

Braslyn to Acquire Minority-Held Common Shares of Callidus Capital

TORONTO, Aug. 15, 2019 /CNW/ - Callidus Capital Corporation ("**Callidus**" or the "**Company**") (TSX:CBL) is pleased to announce that it has entered into a definitive agreement (the "**Arrangement Agreement**") with Braslyn Ltd. ("**Braslyn**") pursuant to which Braslyn will acquire all of the issued and outstanding common shares (the "**Common Shares**") of the Company held by persons (the "**Minority Shareholders**") other than Braslyn, certain investment funds (the "**Catalyst Funds**") managed by The Catalyst Capital Group Inc. ("**Catalyst**"), Newton Glassman and James Riley by way of a court-approved Plan of Arrangement (the "**Transaction**") under the *Business Corporations Act* (Ontario). Pursuant to the Transaction, each Common Share held by Minority Shareholders will be acquired by Braslyn for cash consideration of \$0.75. The consideration represents a 62.3% premium to the 20-day volume weighted average trading price of Callidus common shares on the Toronto Stock Exchange (the "**TSX**") and a 82.9% premium to the closing price of Callidus' common shares on the TSX, as of August 15, 2019.

As the Catalyst Funds own 41,245,776 Common Shares (representing approximately 72.2% of the Common Shares) the Transaction constitutes a "business combination" within the meaning of Multilateral Instrument 61-101 - *Protection of Minority Securityholders in Special Transactions* ("**MI 61-101**").

The Transaction has been unanimously recommended by a special committee of independent directors (the "**Special Committee**") and has been approved by those directors in their capacity as the board of directors (the "**Board**") of the Company (with Newton Glassman and James Riley, as representatives of Catalyst on the Board, abstaining). If approved by shareholders, the transaction is expected to close in the fourth quarter of 2019, subject to satisfaction of certain customary conditions.

Required Approvals

The Transaction is subject to, among other things, the approval of holders of Common Shares at a special meeting of shareholders (the "**Meeting**"). To be effective, the Transaction must be approved by a resolution passed at the Meeting by not less than two-thirds of the votes validly cast by holders of Common Shares, present in person or by proxy at the Meeting. As discussed below, the Catalyst Funds and the directors of the Company that own Common Shares have agreed with Braslyn to vote their Common Shares in favour of the Transaction, subject to certain conditions.

Pursuant to the "minority approval" requirements of MI 61-101, the Transaction must also be approved by a simple majority of the votes validly cast by the Minority Shareholders present in person or by proxy at the Meeting.

Closing of the Transaction is also subject to certain other customary conditions, including court approval.

Board Approval and Recommendation

For the purposes of overseeing the privatization process undertaken by the Company that has led to the Transaction, negotiating the terms of the Transaction and making a recommendation in respect of the Transaction to the Board, the Board formed the Special Committee consisting of all of the independent directors of the Company.

The Transaction has been unanimously recommended by the Special Committee. As well, the Transaction together with the Arrangement Agreement has been approved by those directors in their capacity as the Board (with Newton Glassman and James Riley, as representatives of Catalyst on the Board, abstaining). The Board recommends that Minority Shareholders vote in favour of the Transaction at the Meeting. The rationale and principal reasons for the recommendations of the Special Committee and the Board are set forth below.

Terms of the Transaction

The terms of the Transaction are set forth in the Arrangement Agreement and other agreements referred to below. The following description of certain provisions of the Arrangement Agreement and Voting Agreements (as defined below) is a summary only, is not comprehensive and is qualified in its entirety by reference to the full text of the Arrangement Agreement and Voting Agreements, which are being filed by the Company on SEDAR and will be available under the Company's profile at www.sedar.com.

