



Callidus Capital Corporation

Management's Discussion and Analysis

March 31, 2015

Management's Discussion and Analysis – Three Months Ended March 31, 2015

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the period ended March 31, 2015 ("Interim Financial Statements"), the audited annual consolidated financial statements ("Financial Statements") of Callidus Capital Corporation ("Callidus", the "Corporation" or the "Company" or "we") as at December 31, 2014 and 2013, and for the years ended December 31, 2014 and 2013, and the related notes attached thereto, which were prepared in accordance with International Financial Reporting Standards ("IFRS"). These items and additional information regarding the Corporation are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. This MD&A has been prepared taking into consideration information available to May 11, 2015 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. 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"). 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. 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 MD&A, 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.

In making the forward-looking statements in this MD&A, 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 collateral value of the assets of borrowers, limited loan pre-payment, effective use of leverage, and such other risks or factors described in this MD&A 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, and 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 investors 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.

To the extent any forward-looking information in this MD&A 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 MD&A, and readers are cautioned that this information should not be relied upon for any other purpose. Future-oriented financial information and financial outlooks are, without limitation, based on the assumptions and subject to the risks set out herein.

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 materially 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 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.

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 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, machinery and equipment, real estate and other term 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 transaction costs from 2012 to present.

Current Status of the Business

As at May 11, 2015, Callidus managed \$910 million of loan assets. Management estimates net income of approximately \$80 million before derecognition, had the gross loans receivable of approximately \$910 million been outstanding for a full year using a gross yield of approximately 17.9% and leverage of 40.3%. Please see the “Outlook” section elsewhere in this MD&A for further detail about the estimates and assumptions utilized to calculate this figure. The pipeline of potential new loans typically ranges from approximately \$450 to \$600 million. As an indicator of the size of the market, the pipeline has recently increased dramatically to \$1.1 billion, recognizing that not all these potential transactions will result in signed back term sheets and close. Included in this \$1.1 billion figure are seven recently identified potential transactions including two significant proposed transactions; one to a company going through a restructuring process and another to a proven financial sponsor in support of a growth opportunity transaction..

Description of Non-IFRS Measures

The Corporation's Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). 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 before derecognition divided by the average loan portfolio outstanding after adjusting for loans classified as assets held for sale. 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 enable readers to see, at a glance, trends in the yield of the loan portfolio.

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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. The following is a reconciliation of gross loans receivable to the Statement of Changes in Financial Position and a summary of gross loans receivable as at March 31, 2015 and December 31, 2014 and updated amounts as at May 11, 2015.

(\$ 000s)	May 11, 2015	March 31, 2015	December 31, 2014
Loan facilities	\$ 1,163,531	\$ 1,164,013	\$1,028,989
Gross loans receivable	910,430	905,582	\$ 830,505
Less: Discounted facilities	(9,793)	(9,793)	(9,793)
Less: Provision for loan losses/assets held for sale	(28,724)	(28,724)	(29,139)
Less: Assets held for sale	(62,603)	(62,603)	-
Net loans receivable	\$ 809,310	\$ 804,462	\$ 791,573

Interest yield is defined as total interest before derecognition divided by average loan portfolio outstanding.

Average loan portfolio outstanding is calculated before derecognition for the annual periods using daily loan balances outstanding. The average loan portfolio outstanding grosses up the loans receivable for (i) assets held for sale, (ii) the provision for loan losses, and (iii) discounted facilities. This information is presented to enable readers to see, at a glance, trends in the size of the loan portfolio.

Adjusted net interest income is defined as net interest income adjusted for interest expense and participation fees to the Catalyst Fund Limited Partnerships for the period prior to the Offering.

Net interest margin is defined as net interest income divided by average loan portfolio outstanding.

Adjusted net interest margin is defined as adjusted net interest income divided by average loan portfolio outstanding.

Provision for loan losses ratio is defined as provision for loan losses divided by gross loans receivable.

Operating expense ratio is defined as operating expenses divided by average loan portfolio outstanding.

Return on equity is defined as net income after derecognition attributable to common shareholders divided by average common shareholders' equity. Return on equity is a profitability measure that presents the annualized net income available to shareholders' equity as a percentage of the capital deployed to earn the income.

Leverage ratio is defined as total debt (net of cash and cash equivalents) divided by gross loans receivable.

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.

Management's Discussion and Analysis – Three Months Ended March 31, 2015
Selected Financial Information

The selected financial information set out below for the quarters ended March 31, 2015 and March 31, 2014 and as at December 31, 2014 has been derived from the Company's Interim Financial Statements and the Company's audited annual financial statements as at December 31, 2014 that were prepared in accordance with IAS 34. The following information should be read in conjunction with those statements and related notes.

