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Via Fax: (416) 866-4146

Mr. Taso Georgopoulos
Veritas Investment Research Corporation
100 Wellington Street West, Suite 3110
PO Box 80
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Toronto ON M5K 1E7

Dear Mr. Georgopoulos:

Re: The Catalyst Capital Group Inc. and Callidus Capital Corporation

We are counsel to The Catalyst Capital Group Inc. ("Catalyst") and to Callidus Capital Corporation ("Callidus"). We understand that you and Veritas Investment Research Corporation ("Veritas") recently published a "research report" in which you purport to provide an independent analysis of Callidus (the "Report").

The Report contains several incorrect and/or misleading statements concerning Callidus and Catalyst that, if left uncorrected, risk misleading investors in Callidus and Catalyst and the wider market.

To be clear, Catalyst and Callidus take issue with the thoroughness of your research and analysis and with the accuracy of the entire Report. For the purposes of this letter, however, we wish to highlight in particular the following errors:

Credit Quality and "Understated Risk"

As you know, Callidus is an asset-based lender. As Callidus has repeatedly stated publicly, its loans are secured by collateral in the form of accounts receivable, inventory, equipment or other assets. Inventory and fixed assets are typically appraised by third party valuators using liquidation values, following which Callidus will commit to a loan that is a percentage of the appraised value.

Any properly trained Bay Street analyst would understand that an asset-based loan is not at risk so long as the value of the loan is less than the value of the underlying collateral. Notwithstanding this simple concept, the Report repeatedly states that Callidus can "disguise" the risk inherent in its loan portfolio and that its loan portfolio is at risk of suffering significant losses. Examples of these misleading statements include:

> Page 1:
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> "Of the loans we can identify from Callidus' book, approximately $235M commitments have strong indicators of material impairment, representing ~20% of total commitments."
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> "Due to the unique nature of Callidus' borrower collateral, there is greater inherent subjectivity in valuation of the loans and impairment provisions."
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> Pages 12-13:
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> "We have identified various indicators of impairment for certain loans. [...] These loans represent approximately 44% of the committed facilities identified [...] and ~20% of total commitments. [...] Absent the guarantee, we estimate that the losses on these loans could approach 50% or more."
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> Page 14:
>
> "Auditors are at a substantial information disadvantage to management: Given the disparate range of industries the company invests in (mining, technology, airlines, oil and gas, etc.), the wide range of collateral the company accepts and the specific valuation appraisals required for that collateral, auditors will be heavily reliant upon management to accurately represent the fair value of the loans at any given point in time. Since management obtains the appraisals and performs the valuation of the collateral, there is risk that auditors will not be able to challenge management's loan loss provisioning effectively or in a timely manner."

At page 16, the Report uses Harvey Industries LLC as an example of how Callidus allegedly understates the credit risk of a borrower. The Report states, "As seen previously, Callidus lends to borrowers in various states of financial distress. Some of these borrowers have negative cash flow."

The Report proceeds to "analyze" the Harvey Industries loan by reference to cash flows, and concludes on page 17, "We have identified at least $235M of loans where the borrowers are in bankruptcy or are severely distressed. We believe the scenario described above would not be atypical for a borrower of Callidus."

This analysis, which is indicative of the overall tone of the Report, is unfair and misleading, and creates the false impression that a debtor company's cash-flow is a valid indicator of risk. Moreover, there is no basis for Veritas to suggest that KPMG, Callidus' auditor, is unable to perform its obligations as auditor or that Callidus is capable of over-stating the value of the collateral securing its loans.

As stated above, Callidus is an asset-based lender. Its loans are secured by collateral. The cash flow of a borrower company is not indicative of the risk to Callidus of impairment so long as the loan is adequately secured by the underlying collateral. By suggesting otherwise, the Report deliberately casts false aspersions on the quality of Callidus' loan book.

The Report repeatedly acknowledges that Veritas is unable to quantify the potential for loan losses because it cannot value the underlying collateral. Knowing this to be the case, the Report's repeated statements throughout that Callidus is understating the risk of unexpected loan losses in its loan portfolio is a deliberate falsehood intended to mislead investors. To put matters bluntly, how can Veritas credibly "estimate" that losses on identified loans "could approach 50% or more" after admitting that it cannot value the underlying collateral for those loans? At best, that statement is reckless; at worst it is intentionally misleading.

