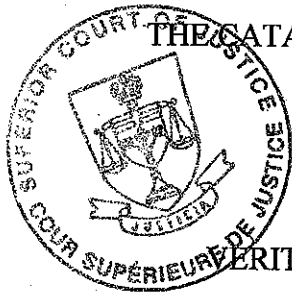


**ONTARIO
SUPERIOR COURT OF JUSTICE**

BETWEEN:



THE CATALYST CAPITAL GROUP INC. and CALLIDUS CAPITAL CORPORATION

Plaintiffs

and

**VERITAS INVESTMENT RESEARCH CORPORATION and
WEST FACE CAPITAL INC.**

Defendants

STATEMENT OF CLAIM

TO THE DEFENDANT(S):

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the Plaintiff. The Claim made against you is set out in the following pages.

IF YOU WISH TO DEFEND THIS PROCEEDING, you or an Ontario lawyer acting for you must prepare a Statement of Defence in Form 18A prescribed by the *Rules of Civil Procedure*, serve it on the Plaintiff's lawyer or, where the Plaintiff does not have a lawyer, serve it on the Plaintiff, and file it, with proof of service, in this court office, **WITHIN TWENTY DAYS** after this Statement of Claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your Statement of Defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

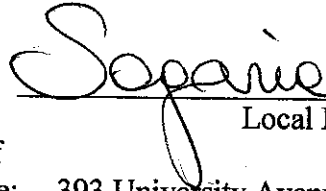
Instead of serving and filing a Statement of Defence, you may serve and file a Notice of Intent to Defend in Form 18B prescribed by the *Rules of Civil Procedure*. This will entitle you to ten more days within which to serve and file your Statement of Defence.

IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO DEFEND THIS PROCEEDING BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

IF YOU PAY THE PLAINTIFF'S CLAIM, and \$1,000.00 for costs, within the time for serving and filing your Statement of Defence, you may move to have this proceeding dismissed by the Court. If you believe the amount claimed for costs is excessive, you may pay the Plaintiff's Claim and \$400.00 for costs and have the costs assessed by the Court.

Date June 18, 2015

Issued by



M. Sagaria
Registrar

Local Registrar

Address of
court office:

393 University Avenue
10th Floor
Toronto, Ontario
M5G 1E6

TO: Veritas Investment Research Corporation
100 Wellington Street West
TD West Tower, Suite 3110, PO Box 80
Toronto, ON M5K 1E7

AND TO: West Face Capital Inc.
2 Bloor Street East, Suite 3000
Toronto, ON M4W 1A8

CLAIM

1. The Plaintiffs claim against the Defendants, on a joint and several basis:
 - (a) A declaration that the Defendants defamed the Plaintiffs;
 - (b) Damages in the amount of fifty million dollars (\$50,000,000.00) for defamation, conspiracy and intentional interference with economic relations;
 - (c) Punitive or aggravated damages in the amount of \$5,000,000.00;
 - (d) Prejudgment and postjudgment interest in accordance with sections 128 and 129 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended;
 - (e) The costs of this action, plus the applicable taxes; and
 - (f) Such further and other relief as to this Honourable Court may seem just.

A. The Parties

2. The Plaintiff The Catalyst Capital Group Inc. ("Catalyst") is a corporation with its head office located in Toronto, Ontario. Catalyst is widely recognized as the leading firm in the field of investments in distressed and undervalued Canadian situations for control or influence, known as "special situations investments for control".

3. The Plaintiff Callidus Capital Corporation ("Callidus") is a corporation with its head office located in Toronto, Ontario. Callidus is a publicly traded asset-based lender that provides capital on a bridge basis to meet the financing requirements of companies that cannot access traditional lending sources.

4. Callidus engages in asset-based lending by lending to corporate businesses and taking security against the assessed or appraised value of working capital and an identifiable portfolio

of assets, which may included accounts receivable, inventory, equipment, real estate, and other assets.