(\$ 000s)	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014		
Average loan portfolio outstanding ⁽¹⁾	\$864,324	\$ 405,251		
Gross yield ⁽¹⁾	17.9%	20.4%		
Gross yield on core product	19.0%	20.4%		
Gross yield on Callidus Lite	14.8%	n/a		
Income Statement Data:				
Total revenue	\$ 35,091	\$ 20,696		
Operating expenses ⁽²⁾	(4,886)	(2,754)		
Recovery (provision) for loan losses	415	(2,095)		
Recovery (expense) under the Catalyst guarantee	(594)	-		
Net interest income	27,125	5,623		
Adjusted net interest income ⁽¹⁾	27,125	19,155		
Net interest margin ⁽¹⁾	12.7%	note 3		
Adjusted net interest margin ⁽¹⁾	12.7%	note 3		
Provision for loan losses ratio ⁽¹⁾	3.2%	2.9%		
Operating expense ratio ⁽¹⁾	0.6%	0.7%		
Net income (loss)	\$ 15,989	\$ (152)		
ROE ⁽¹⁾	13.6%	note 3		
Balance Sheet & Other Data:				
		Change from 2014		
(\$ 000s)	March 31, 2015	December 31, 2014	\$	%
Total assets	\$968,296	\$ 883,434	\$ 84,862	10%
Gross loans receivable ⁽⁴⁾	905,582	830,505	75,077	9%
Assets held for sale	62,603	-	62,603	n/a
Revolving credit facility and senior debt	341,344	260,063	81,281	31%
Subordinated bridge facility, due to Catalyst	92,634	116,010	(23,376)	-20%
Leverage ratio ⁽¹⁾	40.3%	38.1%		

(1) Refer to "Description of Non-IFRS Measures".

(2) Consists of salaries and wages, stock options, general and administrative expenses, and participation fees.

(3) Comparatives for 2014 have not been presented as the Company operated under a capital structure that was replaced at the Company's initial public offering.

(4) Net of provision for loan losses and discounts on loan acquisitions.

Highlights

- As at March 31, 2015, gross loans receivable was \$906 million, an increase of \$75 million or 9% from December 31, 2014. The increase was due to an increase in the number of loans. At March 31, 2015, there were 35 loans and the average loan amount funded was approximately \$26 million. This compares with 32 loans and average loan amount funded of \$26 million at December 31, 2014.
- Gross yield for the quarter was 17.9%, a decrease of 2.5% from the same quarter last year due to lower interest yield. Interest yield was 15.4% for the current quarter, a decrease of 3.7% from the same quarter last year due primarily to a greater proportion of Callidus Lite loans in the portfolio in the current quarter and a temporary one-time revenue adjustment of US\$1 million resulting from a State statutory issue that we anticipate will reverse in future quarters. As noted previously, Callidus Lite loans are used as (i) an origination and (ii) retention product for borrowers with improving credit quality.

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- Provision for loan losses for the quarter decreased \$2.5 million from the same quarter last year, while write-offs were nil. At March 31, 2015, the provision for loan losses ratio was 3.2%, compared to 2.9% in the same quarter last year. The increase from the same quarter last year is primarily as a result of the adoption of a collective allowance. This practice is intended to reflect an appropriate allowance for potential losses within a rapidly growing loan portfolio.
- During the quarter, the Company recognized an expense of \$0.6 million related to the Catalyst guarantee due to the reversal of specific loan loss provisions in the current quarter. This expense does not include a recovery of \$1.4 million on a loan classified as assets held for sale as this amount is included in the loss from assets held for sale in the Consolidated Statement of Comprehensive Income.
- For the quarter, the average loan portfolio outstanding was \$864 million, an increase of \$459 million or 113% from the same quarter last year.
- Adjusted net interest margin for the quarter was 12.7%. Adjusted net interest margin for the first quarter of 2014 has not been presented as the Company operated under a capital structure that was replaced at the Company's initial public offering.

Results of Operations
Net Income
Condensed Consolidated Statement of Income (Loss)

(\$ 000s)	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Interest	\$ 32,784	\$ 19,036
Fees and other	2,307	1,660
Total revenue	35,091	20,696
Salaries and wages	(2,022)	(1,728)
Stock options expense	(1,176)	(585)
Recovery (provision) for loan losses	415	(2,095)
Recovery (expense) under the Catalyst guarantee	(594)	-
General and administrative	(1,688)	(441)
	(5,065)	(4,849)
Interest expense and participation fees to:		
Catalyst Fund Limited Partnerships	(3,570)	(13,532)
Senior debt and revolving credit facilities	(4,396)	(1,541)
Foreign exchange loss	613	(772)
	(7,353)	(15,845)
Income before income taxes	22,673	2
Income taxes (expense) recovery	(6,684)	(154)
Income (loss)	\$ 15,989	\$ (152)
Earnings per common share (dollars)		
Basic	\$ 0.31	\$ (0.01)
Diluted	\$ 0.31	\$ (0.01)

Interest income increased \$14 million from the same quarter last year, as a result of (i) a \$459 million increase in the average loan portfolio outstanding to \$864 million year-over-year, which was partially offset by (ii) a decrease of 3.7% in the interest yield to 15.4% year-over-year due primarily to a greater proportion of Callidus Lite loans in the portfolio in the current quarter.

Fee income was \$2.3 million, a \$0.6 million increase from the same quarter last year as a result of growth in the loan portfolio.

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Provision for Loan Losses

(\$ 000s)	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Specific individual loan loss provisions (recovery)	\$ (415)	\$ 2,095
Total	\$ (415)	\$ 2,095

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 portfolio levels. As a result of the Corporation's high degree of interaction with each borrower through regular reporting requirements, which include submission of daily sales and cash receipts information, 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.

Total provision for loan losses for the quarter was a recovery of \$0.4 million due to the reversal of specific provisions for two watch-list loans as a result of improved underlying collateral positions offset partially by a provision for the period of \$0.3 million.

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 provision for loan losses to be adequate.

