think we only --

17 MR. MOORE: Do you want to overnight
18 just organize these documents and come back in the
19 morning?

20 BY MR. LEVITT:

21 2025 Q. Absolutely. I don't want to take
22 time from any of the others, but I really need like
23 15 minutes to finish my stuff. I really don't want
24 to hold anybody up for --

25 **A.** You have asked me the question --

1 you have brought up a document that purported to be
2 something from Gabriel de Alba to a publication.
3 Could you please bring that up again, because you
4 wanted to put it in but I don't know what reason
5 you would put it in.

6 2026 Q. I am going to circulate, as Mr.
7 Moore said, and that is fair enough. I take Mr.
8 Moore's suggestion, and it is very fair that I do
9 that. I have no problem with that.

10 A. Okay.

11 2027 Q. It is just that it's easier to do.
12 I don't want to stress -- I don't want to provide
13 any stress to anybody. It is the end of the day.
14 Maybe we can all go watch Heat for the fifth time.

15 MR. DEARDEN: We have watched it about
16 25 times.

17 MR. LEVITT: I am sure you have, sir.
18 It is a very good movie.

19 You know, it is 5 o'clock, and in
20 fairness, in fairness to everybody, subject to
21 being able to come back for 15 minutes tomorrow and
22 also dealing with the refusals and undertakings and
23 what emanates from that, would it be fair to come
24 back - and I guess Dimitri is on the phone and he
25 might be on in the morning - to come back in the

1 morning for 10 or 15 minutes and just finish up
2 tomorrow? I really shouldn't take much more than
3 that, if that is okay. It shouldn't --

4 MR. LASCARIS: Well, if I may, I
5 anticipate, you know, about a couple of hours, I
6 think maybe less, but the issue isn't so much for
7 me as it is for Phil.

8 So perhaps Phil can chime in, but
9 assuming Phil is fine with it, I don't have a
10 problem with Mr. Levitt going for 15 minutes in the
11 morning before I begin.

12 MR. LEVITT: Yes, just 15, that is all
13 I need. I don't need more than that.

14 MR. LASCARIS: Phil? Or maybe if
15 Jennifer, who is a colleague of Phil, is on the
16 line?

17 MR. TUNLEY: I'm on the line.

18 MR. LASCARIS: Sorry.

19 MR. TUNLEY: No, it is no worry. I am
20 happy -- I think what I would like to suggest is,
21 if I may, without incurring anybody's comment,
22 adverse comment, I would like to try and assist
23 Mr. Levitt to organize his documents and get them
24 filed in the morning. If he has a few questions to
25 follow up in addition, I don't think I am going to

1 have a problem.

2 Why don't you let me work with him
3 overnight to get the documents that he has already
4 referred to organized and presented in the record.

5 MR. LEVITT: I appreciate that.

6 MR. DEARDEN: Phil, it is Rick here.
7 Can you email PDFs of those documents to us tonight
8 so that we can print them out and Mr. Riley can
9 read them?

10 MR. TUNLEY: One of Mr. Levitt or I
11 will do something like that, Mr. Dearden, and we'll
12 try to resume in an orderly way tomorrow. If there
13 are, as I say, some cleanup questions that Mr.
14 Levitt needs to put, I am pretty sure we've got
15 room, but we'll coordinate.

16 MR. LASCARIS: Sorry, so just to be
17 clear, what is the final plan for tomorrow?

18 MR. DEARDEN: Mr. Levitt is going to
19 start at 10:00, but hopefully well before 10:00
20 a.m. tomorrow morning the documents that Phil just
21 referred to will be in our hands so that Mr. Riley
22 can read them.

23 MR. LEVITT: Yes, thank you.

24 MR. LASCARIS: Okay, I would continue
25 and then, Phil, you would follow me; is that

1 correct?

2 MR. TUNLEY: That's correct, yeah.

3 MR. LASCARIS: Okay, that is fine.

4 MR. LEVITT: Mr. Riley, thank you very
5 much. I know it is always tough, but if we can go
6 off the record, Deana.

7

8 -- Adjourned at 5:02 p.m.

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REPORTER'S CERTIFICATE

I, DEANA SANTEDICOLA, RPR, CRR,
CSR, Certified Shorthand Reporter, certify:

That the foregoing proceedings were
taken before me at the time and place therein set
forth, at which time the witness was put under oath
by me;

That the testimony of the witness
and all objections made at the time of the
examination were recorded stenographically by me
and were thereafter transcribed;

That the foregoing is a true and
correct transcript of my shorthand notes so taken.

Dated this 24th day of November, 2020.



NEESONS, A VERITEXT COMPANY.

PER: DEANA SANTEDICOLA, RPR, CRR, CSR

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EXHIBIT #14

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

B E T W E E N :

CALLIDUS CAPITAL CORPORATION

Plaintiff

- and -

JEFFREY J. MCFARLANE

Defendant

OFFER TO SETTLE

The Defendant, Jeffrey J. McFarlane, offers to settle this proceeding on the following terms:

1. payment by the Defendant to the Plaintiff in the amount of US \$250,000.00;
2. payment by the Defendant to the Plaintiff of interest on the amount of US \$250,000 at the applicable *Courts of Justice Act*, R.S.O. 1990, c. C.43, pre-judgment interest rate from the date of commencement of this proceeding to the date of this offer;
3. payment by the Defendant of the Plaintiff's costs of this proceeding on a partial indemnity basis to the date of this offer;
4. payment of the Defendant's costs of this proceeding on a partial indemnity basis after the date hereof;
5. due charge of the collateral mortgage provided under and securing the Guarantee which is the subject matter of this proceeding, including any related steps required to release the Defendant from the collateral mortgage;

6. the Plaintiff will execute a Full and Final Release in a form acceptable to counsel for the Defendant, including provisions for the release of all obligations under the Guarantee and customary third party indemnification clauses; and
7. the Plaintiff will consent to dismiss the action on a without costs basis.

This offer shall remain open for acceptance until five minutes after the commencement of the Plaintiff's summary judgment motion currently scheduled for May 24, 2016.

March 18, 2016

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CALLIDUS CAPITAL CORPORATION
Plaintiff and JEFFREY J. MCFARLANE
Defendant

Court File No: CV-13-10310-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

Proceeding commenced at TORONTO

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