5. In April 2014, Callidus made an initial public offering (“IPO”) of approximately forty per cent of its issued and outstanding shares. Prior to the IPO, Callidus was wholly owned by Catalyst. Investment funds managed by Catalyst continue to own or control approximately sixty per cent of the issued and outstanding shares of Callidus.

6. The Defendant Veritas Investment Research Corporation (“Veritas”) is an equity research company with its headquarters located in Toronto, Ontario. Veritas prepares and publishes investment research reports, which it distributes to its subscriber clients.

7. The Defendant West Face Capital Inc. (“West Face”) is a Toronto-based private equity corporation with assets under management of approximately \$2.5 billion. West Face competes with Catalyst in the special situations for control investment industry.

B. Background: Ongoing Litigation between Catalyst and West Face

8. In June 2014, Catalyst commenced an action against West Face and a former Catalyst employee Brandon Moyse (“Moyse”), for, among other things, misuse of confidential information.

9. On July 16, 2014, West Face and Moyse consented to an order (the “Interim Order”) pursuant to which, among other things, Moyse agreed to preserve his records relevant to his activities since March 27, 2014 and to have his personal electronic devices, including his personal computer, forensically imaged pending further order of the Court.

10. On or about October 9, 2014, Catalyst amended that action to claim against West Face for misuse of Catalyst's confidential information to acquire, together with other members of an investment syndicate, the shares of Globalive Wireless Management Corp., which operates as "Wind Mobile" (the "Wind Action").

11. On November 10, 2014, in an interlocutory motion brought in the Wind Action, this Honourable Court determined that Catalyst had shown a strong *prima facie* case that Moyses had communicated Catalyst's confidential information to West Face. As a result, among other things, the Court authorized an Independent Supervising Solicitor ("ISS") to review the forensic images of Moyses's personal electronic devices.

12. In February 2015, the ISS released a report which determined, among other things, that on the morning of July 16, 2014, Moyses had downloaded to his personal computer military-grade deletion software, and that on the evening of July 20, 2014, the day before his electronic devices were imaged, Moyses launched the deletion software.

C. Asset-Based Lending

13. Asset-based lending encompasses a number of financing alternatives, including commercial finance, factoring, equipment loans, leasing, and mortgages, but typically refers to commercial finance where loans are secured by assets and subject to a borrowing base.

14. 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 differentiate asset-based lending from "traditional" commercial or corporate lending.

15. 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.

16. 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, or to refinance existing debt.

D. West Face Targets Callidus for a Short-Selling Strategy

17. Short-selling is an investment strategy whereby an investor borrows shares in a publicly traded corporation and then sells the borrowed shares to third parties. A short sale strategy anticipates that the shares will decline in value, at which point the investor will buy back shares at the lower price and return them to the party from which it originally borrowed shares. Selling borrowed shares in this fashion is known as "selling short".

18. If the shares decline in value as anticipated, the difference between the higher price at which the investor sold the shares and the lower price at which the investor bought them back represents a profit to the investor.

19. If, instead of declining in value as anticipated by the investor, the shares appreciate in value, then the investor loses money on the investment. At some point, in order to cap its losses, the investor will buy back the shares at a higher price and return them to the lender. Because, in theory, the potential price of any stock is unlimited, the potential loss on a short-selling strategy is infinite.

20. In mid-October 2014, shortly after Catalyst amended its statement of claim in the Wind Action, West Face commenced a short-selling strategy against Callidus without conducting in-depth research to support the risks associated with such a strategy.

E. West Face and Veritas Conspire to Publish Defamatory Statements About Callidus

21. On or about December 17, 2014, three partners of West Face met with representatives of Veritas. The West Face partners in attendance were Greg Boland, West Face's CEO and co-Chief Investment Officer ("Boland"); Peter Fraser, West Face's other co-Chief Investment Officer; and Anthony Griffin. The Veritas representatives in attendance included Anthony Scilipoti, Veritas' President and CEO; Dimitry Khmel'nitsky and Taso Georgopolous.

22. At this meeting, Boland informed the Veritas representatives that West Face had produced a negative report about Callidus and that West Face had engaged in a short selling strategy with respect to Callidus. Boland arranged for West Face to share its report with Veritas for the purpose of inducing Veritas into publishing a second negative report on Callidus.