Catalyst Guarantee

In connection with the repayment of the Catalyst debenture at the time of the Offering, the Catalyst Funds agreed to guarantee any losses incurred by the Company on certain loans in the portfolio at the time of the Offering. The guarantee covers any losses of principal incurred by the Company on certain specified loans in perpetuity ("watch-list loans"). Watch-list loans are identified by management as subject to heightened monitoring due to the financial condition of the borrowers. All other loans in the portfolio at the time of the offering were also guaranteed for any losses of principal until such time as the loans are renewed by the Company at their next scheduled credit review.

In December 2014, the Company acquired all of the Funds' participation interest in the loan portfolio at par plus accrued interest and fees. The participation agreement also provided that in the event that the Company purchases Catalyst Fund IV's participation interest, Fund IV agreed to provide a guarantee that covers Catalyst's percentage ownership interest in the relevant loans at the time of the acquisition. The guarantee covers losses of principal in perpetuity on specified loans (being those on the Company's watch-list at the time of acquisition) and losses of principal on all other loans until such loans are renewed at the next scheduled review.

Neither guarantee generally applies to accrued and unpaid interest. The Company normally requires that its borrowers agree to a cash sweep arrangement so that their cash will typically be subject to the Company's control. The Company and Catalyst have agreed that the Company will operate the cash sweep so that first application of a borrower's cash will be to currently due accrued and unpaid interest and fees and secondly to principal and any other amounts due. These cash sweep arrangements are intended to minimize losses in relation to interest and fees.

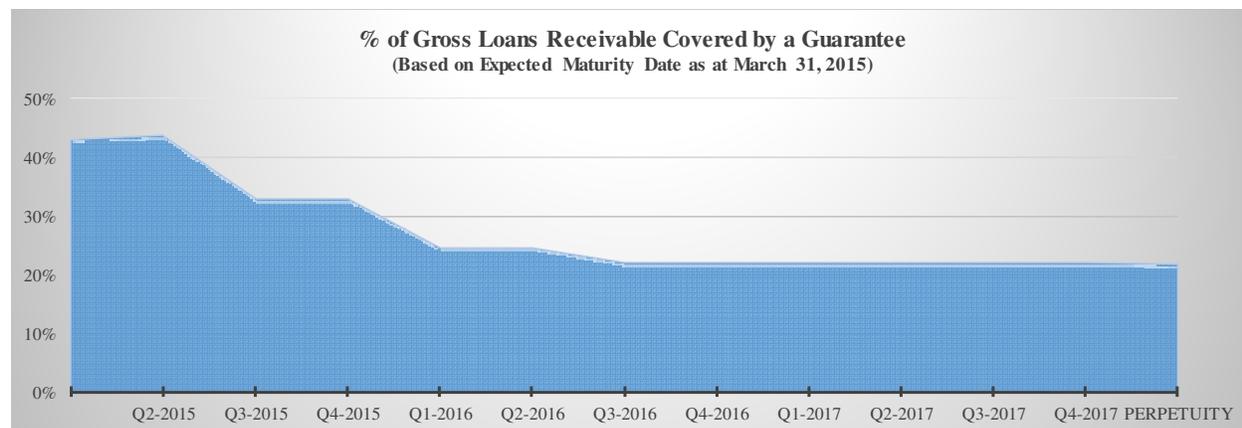
As of March 31, 2015, the amount of accrued and unpaid interest and fees included in the gross loans receivable balance that would not be covered under a guarantee was \$14.9 million.

Management's Discussion and Analysis – Three Months Ended March 31, 2015

At March 31, 2015	(\$ 000s)	%
Guarantee Coverage of Gross Loans Receivable		
Portion of gross loans receivable covered by a guarantee:		
Watch list loans	\$ 197,346	22%
Non-watch list loans	200,136	22%
Portion of gross loans receivable not covered by a guarantee:		
Watch list loans	33,735	4%
Non-watch list loans	474,365	52%
Total gross loans receivable	\$ 905,582	100%
Guarantee Coverage of Provision for Loan Losses		
Provision for loan losses covered by a guarantee:		
Watch list loans	\$ 22,011	77%
Non-watch list loans	-	0%
Provision for loan losses not covered by a guarantee:		
Watch list loans	351	1%
Non-watch list loans	6,362	22%
Total provision for loan losses	\$ 28,724	100%

For the quarter, the Company recognized an expense of \$0.6 million related to the Catalyst guarantee due to the reversal of specific loan loss provisions in the current quarter. At March 31, 2015, the Catalyst guarantee covered a portion of 30 of the total 35 loans in the portfolio as a result of the purchase of the \$50 million participating interest (loans originated after the Offering are covered on a pro-rata basis), 44% of gross loans receivable and 98% of the specific provision for loan losses. The portion of the provision for loan losses not covered by the Catalyst guarantee primarily relates to the collective allowance included in the provision at March 31, 2015. At March 31, 2015, the Catalyst guarantee asset includes a recovery of \$1.4 million on a loan classified as assets held for sale. This amount is included in the loss from assets held for sale in the Consolidated Statement of Comprehensive Income.

The graph below illustrates the coverage of gross loans receivable by the Catalyst guarantee based on expected loan maturity dates. Approximately 22% of the gross loans receivable at March 31, 2015 is covered into perpetuity regardless of whether those loans are renewed in the normal course.



