Callidus Capital Corporation

Condensed Consolidated Interim Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2018 and 2017

CALLIDUS CAPITAL CORPORATION

Condensed Consolidated Interim Statements of Financial Position (Unaudited)
(Expressed in thousands of Canadian dollars)

	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	**$ 47,081**	$ 59,577
Accounts receivable	**37,434**	29,123
Inventory (note 5)	**28,266**	37,197
Income taxes recoverable	**-**	14,239
Derivative assets (note 21)	**3,799**	9,958
Loans receivable - not covered by guarantee (note 6 and 7)	**206,865**	212,258
Loans receivable - covered by guarantee (note 6 and 7)	**40,167**	11,120
Assets held for sale (note 23)	**121,968**	13,758
Deferred tax asset (note 17)	**1,125**	1,734
Guarantee asset (note 15)	**-**	8,429
Other assets (note 8)	**26,562**	31,455
Property, plant and equipment (note 9)	**89,031**	75,250
Intangibles (note 10)	**36,780**	104,708
Goodwill (note 11)	**113,873**	127,814
	$ 752,951	$ 736,620
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities (notes 12 and 15)	**$ 127,735**	$ 114,091
Income taxes payable	**411**	14
Borrower deposits	**327**	81
Deferred facility fees	**4,527**	677
Derivative liabilities (note 21)	**3,417**	3,549
Liabilities held for sale (note 23)	**15,032**	-
Senior debt (note 13)	**40,933**	49,418
Collateralized loan obligation (note 13)	**73,610**	76,416
Subordinated bridge facility, due to Catalyst (note 13)	**377,244**	315,406
	643,236	559,652
Shareholders' equity:		
Share capital (note 16)	**495,721**	463,234
Contributed surplus (note 22)	**8,645**	7,760
Retained deficit	**(393,860)**	(293,418)
Accumulated other comprehensive loss	**(791)**	(608)
	109,715	176,968
Contingencies (note 19)	**-**	-
	$ 752,951	$ 736,620

See accompanying notes to condensed consolidated interim financial statements.
2018 amounts are under IFRS 9 and 2017 amounts are under IAS 39.
Certain comparative figures have been reclassified to conform with current period presentation (note 2a).

Approved on behalf of the Board:

"Jim Riley"
Director

"Tibor Donath"
Director

CALLIDUS CAPITAL CORPORATION

Condensed Consolidated Interim Statements of Income and Comprehensive Income (Unaudited)
(Expressed in thousands of Canadian dollars, except per share information)