Arrangement Agreement

The Arrangement Agreement provides the agreement of Callidus and Braslyn to proceed to complete the plan of arrangement to effect the Transaction, and includes certain covenants and representations and warranties of each party in favour of the other. The Arrangement Agreement sets forth conditions to closing of the Transaction in favour of each party, including, among others: receipt of required shareholder and court approvals and any required regulatory approvals; the covenants of the other party required to have been performed having been performed in all material respects, and the truth and correctness of the other party's representations and warranties, in each

case, at the time of closing, subject to certain materiality standards; and in the case of the conditions in favour of Braslyn, dissent rights not being exercised in respect of more than 7.5% of the outstanding Common Shares other than the Common Shares held by Braslyn and its affiliates, the Catalyst Parties (as defined below) and any shareholder party to a Voting Agreement, and the absence of any material adverse change in respect of the Company having occurred.

The Arrangement Agreement provides that the Company may not solicit proposals from third parties to enter into certain specified types of transactions, including a plan of arrangement or other business combination transaction with the Company, to purchase a material amount of assets of the Company, or to make a take-over bid for the Common Shares (an "**Acquisition Proposal**"). If the Company receives an unsolicited Acquisition Proposal that it determines would result in a transaction that is more favourable from a financial point of view to the Minority Shareholders than the Transaction, and that meets certain other specified conditions (a "**Superior Proposal**"), the subject to the right of Braslyn to match any Superior Proposal over a period of 5 business days after receipt of notice of the Superior Proposal and certain required information (the "**Match Period**"), the Board may, subject to certain conditions, change its recommendation to Minority Shareholders and enter into an agreement with the party that has made the Superior Proposal, but may not terminate the Arrangement Agreement. One such condition is that the Superior Proposal may not require the Company to seek to interfere with the completion of the Arrangement, including requiring the Company to postpone or cancel the Meeting.

If the Arrangement Agreement is terminated in certain circumstances, then Braslyn will be entitled to a termination payment from the Company of \$2,000,000. Instances in which such termination payment is payable include:

- termination by Braslyn following a change in recommendation to Minority Shareholders by the Board or Special Committee regarding the Transaction;
- termination by Braslyn if the Company willfully or intentionally breaches certain of its covenants in the Arrangement Agreement; and
- termination of the Arrangement Agreement in certain circumstances if an Acquisition Proposal has been made or publicly announced prior to such termination, and either (i) an Acquisition Proposal is consummated within 270 days following such termination, or (ii) the Company has entered into a contract in respect of an Acquisition Proposal in such period of 270 days and subsequently consummates such Acquisition Proposal.

Voting Agreements

Braslyn has entered into voting support agreements with the Catalyst Funds, James Riley and a company controlled by Newton Glassman (collectively, the "**Catalyst Parties**") and each of the members of the Special Committee who owns Common Shares (collectively and together with the Catalyst Parties, the "**Supporting Parties**") providing for among other things, and subject to certain exceptions, the agreement of each of the Supporting Parties to vote their Common Shares at the Meeting in favour of the Transaction (the "**Voting Agreements**"). If, in the period prior to 5:00 p.m. ET on August 29, 2019 (the "**Specified Time**"), the Company is permitted under the terms of the Arrangement Agreement to engage in discussions or negotiations with any person regarding an Acquisition Proposal, the Voting Agreements permit each Supporting Party to engage in those discussions or negotiations and, provided that the Supporting Party simultaneously exercises its right to terminate the Voting Agreement as a result of a Superior Proposal, enter into agreements with respect to a Superior Proposal.

After the Specified Time, the Voting Agreements restrict the Supporting Parties from taking any of these actions. As a result of this restriction, it is unlikely that a third party would have sufficient time to complete a due diligence review and negotiate agreements with the Company and the Catalyst Parties on a timeline that will enable the Company to meet its obligation under the Arrangement Agreement to provide Braslyn with a matching right exercisable in the Match Period and allow the third party to enter into agreements with the Company and the applicable Supporting Parties, in each case prior to the Specified Time. As a result, third parties may be discouraged from making a Superior Proposal.

Shareholders Agreement

Braslyn and Catalyst, on behalf of the Catalyst Parties, have agreed to enter into a unanimous shareholders agreement with the Company immediately following the closing of the Transaction (the "**Shareholders Agreement**"). The Shareholders Agreement contains provisions relating to the governance and financing of the Company, and the parties' interests in the Company, in the period following the closing of the Transaction. Specific provisions of the Shareholders Agreement relevant to the Blair Franklin Valuation (as defined below) and the MPA Fairness Opinion (as defined below) are discussed below.