Operating and Other Expenses

(\$ 000s)	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Salaries and benefits	\$ 2,022	\$ 1,728
Stock options expense	1,176	585
General and administrative	1,688	441
Foreign exchange loss (gain)	(613)	772
Catalyst's share of overhead expenses	-	-
Total	\$ 4,273	\$ 3,526

Salaries and Benefits and Stock Options Expense

Salaries and benefits for the quarter increased \$0.3 million from the same quarter last year, primarily as a result of a number of net new hires in anticipation of and to accommodate growth in the loan portfolio and an increase in cash compensation for the Corporation's employees. Stock options expense increased \$0.6 million from the same quarter last year. IFRS requires recognizing option expense under the graded vesting approach, which gives rise to an accelerated compensation expense.

Foreign Exchange Gain/Loss

Certain of the Corporation's loans receivable and amounts outstanding under the revolving credit facilities are denominated in U.S. 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 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 14 in the Interim 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, as a result of the full repayment of the participating debenture, the Company considers it probable that future taxable profits will be generated that will be taxed at the enacted rate, which was 26.5% in 2014. Additionally, the deductible temporary differences can be used against such future taxable profits. As a result, the Corporation recognized a \$7 million deferred tax asset as at March 31, 2015 (December 31, 2014 – deferred tax asset of \$7 million).

As disclosed in prior quarters, our effective tax rate was higher than the statutory tax rate. This was due primarily to the tax treatment of share compensation expense. The Company anticipates that the effective tax rate will revert to the statutory tax rate over time, as share compensation expense decreases for the awards granted to date. This is due to a greater amount of share compensation expense recognized earlier, on a graded vesting basis over the three-year vesting period of the options.

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Financial Position
Condensed Consolidated Balance Sheets

(\$ 000s)	March 31, 2015	December 31, 2014	Change from 2014	
			\$	%
Cash and cash equivalents	\$ 69,061	\$ 59,636	\$ 9,425	16%
Deferred tax asset	7,174	7,498	(324)	-4%
Assets held for sale	62,603	-	62,603	n/a
Loans receivable	804,462	791,573	12,889	2%
Guarantee asset	23,434	22,606	828	4%
Other assets	1,562	2,121	(559)	-26%
Total	\$ 968,296	\$ 883,434	\$ 84,862	10%
Accounts payable and accrued liabilities	\$ 12,292	\$ 12,915	\$ (623)	-5%
Income taxes payable	26,310	19,961	6,349	32%
Deferred facility fees and other	10,721	6,655	4,066	61%
Revolving credit facilities and senior debt	341,344	260,063	81,281	31%
Subordinated bridge facility, due to Catalyst	92,634	116,010	(23,376)	-20%
Shareholders' equity	484,995	467,830	17,165	4%
Total	\$ 968,296	\$ 883,434	\$ 84,862	10%

Total assets at March 31, 2015 were \$968 million, an increase of \$85 million, or 10%, from December 31, 2014. The increase in total assets was attributable primarily to an increase in loans receivable, a portion of which was reclassified to assets held for sale. In January 2015, one of the Company's borrowers emerged from formal restructuring proceedings in Canada and the U.S. as a going concern. As a result and under the terms of its secured creditor agreement, the Company controls the business of the borrower and has presented the net assets and liabilities of the business as assets held for sale.

Current Loan Portfolio

	Number of Loans		(\$ 000s)	
	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Gross Loans Receivable Continuity				
Balance, beginning of period	32	19	\$ 830,505	\$ 381,302
Originations	3	2	43,855	25,883
Full repayments	-	(1)	-	(5,596)
Net funding	-	-	31,222	15,691
Balance, end of period	35	20	\$ 905,582	\$ 417,280

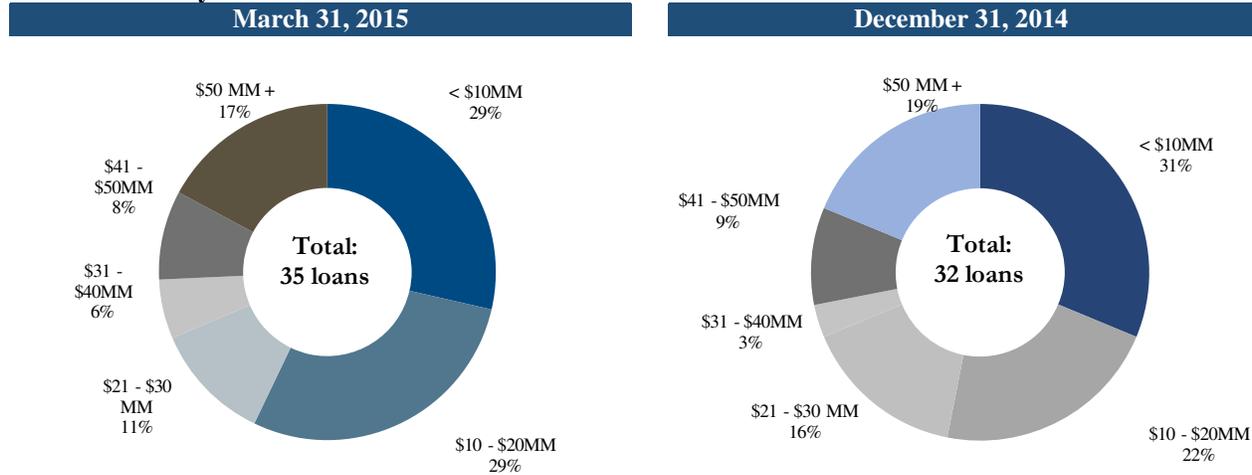
As of March 31, 2015, the loan portfolio consisted of 35 loans with an aggregate gross loans receivable amount outstanding of \$906 million. This compares with 32 loans and \$831 million outstanding as of December 31, 2014. As of March 31, 2015, the largest loan facility was US\$95 million and the smallest loan facility was \$2 million.