Consolidated Statements of Income

	Three Months Ended September 30		Nine Months Ended September 30	
(Note 25)	**2018**	2017	**2018**	2017
Interest, fee and other revenue:				
Interest	**$ 9,886**	$ 14,926	**$ 27,149**	$ 68,224
Fees and other	**450**	3,025	**850**	7,518
	10,336	17,951	**27,999**	75,742
Interest expense and participation fees:				
Catalyst Fund Limited Partnerships	**(9,028)**	(6,305)	**(24,889)**	(21,129)
Senior debt and revolving credit facilities	**(2,031)**	(5,078)	**(6,246)**	(16,228)
	(11,059)	(11,383)	**(31,135)**	(37,357)
Net interest income	**(723)**	6,568	**(3,136)**	38,385
Non-interest revenue:				
Revenues from injection molding business	**29,820**	37,928	**96,138**	46,911
Revenues from forestry products business	**35,257**	-	**93,171**	-
Revenues from aluminum castings business	**1,949**	4,325	**5,572**	12,828
Revenues from gaming business	**5,291**	4,700	**15,955**	12,816
Revenues from drilling services business	**854**	1,018	**2,034**	2,062
Revenues from paving business	**17,821**	-	**26,220**	-
	90,992	47,971	**239,090**	74,617
Total revenues	**90,269**	54,539	**235,954**	113,002
Cost of sales from injection molding business	**(28,731)**	(35,931)	**(92,445)**	(44,418)
Cost of sales from forestry products business	**(28,450)**	-	**(73,442)**	-
Cost of sales from aluminum castings business	**(3,355)**	(5,083)	**(9,415)**	(15,022)
Cost of sales from gaming business	**(2,431)**	(182)	**(7,092)**	(3,558)
Cost of sales from drilling services business	**(602)**	(559)	**(1,442)**	(1,261)
Cost of sales from paving business	**(17,259)**	-	**(26,406)**	-
Total cost of sales	**(80,828)**	(41,755)	**(210,242)**	(64,259)
Other expenses:				
Provision for loan losses (note 7)	**(24,704)**	(9,731)	**(60,969)**	(64,146)
Recovery under the Catalyst guarantee (note 15)	**13,101**	7,033	**50,365**	15,504
Loss on derivative assets associated with loans	**-**	(1,937)	**-**	(3,136)
Change in fair value of financial instruments	**5,451**	-	**7,634**	-
Impairment of goodwill and other assets (notes 8, 11 and 23)	**(474)**	(4,311)	**(24,733)**	(9,107)
Foreign exchange loss	**(3,495)**	(620)	**(3,573)**	(2,330)
Catalyst's share of overhead expenses (note 25)	**561**	102	**853**	5,758
Depreciation	**(2,853)**	(2,197)	**(8,474)**	(3,518)
Salaries and wages	**(9,819)**	(6,872)	**(27,511)**	(18,599)
Stock options expense (note 22)	**(233)**	(199)	**(885)**	(893)
General and administrative	**(8,741)**	(10,125)	**(25,812)**	(18,289)
Loss before income taxes	**(21,765)**	(16,073)	**(67,393)**	(50,013)
Income taxes expense (note 17):				
Current	**1,986**	(3,162)	**(266)**	(2,336)
Deferred	**(609)**	1,666	**(577)**	5,462
	1,377	(1,496)	**(843)**	3,126
Net loss	**$ (20,388)**	$ (17,569)	**$ (68,236)**	$ (46,887)
Loss per common share (dollars)				
Basic (note 26)	**$ (0.36)**	$ (0.35)	**$ (1.26)**	$ (0.93)
Diluted (note 26)	**$ (0.36)**	$ (0.35)	**$ (1.26)**	$ (0.93)
Consolidated Statements of Comprehensive Loss				
Net loss	**$ (20,388)**	$ (17,569)	**$ (68,236)**	$ (46,887)
Other comprehensive (loss) income net of tax:				
Items that may be reclassed to profit and loss:				
Foreign currency translation on foreign operations	**(23)**	74	**(183)**	15
Comprehensive loss	**$ (20,411)**	$ (17,495)	**$ (68,419)**	$ (46,872)

See accompanying notes to condensed consolidated interim financial statements.
2018 amounts are under IFRS 9 and IFRS 15 and 2017 amounts are under IAS 39 and IAS 18.

CALLIDUS CAPITAL CORPORATION

Condensed Consolidated Interim Statements of Changes in Equity (Unaudited)
(Expressed in thousands of Canadian dollars)

	Share Capital Amount	Contributed Surplus	Retained Deficit	Accumulated Other Comprehensive (Loss)	Total
Balance, January 1, 2017	$ 435,413	$ 6,424	$ (3,930)	$ (663)	**$ 437,244**
Net loss	-	-	(46,887)	-	**(46,887)**
Dividends	-	-	(45,484)	-	**(45,484)**
Shares issued	37,179	-	-	-	**37,179**
Shares cancelled	(16,878)	-	(9,334)	-	**(26,212)**
Stock options expense (note 22)	-	893	-	-	**893**
Other comprehensive income (loss)	-	-	-	15	**15**
Balance, September 30, 2017	$ 455,714	$ 7,317	$ (105,635)	$ (648)	**$ 356,748**
Balance, January 1, 2018	$ 463,234	$ 7,760	$ (293,418)	$ (608)	**$ 176,968**
IFRS 9 opening adjustment	-	-	(58)	-	**(58)**
Net loss	-	-	(68,236)	-	**(68,236)**
Dividends	-	-	(32,148)	-	**(32,148)**
Shares issued	32,487	-	-	-	**32,487**
Shares cancelled	-	-	-	-	**-**
Stock options expense (note 22)	-	885	-	-	**885**
Other comprehensive income (loss)	-	-	-	(183)	**(183)**
Balance, September 30, 2018	**$ 495,721**	**$ 8,645**	**$ (393,860)**	**$ (791)**	**$ 109,715**