23. At the December 17, 2014 meeting and/or in future communications and/or correspondence, made at times known only to the Defendants, the Defendants entered into a conspiracy to defame Callidus and Catalyst and to interfere with Callidus' economic relations by publishing false and defamatory statements about Callidus so as to induce a broad sell-off of Callidus shares (the "Conspiracy").

24. The Defendants' intended to create the impression that they had separately and independently publish negative reports about Callidus for the purpose of deceiving market participants into believing that a negative consensus was building regarding Callidus. In fact,

unbeknownst to the public, including market participants, the Defendants were acting jointly and in concert.

25. Beginning in November 2014, and continuing to March 2015, on specific dates known only to West Face, West Face distributed a report impugning Callidus and Catalyst to market participants (the "West Face Report"). The West Face Report was distributed to third parties, the identities of which are known to West Face.

26. On or about April 16, 2015, Veritas published a report impugning Callidus and Catalyst to market participants (the "Veritas Report"). The Veritas Report was distributed to Veritas' subscribers and is available for download from its website by its customers.

F. The Defendants Defamed Catalyst and Callidus

27. The West Face Report makes the following false and defamatory statements about Callidus and Catalyst to the effect that:

- (a) Callidus claims not to have realized losses on principal on Callidus-originated loans;
- (b) Six of the loans Callidus has outstanding are in restructuring, bankruptcy or court proceedings;
- (c) Callidus' loan book contained approximately \$235 million in loan commitments that have undisclosed strong indicators of material impairment;
- (d) Callidus secures its loans against undeveloped mining assets;
- (e) Callidus' customers typically have negative cash flow, are in bankruptcy or are severely distressed;
- (f) Callidus' public disclosure misstates the value of its loan impairment provisions;
- (g) Callidus has misrepresented the quality of its loan book to its investors;

- (h) Impairments in any single loan in Callidus' loan book would have a meaningful impact on its earnings and book value;
- (i) Callidus is at risk of a 20% write-down of its "identified" loan book;
- (j) Prior to and after the IPO, Catalyst increased the size of Callidus' loan book by taking on lower-quality loans;
- (k) Callidus claims it can loan \$1 billion to distressed borrowers without incurring any loan losses;
- (l) Callidus is similar to a U.S. business development corporation ("BDC"); and
- (m) West Face obtained its information from publicly available sources.

28. The Veritas Report makes the following false and defamatory statements about Callidus and Catalyst to the effect that:

- (a) Eight of the loans Callidus originated since 2012 are in restructuring;
- (b) Callidus' loan book contained approximately \$235 million in loan commitments that have undisclosed strong indicators of material impairment;
- (c) Callidus' customers typically have negative cash flow, are in bankruptcy or are severely distressed;
- (d) Callidus' public disclosure misstates the value of its loan impairment provisions;
- (e) Callidus has misrepresented the quality of its loan book to its investors;
- (f) Callidus' auditors are unable to verify the fair value of loans at any given point in time and are unable to challenge its loan loss provisioning;
- (g) Catalyst profited from its non-arm's length relationship with Callidus at the expense of Callidus' shareholders by, among other things, selling loans to Callidus at inflated values;
- (h) Catalyst, as a "new" manager of Callidus, has increased the size of Callidus' loan book by taking on lower quality loans;

- (i) Prior to and after the IPO, Catalyst increased the size of Callidus' loan book by taking on lower-quality loans;
- (j) Callidus claims it can loan \$1 billion to distressed borrowers without incurring any loan losses;
- (k) Callidus is similar to a U.S. business development corporation ("BDC"); and
- (l) Veritas obtained its information from publicly available sources.

G. Callidus Sought Retractions of the Reports

29. Between December 15, 2014 and January 28, 2015, outside counsel for Callidus and West Face exchanged correspondence regarding the West Face Report. In this exchange of correspondence, Callidus' counsel repeatedly asked to see a copy of the West Face Report because Callidus believed that the West Face Report contained false and defamatory statements about Callidus which required correction so as not to mislead the public market.