Recommendation of the Special Committee

In making its recommendation to the Board, the Special Committee received the advice and assistance of its legal and financial advisors and senior management of the Company, considered the Company's current market price and trading history, and evaluated the terms of the proposed Transaction and the Company's current business and financial position. The Special Committee considered the Company's future plans and prospects, including potential

risks, and took into account the potential effects of the proposed Transaction on the Company's business. The Special Committee also considered the potential effects on the Company of not entering into the Transaction or a transaction with other parties. The Special Committee unanimously determined that the consideration to be received by the Minority Shareholders pursuant to the Transaction is fair to the Minority Shareholders. Accordingly, the Special Committee unanimously recommended that the Board approve the Transaction, including the execution and performance by the Company of the Arrangement Agreement, and that the Board recommend to the Minority Shareholders that they vote in favour of the Transaction. In reaching this determination the Special Committee considered the procedural elements, benefits and costs discussed below, among other things.

Financial Advisers to the Special Committee

Blair Franklin Valuation

Blair Franklin Capital Partners Inc. ("**Blair Franklin**") was retained by the Special Committee to provide, under the supervision of the Special Committee, an independent formal valuation prepared in accordance with MI 61-101. Blair Franklin has advised the Special Committee that it has no relationship with the Company, Catalyst, the Catalyst Funds or Braslyn that would reasonably represent a conflict with its independence status under Part 6 of MI 61-101.

Among other matters, the Blair Franklin Valuation takes into account the provisions (the "**Specified Provisions of the Shareholders Agreement**") of the Shareholders Agreement, which takes effect after closing of the Transaction, that provide as follows: (i) during the twelve months from the date of the Shareholders Agreement, the Company will use reasonable efforts to sell certain of its wholly-owned subsidiaries on commercially reasonable terms and Braslyn will be entitled to 15% of the net proceeds of such asset sales following payment of certain amounts held in trust for the Catalyst Funds; (ii) the conversion on the date 12 months after the date of the Shareholders Agreement of outstanding amounts owing by Callidus to the Catalyst Funds under the subordinated credit facility and the Preferred Shares of Callidus held by the Catalyst Funds into Common Shares of Callidus representing 85% of the then-outstanding Common Shares; (iii) the termination of certain guarantees to Callidus by the Catalyst Funds; and (iv) the participation by Braslyn pro rata to its 15% equity in a \$20 million liquidity facility to be provided to Callidus as part of the Transaction. Blair Franklin has advised the Special Committee that, if its analysis were to be conducted without taking into account provisions of the Shareholders Agreement, the value attributable to holders of Common Shares would be negative and, accordingly, the valuation range would be materially below the Transaction price of \$0.75 per Common Share.

Blair Franklin has advised the Special Committee that it is obligated to consider the implications of the Shareholders Agreement as part of its valuation analysis pursuant to MI 61-101.

Accordingly, Blair Franklin has delivered its oral valuation opinion to the Special Committee on August 15, 2019, which reflected the determination that, as of August 15, 2019, subject to the assumptions, limitations and qualifications contained therein (including the effect of the Shareholders Agreement) the fair market value of the Common Shares was between \$1.55 and \$2.40 per Common Share (the "**Blair Franklin Valuation**").

MPA Fairness Opinion

The Special Committee engaged MPA Morrison Park Advisors Inc. ("**MPA**") as an independent financial advisor following its discussions with Blair Franklin regarding the approach Blair Franklin contemplated taking with respect to inclusion of adjustments to fair value arising from the Shareholders Agreement to be entered into at closing of the Transaction. MPA was retained by the Special Committee to provide its opinion as to the fairness, from a financial point of view, of the consideration to be provided to the Minority Shareholders pursuant to the Transaction (the "**MPA Fairness Opinion**"). The Company has agreed to pay MPA a fixed fee for providing the MPA Fairness Opinion, irrespective of whether the Transaction is completed and irrespective of MPA's conclusions with respect to the fairness of the consideration to be provided to Minority Shareholders pursuant to the Transaction. MPA is not entitled to any fee that is contingent on successful completion of the Transaction. MPA orally delivered the MPA Fairness Opinion on August 15, 2019.