See accompanying notes to condensed consolidated interim financial statements.
2018 amounts are under IFRS 9 and IFRS 15 and 2017 amounts are under IAS 39 and IAS 18.

CALLIDUS CAPITAL CORPORATION

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)
(Expressed in thousands of Canadian dollars)

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	**2018**	2017
Cash provided by (used in):				
Operating activities:				
Loss for the period	**$ (20,388)**	$ (17,569)	**$ (68,236)**	$ (46,887)
Items not involving cash:				
Stock options expense	**233**	199	**885**	893
Provision for loan losses	**24,704**	9,731	**60,969**	64,146
Depreciation and amortization	**5,823**	2,197	**16,481**	3,518
Impairment of goodwill and other assets	**474**	4,311	**24,733**	9,107
Change in non-cash operating items:				
Change in loans receivable, net of repayments	**(47,800)**	(10,399)	**(110,477)**	94,654
Accounts receivable	**1,548**	940	**(11,871)**	(4,500)
Inventory	**3,260**	3,386	**(6,786)**	2,907
Derivative assets and liabilities	**1,860**	7,423	**6,027**	11,836
Derivative assets associated with loans	**-**	1,936	**-**	3,136
Income taxes recoverable	**12,602**	10,832	**14,239**	9,951
Deferred taxes	**641**	(1,666)	**609**	(5,462)
Intangibles	**908**	(954)	**(3,930)**	(954)
Guarantee asset	**7,394**	(7,032)	**8,429**	16,768
Other assets	**(5,643)**	5,246	**(766)**	(1,472)
Accounts payable and accrued liabilities	**19,783**	2,011	**26,617**	16,342
Deferred facility fees	**3,926**	384	**3,850**	(2,479)
Income taxes payable	**(94)**	3,222	**542**	3,222
Borrower deposits	**(4)**	78	**246**	141
Other	**(280)**	966	**(1,501)**	832
	8,947	15,242	**(39,940)**	175,699
Investing activities:				
Fixed asset acquisitions	**(2,216)**	(920)	**(18,304)**	(2,816)
	(2,216)	(920)	**(18,304)**	(2,816)
Financing activities:				
Net repayment on collateralized loan obligation	**(2,308)**	(4,553)	**(2,806)**	(7,727)
Dividends	**(682)**	(2,519)	**(4,799)**	(8,228)
Net repayment on revolving credit facility	**-**	-	**-**	(91,715)
Change in senior debt	**(2,906)**	5	**(8,485)**	451
Repurchase of share capital	**-**	(11,922)	**-**	(26,212)
Net draw (repayment) on subordinated bridge facility	**2,839**	(7,336)	**61,838**	(23,635)
	(3,057)	(26,325)	**45,748**	(157,066)
Increase (decrease) in cash and cash equivalents	**3,674**	(12,003)	**(12,496)**	15,817
Cash and cash equivalents, beginning of period	**43,407**	75,644	**59,577**	47,824
Cash and cash equivalents, end of period	**$ 47,081**	$ 63,641	**$ 47,081**	$ 63,641
Cash and cash equivalents is composed of the following:				
Cash	**$ 43,664**	$ 56,423	**$ 43,664**	$ 56,423
Restricted cash	**3,417**	7,218	**3,417**	7,218
	$ 47,081	$ 63,641	**$ 47,081**	$ 63,641
Cash interest received	**$ 7,082**	$ 12,577	**$ 18,949**	$ 49,142
Cash interest paid	**1,708**	2,557	**5,529**	20,702
Cash income taxes paid (refunded)	**(11,730)**	(5,850)	**(11,721)**	(8,303)

See accompanying notes to condensed consolidated interim financial statements.
2018 amounts are under IFRS 9 and IFRS 15 and 2017 amounts are under IAS 39 and IAS 18.