As of March 31, 2015, the loan portfolio was distributed 64% in Canada and 36% in the U.S. by dollar amount funded.

As at March 31, 2015, the estimated collateral value coverage on net loans receivable was approximately 161% with a range between 100% and 250% on an individual loan basis. Furthermore, the watchlist loans had an asset coverage of 112% and non-watchlist loans had an asset coverage of 176%. It should be noted that there is no cross collateralization of the asset coverage as between borrowers.

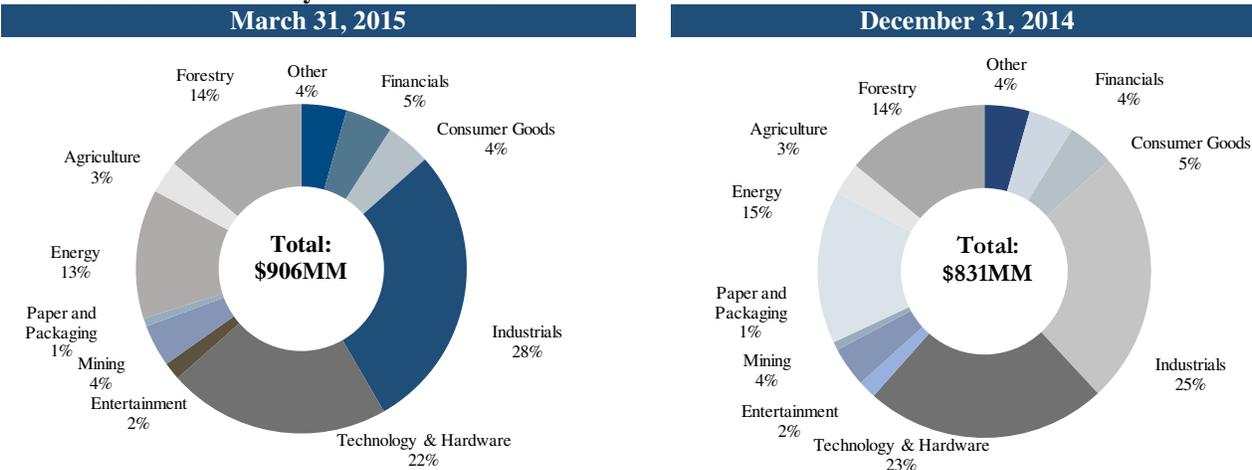
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Loan Portfolio by Amount Funded



The average amount funded per loan remained consistent at \$26 million as at March 31, 2015 and December 31, 2014. The distribution of loans greater than \$20 million decreased from 47% at December 31, 2014 to 42% at March 31, 2015 and the distribution of loans exceeding \$50 million decreased from 19% at December 31, 2014 to 17% at March 31, 2015.

Gross Loans Receivable by Borrower Sector



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. The largest loan in the “technology and hardware” industry is to a company whose loan is secured primarily by investment grade and insured accounts receivable and inventory. 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.

In connection with managing and monitoring its loan portfolio, Callidus establishes what it calls a “watch-list”, borrowers with a deteriorating financial condition or that otherwise meet certain credit and/or operational criteria warranting closer monitoring and supervision. Callidus takes a proactive approach to ensuring compliance with loan terms and obligations, in turn while allowing the Company to thereafter better manage the risk of default and/or loss for watch-list accounts. As of March 31, 2015, there were 9 loans that were on the Company’s watch-list and these loans represented 26% of gross loans receivable. As of March 31, 2015, of these 9 loans, a total specific loan loss provision of \$22.4 million had been taken, and a corresponding \$22.0 million asset related to the Catalyst guarantee was recorded. As at March 31, 2015, the collective allowance was \$6.4 million.

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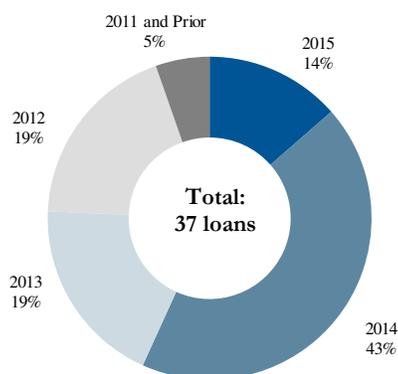
It is not uncommon for Callidus to deal with borrowers undertaking some form of financial restructuring given the nature of its business. As the Company operates primarily in the distressed lending sector, a formal or informal restructuring process offers an efficient tool to protect the collateral, often at higher yields than what would otherwise be available. Callidus uses a variety of techniques to mitigate potentially challenging situations, ranging from a cooperatively managed out of court liquidation to a full court process in order to minimize any risk of loss. The Company’s association with Catalyst, the performance leader in the Canadian distressed private equity sector and one of the best in the world, provides immense value. As of March 31, 2015, there were 5 of 35 loans that were going through a formal restructuring process representing 15% of gross loans receivable. As of March 31, 2015, for these 5 loans, a total loan loss provision of \$1.6 million had been taken (part of the \$22.4 million loan loss provision referred to above) and a corresponding \$1.6 million asset (part of the \$22.0 million asset referred to above) related to the Catalyst guarantee was recorded.