30. West Face's outside counsel refused Callidus' repeated requests for a copy of the West Face Report. Moreover, in his correspondence, West Face's outside counsel refused to confirm or deny that a report existed or had been shared with third parties, notwithstanding that this was the case.

31. By letters dated April 24 and 27, 2015, Callidus requested a retraction of the Veritas Report. Callidus informed Veritas that its report contained incorrect and/or misleading statements that, if left uncorrected, risked misleading investors in Callidus and Catalyst and the wider market.

32. Veritas refused to retract its report.

H. Damages Suffered by the Plaintiffs

33. The comments made by the Defendants as described above (the “Defamatory Comments”) are defamatory, and the Defendants acted maliciously and with a reckless disregard for the truth. The West Face Report and the Veritas Report were published by the Defendants to harm Callidus and Catalyst by inducing market participants to sell their Callidus shares and/or lower their estimates of Callidus’ future performance.

34. As a result of that activity, West Face profited through its short selling strategy, while Veritas sought to demonstrate to its subscribers that its research reports are capable of predicting future market activity.

35. These Defamatory Comments were not made for a proper purpose; the Defamatory Comments were made by the Defendants to gain financially from their conduct – West Face sought to profit from its short selling strategy and Veritas sought to gain financially by increasing its subscriber base through the publication of a seemingly “contrarian” report on a publicly traded company.

36. The Defendants published the Defamatory Comments in an attempt to bring Callidus’ and Catalyst’s reputations in the financial industry into disrepute.

37. In addition, without limiting the generality of the foregoing, Callidus has suffered damages in that its share price has been lower for a prolonged period of time than it otherwise would have been had the Defendants not made the Defamatory Comments.

I. Interference with Callidus' Economic Relations

38. By publishing the Defamatory Comments, the Defendants deceived third-party market participants into believing that Callidus' share price was overvalued and that Callidus was at risk of significant future losses. The Defamatory Comments were made to induce these market participants to sell their Callidus shares, thereby lowering its share price for a prolonged period of time.

39. In so doing, the Defendants interfered with Callidus' economic relations with its investors and caused harm to Callidus in the form of a lower share price. Callidus' ability to raise capital in future will be impaired by the Defendants' conduct. As a result, Callidus has suffered significant damages, full particulars of which will be provided prior to trial.

40. The Plaintiffs claim that an award of punitive damages is appropriate, having regard to the high-handed, wilful, wanton, reckless, contemptuous and contumelious conduct of the Defendants. Accordingly, the Defendants are liable, on a joint and several basis, to the Plaintiff for punitive damages as described in subparagraph 1(c) above.

41. The Plaintiffs propose that this action be tried at Toronto.

June 18, 2015

LAX O'SULLIVAN SCOTT LISUS LLP

Counsel

Suite 2750, 145 King Street West

Toronto, Ontario M5H 1J8

Rocco Di Pucchio LSUC#: 38185I

Tel: (416) 598-2268

rdipucchio@counsel-toronto.com

Andrew Winton LSUC#: 54473I

Tel: (416) 644-5342

awinton@counsel-toronto.com

Fax: (416) 598-3730

Lawyers for the Plaintiffs

THE CATALYST CAPITAL GROUP INC. et al.
Plaintiff

CV-15-530726

-and- VERITAS INVESTMENT RESEARCH CORPORATION et al.
Defendants

Court File No. CV-15-

ONTARIO
SUPERIOR COURT OF JUSTICE
PROCEEDING COMMENCED AT
TORONTO

STATEMENT OF CLAIM

LAX O'SULLIVAN SCOTT LISUS LLP
Counsel
Suite 2750, 145 King Street West
Toronto, Ontario M5H 1J8

Rocco Di Pucchio LSUC#: 381851
rdpucchio@counsel-toronto.com
Tel: (416) 598-2268

Andrew Winton LSUC#: 544731
Tel: (416) 644-5342
awinton@counsel-toronto.com

Fax: (416) 598-3730

Lawyers for the Plaintiffs