1. REPORTING ENTITY:

Callidus Capital Corporation ("**Callidus**" or the "**Company**" or the "**Corporation**") is a company domiciled in Canada and was incorporated under the Business Corporations Act (Ontario). These condensed consolidated interim financial statements comprise Callidus and its subsidiaries (together referred to as the "**Company**"). The Company operates a specialty finance business that provides senior secured asset-based loans and lending services to mid-market companies operating in Canada and the United States. Callidus is headquartered in Toronto, Ontario, Canada.

The reporting entity includes the following subsidiaries: (i) six separate operating entities (Wabash Castings Inc., Altair Water and Drilling Services Inc., Bluberi Gaming Technologies Inc., Otto Industries North America Inc., C&C Resources Inc. and Midwest Asphalt Corporation) that Callidus gained control of (note 23); and (ii) two separate special purpose financing vehicles wholly-owned by Callidus (Callidus ABL Corporation and CCC Funding Corporation).

2. BASIS OF PRESENTATION:

(a) **Statement of Compliance**:

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board.

The Company has applied IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers in this set of the Company's condensed consolidated interim financial statements. Changes to significant accounting policies are described in note 3.

The condensed consolidated interim financial statements have been approved for issue by the Board of Directors on November 14, 2018.

Certain comparative figures related to assets held for sale have been reclassified to conform to the current period's presentation of the financial statements. There was no impact to total assets, shareholders' equity or to comprehensive (loss) income for the comparative periods.

(b) **Basis of Measurement**:

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for derivative instruments and loan receivables classified as fair value through profit or loss, which are measured at fair value, and assets held for sale which are measured at the lower of carrying amount or fair value less costs to sell.

(c) **Functional and Presentation Currency**:

These condensed consolidated interim financial statements are presented in thousands of Canadian dollars, which is also the Company's functional currency.

(d) **Use of Estimates and Judgments**:

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include the allowance for loan losses, measurement of loan receivable classified at fair value through profit or loss, derecognition, goodwill and other non-financial assets impairment, and

the Company's assessment of consolidation under IFRS 10, *Consolidated Financial Statements*, of certain loans in its loan portfolio.

3. SIGNIFICANT ACCOUNTING POLICIES:

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34. They should be read in conjunction with the 2017 Audited Consolidated Financial Statements. The significant accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those described in note 3 to the Company's 2017 Audited Consolidated Financial Statements except for new accounting policies applied related to the adoption of IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* which are described below. New significant judgements and key sources of estimation uncertainty related to the adoption of the expected credit loss impairment model of IFRS 9 are also described below.

The Company has initially adopted IFRS 9, *Financial Instruments* (see note 3(a)) and IFRS 15, *Revenue from Contracts with Customers* (see note 3(b)) from January 1, 2018.

(a) IFRS 9, *Financial Instruments*

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The Company has adopted IFRS 9 effective January 1, 2018 and elected not to retroactively restate comparative periods.

The adoption of this standard did not have a material impact on the Company's consolidated interim financial statements. The following table summarises the impact (before derecognition), net of tax, of the transition to IFRS 9 on the January 1, 2018 balance of the allowance for loan losses and retained earnings due to the expected credit loss impairment provisions of the standard:

	Impact of Adopting IFRS 9 on Opening Balance
Recognition of provision for loan losses under IFRS 9	$ (58)
Related tax impact	-
Impact at January 1, 2018	$ (58)

Allowance for loan losses at December 31, 2017 under IAS 39	$ 358,217
Reclassifications[(1)]	(49,690)
Additional impairment recognized at January 1, 2018 on loans receivable	58
Allowance for loan losses at January 1, 2018 under IFRS 9	$ 308,585

(1) Certain loans receivable have been reclassified from loans and receivables at amortised cost under IAS 39 to loan receivables measured at FVTPL (defined below) under IFRS 9.