Since 2006, Callidus has advanced 95 loans representing total credit facilities of \$1.8 billion of which 58 loans have been fully repaid or realized. Of the 58 loans, 3 resulted in an aggregate loss of \$4 million (less than 70bps since 2006 of realized losses based on commitments). In addition, of the 58 loans, 5 went through a form of restructuring and were fully repaid. The balance of the 50 loans were fully repaid in the normal course. As at May 11, 2015, 37 loans are outstanding representing total credit facilities of approximately \$1.2 billion. In the current portfolio, 5 loans are going through a form of restructuring.

As of March 31, 2015, the portfolio included 3 companies directly or indirectly involved in the oil and gas industry, representing 11% of gross loans receivable. As of March 31, 2015, for these loans, no loan loss provision or corresponding guarantee was recorded.

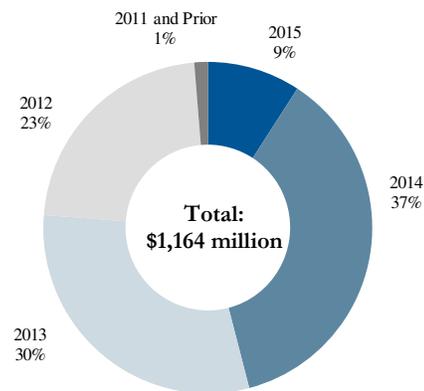
Number of Existing Loans by Year of Origination

May 11, 2015



Total Existing Credit Facilities by Year of Origination

May 11, 2015



The above graphs show that our portfolio is in line with our expected loan duration.

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. In determining collateral values, the Company engages a variety of independent third parties such as appraisal firms, lawyers and other valuation specialists in addition to quarterly field examinations that are performed.

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,

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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.

The Company also considers evidence of impairment for loans at the collective level. The collective allowance is calculated by using the probability of default (“PD”), loss given default (“LGD”), and exposure at default factors, which are determined with reference to (1) historical default experience, (2) management’s loss experience, and (3) loan exposure at the financial statement date. Funded exposures are multiplied by the borrower’s PD and by the relevant LGD parameter. A model stress component is also applied to recognize uncertainty in the credit risk parameters and the fact that current actual loss rates may differ from the long-term averages included in the model. As the Company grows, we continue to refine our methodology for the collective allowance.

Off Balance Sheet Arrangements

The Corporation has no off balance sheet arrangements, except for undrawn loan commitments of \$26 million based on borrowing base availability.

Liquidity and Capital Resources

The Corporation’s primary sources of short-term liquidity are cash and cash equivalents and undrawn credit facilities. As at March 31, 2015, total liquidity was \$238 million (December 31, 2014 - \$180 million), consisting of \$65 million of cash and cash equivalents (December 31, 2014 - \$60 million), and \$173 million (December 31, 2014 - \$120 million) in undrawn credit facilities.

The Company continues to explore financing sources including but not limited to both the private and public capital markets to ensure adequate and diversified funding sources. These sources include seeking increased availability from Callidus’ existing lenders and from Catalyst Funds. In December 2014, the Company obtained a US\$200 million unsecured subordinated bridge facility extended by Catalyst. In January 2015, the Company increased the amount of its revolving credit facility by US\$62.5 million to US\$262.5 million in the aggregate. In April 2015, the Company increased the amount of its existing Revolving Credit Facility by US\$37.5 million to US\$300 million in the aggregate.

Total credit facilities issued by the Corporation and available to borrowers at March 31, 2015 was \$1,164 million (December 31, 2014 - \$1,029 million).

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 the “Summary of Contractual Obligations” section.

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 contracts. 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.

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 going forward is to limit borrowings to levels that would be considered high investment-grade (based on discussions with rating agencies if necessary), which management believes is between 50% and 60% 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. Callidus continues to explore financing sources including both the private and public capital markets to ensure adequate and diversified funding sources.

Capitalization

Since the Corporation was purchased by the Catalyst Funds in 2007, the Catalyst Funds had been the principal sources of liquidity and capital resources. The Catalyst Capital Group Inc. (“CCGI”) provided funding through the Catalyst Funds by way of a participating secured 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 was secured by a subordinated security interest in the Corporation’s assets. In addition, Callidus was party to a credit agreement, which provided for a \$50 million senior secured non-revolving term loan, a \$40 million revolving facility and a \$7.5 million facility for the establishment of foreign exchange forward contracts.

In connection with the Offering that closed on April 23, 2014, the outstanding principal balances of the Participating Debenture and \$40 million revolving facility were fully repaid and the Corporation entered into a new loan financing and servicing agreement, which provides a revolving credit facility for up to US\$200 million. In January 2015, the Company increased the amount of this revolving credit facility by US\$62.5 million to US\$262.5 million in the aggregate. In April 2015, the Company increased the amount of its existing Revolving Credit Facility by US\$37.5 million to US\$300 million in the aggregate.

In December 2014, the Company obtained a US\$200 million revolving unsecured subordinated bridge facility from Catalyst. The facility carries an interest rate of 8% per annum plus 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 facility matures on April 24, 2017 and is pre-payable by the Company at any time without penalty.