As part of its analysis of fairness, MPA considered that Catalyst has made certain acknowledgements and representations to the Special Committee and MPA, including that (i) the terms of the Transaction are anticipated by Catalyst to be more favourable in aggregate to the Catalyst lenders than the expected aggregate net benefits to the Catalyst lenders of the exercise of their rights and remedies pursuant to the Catalyst Loans (as defined below); and (ii) the Catalyst Funds will not undertake an alternative transaction to the Transaction with any other person on the same or better terms than those negotiated with Braslyn for the Transaction, in each case based on its consideration of the applicable circumstances (the "**Catalyst Acknowledgements**").

MPA also considered the terms and conditions of the Shareholders Agreement, including, without limitation, the Specified Provisions of the Shareholders Agreement. In light of the Catalyst Acknowledgements, MPA concluded that the consideration to be provided to Braslyn under the Shareholders Agreement by the Catalyst Funds, including by virtue of the actions to be taken by Catalyst as referred to in the Specified Provisions of the Shareholders Agreement, is not an asset of Callidus and does not represent value available to Minority Shareholders.

For the reasons set out in the MPA Fairness Opinion and based on the analysis, assumptions, limitations and qualifications contained therein, MPA has concluded that as of August 15, 2019 (i) the consideration available to Minority Shareholders under the Transaction is greater than the value that could be achieved by the Minority Shareholders under any other feasible alternative currently available to the Company, and (ii) the benefits and other consideration to be received by Braslyn under the Shareholders Agreement does not compromise the fairness, from a financial point of view, of the consideration to be received by the Minority Shareholders pursuant to the Transaction, having regard to the consideration being given, and risks assumed, by Braslyn. Accordingly, MPA has provided its oral opinion to the Special Committee that the consideration to be received by the Minority Shareholders pursuant to the Transaction is fair, from a financial point of view, to the Minority Shareholders.

MPA has advised the Special Committee that it has no relationship with the Company, Catalyst, the Catalyst Funds or Braslyn that would reasonably represent a conflict with its independence status as defined under Part 6 of MI 61-101.

Reasons for Special Committee Recommendation

In recommending the Transaction, the Special Committee and the Board considered and evaluated a number of factors, including:

- ***Premium to Market Price.*** The consideration to be received by Minority Shareholders pursuant to the Transaction represents a 82.9% premium to the closing price of the Common Shares on the TSX on August 15, 2019 and a 62.3% premium to the 20-day volume weighted average price of the Common Shares on the TSX at such date.
- ***Certainty of Value and Liquidity.*** The consideration to be paid pursuant to the Transaction is all cash, which allows Minority Shareholders to immediately realize value for all of their investment, and provides certainty of value and immediate liquidity.
- ***Financial Performance of the Company.*** The Special Committee considered the decline in the financial performance of the Company as a result of its significant operating losses and negative cash flows from operations in the preceding two years, and the significant risk of ongoing deterioration in its financial performance. As a result of its declining financial performance, the Company has required ongoing funding by way of loans (the "**Catalyst Loans**") and support from the Catalyst Funds, which the Company is currently unable to repay or refinance. As at August 8, 2019, the aggregate indebtedness of the Company under the Catalyst Loans was approximately \$421 million. Catalyst has advised the Special Committee that, in the absence of the Transaction being completed, it will not grant further extensions of the repayment of the Catalyst Loans or renew the Catalyst Loans beyond their required repayment date of September 30, 2020. Further, the Special Committee does not believe that the Company would be able to independently raise the capital required to fund such repayment. The Special Committee therefore believes that there is a significant risk that the Catalyst Loans will be due and payable on September 30, 2020 and that, as the Company would be unable to fund such repayment, Catalyst would exercise its rights and remedies under the Catalyst Loans. Inevitably, that would lead to the insolvency and/or liquidation of the Company. In such circumstances, the Special Committee considers it unlikely that the Callidus shareholders (including Braslyn) would receive any value for their Common Shares.
- ***The Failure of the Privatization Process to Surface Other Acquisition Proposals.*** The Special Committee considered the nature and extent of the lengthy process undertaken to privatize Callidus or otherwise restructure the equity and debt interests in Callidus, and the failure of that process to surface an interested party willing to commit to a transaction other than Braslyn. In particular, having regard to (i) the public disclosure of the Company's efforts, together with its financial advisers, to undertake a privatization process over a lengthy period of time beginning on September 30, 2016, (ii) the press releases of Braslyn and the Special Committee dated December 6, 2018 relating to a non-binding proposal by Braslyn to acquire the Common Shares held by Minority Shareholders, (iii) the absence of any other party having made an alternate acquisition or other proposal or having, to the knowledge of the Company, a significant interest in the outstanding Common Shares, (iv) Catalyst's indication to the Special Committee that it would be unwilling to sell the interests of the Catalyst Funds in the Common Shares at a price near the current market price, and (v) the need for any party that was interested in making an acquisition proposal to achieve agreement with Catalyst regarding the terms on which the Company would be governed and how their respective interests in the Company would be managed following completion of a transaction, the Special Committee concluded that there is very limited likelihood that any other party would propose an alternative transaction to the Transaction.
- ***MPA Fairness Opinion.*** The Special Committee considered the MPA Fairness Opinion and concurred with its conclusions, including that the consideration to be provided to Braslyn under the Shareholders Agreement by the Catalyst Funds is not an asset of Callidus and does not represent value available to Minority Shareholders. The Special Committee has relied on the MPA Fairness Opinion that, as of the date thereof, and subject to the

assumptions, limitations and qualifications contained therein, the consideration to be received by Minority Shareholders pursuant to the Transaction is fair from a financial point of view to the Minority Shareholders.

- ***The Position of Braslyn.*** The Special Committee considered the unique circumstances of Braslyn and its possible motivation to undertake the Transaction, principally being its position as a significant shareholder of Callidus, and as well, the Special Committee's understanding of Braslyn's business experience relevant to the business of the Company and Braslyn's banking and other relationships that it would be able to extend to Callidus upon completion of the Transaction. The Special Committee also considered the risk that a further decline in the operating results and financial performance of Callidus might cause Braslyn to propose amendments to the terms of the Transaction that would be adverse to the interests of the Company and/or the Minority Shareholders, or even to withdraw its participation in the Transaction altogether. The Special Committee considered its inability to negotiate improved terms of the Transaction from Braslyn for the benefit of the Company and Minority Shareholders, notwithstanding its repeated efforts.
- ***The Position of Catalyst.*** Catalyst has advised the Special Committee that the terms of the Transaction, including the terms of the Shareholders Agreement, are anticipated by Catalyst to be more favourable in aggregate to the Catalyst Funds as lenders under the Catalyst Loans than the expected aggregate net benefits to the Catalyst Funds of exercising their rights and remedies pursuant to the Catalyst Loans or than any other alternative transaction. Catalyst has further advised the Special Committee, in response to repeated requests by the Special Committee, that it is not prepared to contribute additional funds to the Company, arrange for the Catalyst Parties to make an offer for the shares held by the Minority Shareholders, convert the Catalyst Loans to Common Shares, accept conveyance of assets in repayment of the Catalyst Loans, or otherwise improve the terms of the Transaction for Minority Shareholders. Catalyst has advised the Special Committee that the Catalyst Funds are providing consideration to Braslyn under the Shareholders Agreement in order to induce Braslyn to undertake the Transaction so that the Minority Shareholders will have the opportunity of receiving a cash offer for their Common Shares. The Special Committee recognized that the consideration to be provided by Catalyst to Braslyn under the Shareholders Agreement at closing of the Transaction has resulted in an opportunity for Minority Shareholders to receive value for their Common Shares that would otherwise not be expected to be available.
- ***Shareholder and Court Approval Required.*** The Board and Special Committee considered the following rights and approvals which protect Minority Shareholders:
 - the Transaction requires approval of a majority of the votes cast at the Meeting by Minority Shareholders, and the Minority Shareholders are therefore able to determine whether the Transaction is acceptable and is to proceed;
 - the Transaction must be court-approved, and the court will consider, among other things, the fairness of the Transaction to Minority Shareholders; and
 - Minority Shareholders have been provided with the right to exercise dissent rights in respect of the Transaction.
- ***Likelihood of Completion.*** The Special Committee considered the likelihood that the Transaction would be completed in light of the customary nature of the conditions to closing under the Arrangement Agreement and the fact that the Arrangement is not subject to a financing condition.