Classification and Measurement of Financial Instruments

The classification and measurement of financial assets in IFRS 9 is based on the business model in which a financial asset is managed and the contractual cash flow characteristics of the financial asset. Under IFRS 9, on initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) - debt or equity instruments - or fair value through profit or loss (FVTPL). Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated, and instead the hybrid financial instrument is assessed for classification as a whole. The Company's new IFRS 9 accounting policies are detailed below. Most of the requirements in IAS 39 classification and measurement of financial liabilities were carried forward in IFRS 9.

The following table explains the historical IAS 39 measurement categories and the new IFRS 9 measurement categories for each class of financial asset at January 1, 2018:

	Original Classification Under IAS 39	New Classification Under IFRS 9	Original Carrying Amount Under IAS 39	New Carrying Amount Under IFRS 9
Financial assets:				
Cash and cash equivalents	Loans and receivables	Amortized cost	59,577	59,577
Accounts receivable	Loans and receivables	Amortized cost	29,123	29,123
Loans receivable	Loans and receivables	Amortized cost	223,378	168,700
		FVTPL	-	54,736
Other receivables	Loans and receivables	Amortized cost	12,052	12,052
Mortgage receivables	Loans and receivables	Amortized cost	4,500	4,500

Impairment of Financial Assets

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application.

The carrying value of loans receivable as at January 1, 2018 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Carrying value as at January 1, 2018	$7,412	$865	$215,159	**$223,436**

As a result of the adoption of IFRS 9, the Company's accounting policies for financial instruments have been updated as follows:

(i) Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), amortized cost, or fair value through other comprehensive income ("FVOCI). The Company determines the classification of its financial assets at initial recognition.

a. *FVOCI*

For equity securities that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments at FVOCI, with all subsequent changes in fair value being recognized in other comprehensive income ("OCI"). This election is available for each separate investment. Under this new FVOCI category, fair value changes are recognized in OCI. On disposal of the investment, the cumulative fair value change remains in OCI and is not recycled to net earnings or loss.

A debt security is measured at FVOCI if it has not been designated at FVTPL and (1) it is held within a business model whose objective is to both collect contractual cash flows and sell financial assets, and (2) the asset's contractual cash flows represent solely payments of principal and interest.

b. *Amortized cost*

Financial assets are measured at amortized cost if both of the following criteria are met and the financial assets are not designated as FVTPL: (1) the objective of the Company's business model for these financial assets is to hold the assets and collect their contractual cash flows and (2) the asset's contractual cash flows represent solely payments of principal and interest. The Company's cash and cash equivalents, accounts receivables, other receivables, and certain loan receivables are recorded at amortized cost. A provision is recorded when the estimated recoverable amount of the financial asset is lower than the carrying amount.

At each statement of financial position date, the Company assesses on a forward-looking basis the expected credit losses associated with its financial assets

carried at amortized cost and fair value through other comprehensive income. The impairment methodology includes an assessment of whether there has been a significant increase in credit risk, which includes all financial assets that are 30 days or more past due. When sold or impaired, any accumulated fair value adjustments previously recognized are included in profit or loss.

c. *FVTPL*

Financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. These include financial assets acquired for the purpose of selling in the near term and all derivative financial assets. Gains or losses on these items are recognized in net earnings or loss.

d. *Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

e. *Allowance for Loan Losses*

Expected credit losses (ECL) are a probability-weighted estimate of credit losses. They are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial asset.