Financial Covenants, Restrictions and Events of Default

The US\$200 million revolving credit facility contains certain requirements and restrictions, such as excess concentration limits, collateral quality tests, and other such requirements and restrictions as are customary with similar financings, with which the Corporation must comply in order to maintain access to the credit facilities and avoid default. The revolving credit 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 March 31, 2015, \$292 million was outstanding under the revolving facility and \$13 million remained available.

The Corporation was in compliance with its financial covenants at March 31, 2015 and December 31, 2014.

Cash Flow Summary

(\$ 000s)	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Operating activities	\$ (48,480)	\$ (33,304)
Financing activities	57,905	43,564
Increase in cash and cash equivalents	\$ 9,425	\$ 10,260

Operating Activities

Cash flow from operating activities consists of net income, plus 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 \$48 million in the current quarter. The movement in cash flow from operating activities was attributable primarily to amounts advanced as part of ongoing lending activities, representing an outflow of \$12 million in the current quarter.

Financing Activities

During the quarter, financing activities generated \$58 million of cash flow, attributable to the draws on the Company’s revolving credit facility offset by repayments made on the Catalyst subordinated bridge facility. This compares to \$44 million in the same quarter last year, which was attributable to net advances under the Participating Debenture and the revolving credit facility.

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Contractual Obligations

The following table summarizes Callidus' contractual obligations at March 31, 2015 and payments due for each of the next five years and thereafter:

For the Years Ended December 31 (\$ 000s)	Remainder 2015	2016	2017	2018	2019 & Thereafter	Total
Accounts payable and accrued liabilities	\$ 12,292	\$ -	\$ -	\$ -	\$ -	\$ 12,292
Income and other taxes payable	26,310	-	-	-	-	26,310
Borrower deposits	128	-	-	-	-	128
Revolving credit facilities	-	-	-	-	291,652	291,652
Subordinated bridge facility	-	-	92,634	-	-	92,634
Senior debt	-	-	49,692	-	-	49,692
Total	\$ 38,730	\$ -	\$ 142,326	\$ -	\$ 291,652	\$ 433,978

Related Party Transactions

CCGI and funds managed by them (collectively "**Catalyst**") own approximately 59.4% of the issued and outstanding shares of the Company.

The Company entered into a Debenture Note and Commitment Agreement (the "**participating debenture**"), with certain funds (the "**Funds**") managed by The Catalyst Capital Group Inc. ("**CCGI**") on May 1, 2007 to finance commercial loans made by the Company. Catalyst had previously committed up to US\$366 million to finance commercial loans made by the Company. Catalyst charged interest at 8% per annum on funds advanced from time to time plus a commitment fee of 1% of undrawn obligor commitments plus additional interest determined by a formula based on the net income of the Company. The amounts due to Catalyst were secured by a subordinated security interest over the Company's assets. In connection with the Offering, the principal balance owing under the participating debenture was repaid in full and retired.

In December 2014, the Company obtained a US\$200 million revolving unsecured subordinated bridge facility from Catalyst. The facility carries an interest rate of 8% per annum plus 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 facility matures on April 24, 2017 and is pre-payable by the Company at any time without penalty.

In connection with the Offering, and the repayment of the Catalyst debenture, Catalyst Fund IV obtained an approximate 18% undivided interest at the time of the Offering in the loan portfolio of the Company. The participation agreement provided that the Company was not entitled to the risks or rewards related to Catalyst Fund IV's participation interest in the loan portfolio. Consequently, the portion of the loans corresponding to Catalyst Fund IV's participation interest had been derecognized from the financial statements during fiscal 2014.

The participation agreement also provided that in the event that Catalyst Fund IV wished to sell their participation interest in the loan portfolio, the Company had the option to acquire all or part of Fund IV's participation interest in the loan portfolio at par plus accrued interest and fees. In December 2014, the Company acquired all of the Fund's participation interest in the loan portfolio at par plus accrued interest and fees for 2,335,357 common shares, at a price of \$21.41 per common share, as well as a cash payment of approximately \$821 as a post-closing adjustment for foreign exchange.

The agreements entered into at the time of the Offering also permit other Catalyst Funds to participate in the Company's loan portfolio in the future within certain limits generally determined based upon the Company's available capital. In the event that other Catalyst Funds participate, similar arrangements are in place in the agreement providing the Company with the option to purchase such participations on the same terms in the event that the Funds wish to sell and with respect to guarantees as described in "Catalyst Guarantee".

In April 2015, Catalyst recently announced the first closing of its most recent fund, Catalyst Fund Limited Partnership V ("**Catalyst Fund V**"), with US\$650 million of capital commitments. Catalyst Fund V is targeting aggregate commitments of US\$1.25 billion with a hard cap of US\$1.5 billion.

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In accordance with the terms of the participation agreement, entered into in connection with Callidus' initial public offering, Catalyst Fund V is now entitled to participate in the funding of new loans originated by Callidus. This provides Callidus with access to additional funds to finance the expansion of our loan portfolio at cost and without standby fees on those funds.