Based on its consideration of the foregoing and all other circumstances, which will be set forth in further detail in the Proxy Circular, the Special Committee concluded that completion of the Transaction is in the Company's best interests, that the consideration to be received by Minority Shareholders pursuant to the Transaction is fair to the Minority Shareholders and that the Transaction is fair to Minority Shareholders. The Special Committee therefore determined to recommend to the Board that it approve the Company entering into the Arrangement Agreement and that the Board recommend that Minority Shareholders vote in favour of the Transaction at the Meeting.

Approval of the Transaction by the Board

At the meeting of the Board on August 15, 2019, based on its consideration of the Blair Franklin Valuation, the MPA Fairness Opinion and the report and recommendation of the Special Committee, the Board (constituted as described above, with Newton Glassman and James Riley having declared their interest in the Transaction as representatives of Catalyst and having abstained from voting) determined to adopt the conclusions and recommendations of the Special Committee. As a result, the Board approved the Company entering into the Arrangement Agreement and determined to recommend that Minority Shareholders vote in favour of the Transaction at the Meeting.

Public Filings

Full details of the Transaction, including a copy of the Blair Franklin Valuation and the MPA Fairness Opinion, will be included in the management information circular (the "**Proxy Circular**") to be mailed to shareholders in connection with the Meeting in accordance with applicable securities law. The Proxy Circular will provide shareholders with

important information about the Transaction, and shareholders are encouraged to read it in its entirety when available. The Arrangement Agreement and the Voting Agreements are being filed by Callidus on SEDAR and will be available under the Company's profile at www.sedar.com. The description of the Transaction and these agreements in this press release is qualified in its entirety by reference to the complete text of the Arrangement Agreement and the Voting Agreements.

Forward-Looking Statements

This press release contains forward-looking information within the meaning of applicable securities laws ("**forward-looking statements**"), including forward-looking statements relating to the ability of the parties to receive, in a timely manner and on satisfactory terms, the necessary regulatory, court and shareholder approvals; the ability of the parties to satisfy, in a timely manner, the other conditions to the closing of the Transaction; the consequences of the completion of the Transaction; and other expectations and assumptions concerning the Transaction, including the expected timing for completing the Transaction. Such forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements to differ materially from the anticipated results, performance or achievements or developments expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the failure of the parties to obtain the necessary Minority Shareholder, regulatory and court approvals, or to otherwise satisfy the conditions to the completion of the Transaction, in a timely manner, or at all; the occurrence of any event, change or other circumstance that could give rise to the termination of the Arrangement Agreement; significant transaction costs and unknown liabilities; and other risks, factors and assumptions discussed in the section entitled, "Risk Factors" in the Annual Information Form of the Company dated April 1, 2019 and other documents filed by the Company with the Ontario Securities Commission and other securities regulators across Canada. If any such risks actually occur, they could impact the potential for discussion, agreement or completion of the Transaction and/or materially adversely affect the Company's business, financial condition or results of operations. In that case, the trading price of the Company's common shares could decline, perhaps materially. Readers are cautioned not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. Forward-looking statements are provided for the purposes of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company does not undertake or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which any such statement is based, except as required by law.

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 borrower's assets, its enterprise value and borrowing needs. Further information is available on our website, www.calliduscapital.ca.

SOURCE Callidus Capital Corporation

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<http://www.calliduscapital.ca/2019-08-15-Braslyn-to-Acquire-Minority-Held-Common-Shares-of-Callidus-Capital>