Role of Catalyst in Relation to Callidus

The Report states at page 6, "The ability to make loans at 1x P/B privately and sell at 2x P/B publicly likely helped drive Catalyst Fund Investment performance. The reason investment performance of Catalyst Funds is important for Callidus shareholders is that management has stated that additional loan growth will be in part fueled by a new Catalyst Fund V which, according to management, has already had its first close in 2015."

This statement suggests that Catalyst seeks to profit from its non-arm's length relationship with Callidus at the expense of Callidus investors. This is blatantly false.

Callidus and Catalyst have publicly disclosed that future sales to Callidus of Catalyst's interest in an Active Portfolio (as that term is defined in Callidus' public filings) will be priced at book value; in other words, the loan will be sold to Catalyst at par. The Report defames Catalyst by incorrectly suggesting that the opposite is true.

Criticism of "New Management"

The suggestion that permeates pages 5 and 6 of the Report is that "new" management (*i.e.*, Catalyst) has increased the size of Callidus' loan book by taking on lower-quality loans. Figure 1 is used to support this view. This is simply untrue on many levels. For example, while the Report states that there were five loans in restructuring under prior management, in fact there were eight (three of which incurred loan losses). Thus, when using the correct figures, one can easily see that the total number of loans in restructuring over the time periods compared in Figure 1 has remained relatively constant, despite the fact that the size of the book has grown over those years. The Report presents a highly misleading picture.

It is also incorrect to characterize Callidus' management as "new" when Newton Glassman has been the chair of Callidus' credit committee since 2006. Moreover, if Veritas had conducted any research on Callidus' previous senior management, it would have known that previous senior management attempted, and failed, to effectively compete with Callidus through Alignvest Private Debt, an asset-based lender that has recently decided to wind-down its operations.

The Report's suggestion that Callidus is under "new" management, or that there has been a change in management's competence since the departure of Callidus' former CEO, is false and defames Catalyst.

Loan Loss Provisions

Page 2 of the Report states that "Callidus may experience loan losses in excess of its current 2% provisions." This statement is false and misleading – Callidus' current loan loss provisions, as disclosed in its most recent financial statements, are approximately 3.5%. Indeed, this is subsequently acknowledged at page 13 of the Report.

The misleading nature of this statement is compounded by the rhetorical question found at the conclusion of the Report on page 19, which states "Why would you believe you can operate a portfolio of $1B to $2B in loans, made to people near or in bankruptcy, charge them 20% interest rates, and have **zero** loan losses?"

This statement is grossly misleading. In recent years, Callidus experienced zero realized loan losses, but Callidus has **never** claimed that it will experience zero loan losses in the future. Quite the opposite is true: Callidus has publicly disclosed that it has current provisions for loan losses of 3.5%.

The Report's repeated misstatements regarding loan loss provisions is a deliberate attempt to misconstrue Callidus' disclosure on loan losses and defames Callidus by suggesting Callidus is attempting to deceive its investors.

Moreover, you imply that Callidus lends routinely to creditors who are "in bankruptcy". One of the examples you have cited involves debtor-in-possession financing to Arthon. As any analyst knows, DIP lending is one of the safest forms of secured credit, as it is secured by a first charge on assets and subject to very close oversight involving not only the debtor company but a CCAA Monitor, who is an officer of the Court. In addition, in spite of the extensive research you claim to have done, you fail to point out to your readers that Arthon successfully emerged from CCAA proceedings in or around December 2014 and is no longer in the coal business. There are many more examples of such material omissions in the Report.

Veritas Must Retract the Report Forthwith

These are merely a few of the many misstatements and misleading innuendos contained in the Report which serve to highlight the sloppiness of the "analysis" in general. In light of the foregoing, Callidus and Catalyst are justifiably concerned that the Report will mislead investors and potential investors by spreading false statements and innuendos about Callidus and Catalyst that its authors knew, or ought to have known, are untrue.

Our clients demand an immediate and unqualified retraction or complete correction of the Report consistent with information available in the public record by no later than 5 p.m. on Monday, April 27, 2015. The retraction or correction must be distributed to every recipient of the Report and published on Veritas' website in a publically available webpage, in a form satisfactory to our clients, failing which our clients will take whatever steps they deem necessary to deal with this matter.

We look forward to hearing from you promptly.

Yours truly,

Rocco DiPucchio

copy to: Anthony Scilipoti, President & CEO
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