Exposures to Selected Financial Instruments

Certain of the Corporation's loans receivable and amounts outstanding under the revolving credit facility are denominated in foreign currencies, primarily the U.S. 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 March 31, 2015, the Corporation had outstanding obligations to sell an aggregate US \$205 million at an average rate of CAD1.25 per USD maturing April 24, 2015 through foreign exchange forward contracts. All foreign currency gains or losses to December 31, 2014 have been recognized as other income in net income (loss) for the period and the fair value of these instruments at March 31, 2015 was a net liability of \$3.6 million (December 31, 2014 – a net asset of \$0.5 million) which is recognized on the Consolidated Statements of Financial Position. A net loss of \$17.0 million was recognized on contracts which were settled in the current year (2013 – a net gain of \$5.8 million), which was included as part of other income in net income for the year.

Critical Accounting Estimates

The Corporation's accounting policies are integral to understanding and interpreting the financial results reported. Note 3 to the Interim Financial Statements summarizes the significant accounting policies used in preparing the Interim 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 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 Interim 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 March 31, 2015 was \$28.7 million (December 31, 2014 - \$29.1 million), a decrease of \$0.4 million from December 31, 2014.

Management estimates allowances on a collective basis for exposures in loans not specifically assessed. This collective assessment is determined in respect of probable incurred losses that are inherent in the portfolio, of performing loans, but have not yet been specifically identified on an individual basis. Management establishes this

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allowance on a collective basis through an assessment of quantitative and qualitative factors. Using an internally developed model, management arrives at an initial quantitative estimate of the collective allowance for the performing portfolio based on numerous factors, including historical average default probabilities, loss given default rates and exposure at default factors. Information on the Corporation's loan losses can be found in note 6 to the Interim 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 ongoing basis. In January 2015, one of the Company's borrowers emerged from formal restructuring proceedings in Canada and the U.S. as a going concern. As a result and under the terms of its secured creditor agreement, the Company controls the business of the borrower and has presented the net assets and liabilities of the business as assets held for sale. The loan was classified as held for sale in the Statement of Financial Position and was recorded at the lower of (i) carrying value and (ii) fair value less cost to sell.

Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions 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 Interim Financial Statements.

Standards Issued But Not Effective

The Corporation actively monitors developments and changes in standards from the International Accounting Standards Board ("IASB"). The IASB issued a number of new or revised standards. The Company is currently assessing the impact the adoption of these standards will have on its consolidated financial statements. Refer to note 4 to the 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 an update on the current status of the business. The update is meant 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 MD&A, 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 May 11, 2015, Callidus had \$910 million in gross loans receivable on a consolidated basis.

Based on the update to the gross loans receivable balance and estimates, expectations and assumptions detailed in the final prospectus, taken together, management estimates net income of approximately \$80 million had the gross loans receivable of approximately \$910 million been outstanding for a full year, such figure having been adjusted by a gross yield of approximately 17.9% and certain costs including interest, financing fees, and taxes. Return on equity for incremental loans would be expected to be approximately 17% to 19% based on the targeted leverage of between 50% and 60%. 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 of the initial public offering, being the base rate for interest on the new loan financing and servicing agreement; (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 loan financing and servicing agreement; 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 \$910 million to differ materially from the amount estimated herein. See "Forward-Looking Statements" and "Risk Factors".

Disclosure of Outstanding Share Data

As at March 31, 2015, there were 51,026,754 common shares outstanding and 1,865,000 options outstanding, each option being exercisable into common shares on a 1:1 basis.

In May 2015, the Company announced that the Toronto Stock Exchange ("TSX"), had accepted the Corporation's notice of intention to undertake a normal course issuer bid. Under the terms of the normal course issuer bid, Callidus may acquire up to 2,561,396 of its common shares, representing 5% of the 51,227,920 common shares comprising Callidus' total issued and outstanding common shares as of May 11, 2015.

RISK FACTORS

An investment in the Common Shares is highly speculative. An investment is suitable only for those investors who are able to risk a loss of their entire investment. Investors 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 MD&A, prospective investors 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 MD&A could have a Material Adverse Effect and prospective investors could lose all or part of their investment in the Common Shares.

This MD&A 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 MD&A. See "Cautionary Note Regarding Forward-Looking Statements".

Financial Risk Management

A discussion of risk factors and risk management policies and procedures relating to foreign currency risk, interest rate risk, liquidity risk, and credit risk as required under IFRS 7, *Financial Instruments: Disclosures* follows below.

Foreign Currency Risk

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 economic 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.

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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.

Interest Rate Risk

The Company is exposed to interest rate risk as it earns interest on its loans receivable and pays interest on its revolving credit facility and on its senior debt.

The Company's loans receivable primarily bear a fixed rate of interest as does the Company's senior debt. 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.

Liquidity Risk

Liquidity risk is the risk that Callidus will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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, debt and the Offering. Callidus intends to fund new loans using (i) debt capital and (ii) growth capital. As at March 31, 2015, Callidus had liquidity of \$238 million (December 31, 2014 - \$180 million) available to fund new loans.

The Company manages its liquidity risk by monitoring its ongoing operating requirements. The Company prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Credit Risk

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. 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".

Risks Relating to Callidus' Operations***Performance of the Loan Portfolio***

Callidus maintains a loan portfolio of \$910 million as at May 11, 2015. 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 \$154 million. There can be no assurance that the same types of earnings can be made on the current loan portfolio or additional loans.

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.

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.

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.

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 U.S. ABL industry. The U.S. 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 U.S. If the expansion of the "Callidus Lite" product or the growth in the U.S. 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.

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.

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.