A financial asset is impaired (stage 3) when one or more events have occurred that have a detrimental impact on the estimated future cash flows. This includes all financial assets that are 90 days or more past due. An allowance for impaired loans is used to reduce their carrying value to the expected recoverable amount. The Company assesses its loans on an ongoing basis to determine whether any loans should be classified as impaired and whether an allowance (or write-off) should be recorded. The review of individual loans is conducted at least quarterly by credit analysts, who assess the collectability and estimated recoveries for each specific loan based on all events and conditions that are relevant to the loan. The determination of estimated future cash flows of collateralized loans reflect the expected realization of the underlying security, net of expected costs. Security varies by type of loan. The loan review assessments are ultimately reviewed and approved by the Company's Credit Committee.

The Company's ECL model also requires the recognition of credit losses based on 12 months of expected losses for performing loans (stage 1) and the recognition of lifetime expected losses on watch-list loans that have experienced a significant increase in credit risk since origination (stage 2).

(ii) *Financial Liabilities*

Accounts payable and accrued liabilities, as well as debt facilities are accounted for at amortized cost.

(iii) *Transaction Costs*

Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability. The amortization of transaction costs is calculated using the effective interest method.

(iv) *Derivative Financial Instruments*

The Company may hold derivative financial instruments to hedge its risk exposure to fluctuations in foreign exchange. Derivative financial instruments are measured at fair value at each reporting period.

(b) **IFRS 15, *Revenue From Contracts with Customers***

The Company has adopted IFRS 15 effective January 1, 2018 using the cumulative effect method; therefore, the comparative information has not been restated and continues to be reported under IAS 18, *Revenue* and IAS 11, *Construction Contracts*. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. This determination of the timing of the transfer of control required judgement.

The Company concluded that no adjustments were required to its opening accumulated deficit at January 1, 2018 and no changes were required in the amounts of revenue recognized or in the timing of revenue recognition as a result of the adoption of IFRS 15. Due to the nature of the Company's sales, the timing of revenue recognition did not change as a result of adopting IFRS 15.

4. FUTURE ACCOUNTING DEVELOPMENTS:

(a) **Leases (IFRS 16):**

IFRS 16 replaces IAS 17, *Leases* and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

The Company is in the process of evaluating the impact of IFRS 16 on the Company's financial statements.

5. INVENTORY

	September 30, 2018	December 31, 2017
Raw materials	**$ 15,828**	$ 15,702
Work-in-process	**1,975**	5,726
Finished goods	**9,960**	14,424
Operating and maintenance supplies	**503**	1,345
	$ 28,266	$ 37,197

All inventory is expected to be sold in the next 12 months.

6. LOANS RECEIVABLE:

Loans and advances to customers are measured at amortized cost, which is net of allowance for loan losses.

Total loans receivables are as follows:

	September 30, 2018	December 31, 2017
Loans receivable - not covered by guarantee	**$ 206,865**	$ 212,258
Loans receivable - covered by guarantee	**40,167**	11,120
	$ 247,032	$ 223,378

The amount of loans receivable that is measured at FVTPL as at September 30, 2018 was $70,926.

The contractual maturity of loans receivables is as follows:

Contractual Maturity	**September 30, 2018**	December 31, 2017
0 - 3 months	**$ 169,204**	$ 188,154
4 - 6 months	**-**	-
7 - 12 months	**-**	-
13 months or more	**77,828**	35,224
	$ 247,032	$ 223,378

The following table provides information about the exposure to credit risk and allowance for loan losses for loans receivables as at September 30, 2018:

	Loans Receivable at Amortized Cost	Allowance for Loan Losses	Loans Receivable at FVTPL	Net Loans Receivable
Grade 1: Performing	$ 43,865	$ (156)	$ -	43,709
Grade 2: Watchlist and non-impaired	-	-	-	-
Grade 3: Watchlist and impaired	397,939	(265,542)	70,926	203,323
	$ 441,804	**$ (265,698)**	**$ 70,926**	**247,032**

The loans receivable earn interest at fixed rates. The loans are generally senior secured credit facilities with revolving and non-revolving facilities secured by a first charge on substantially all of the borrowers' assets.

During the third quarter of 2018, five loans were written off with gross loans receivable and allowance for loan losses of $105 million resulting in an additional provision for loan losses of $1.3 million.

For the current year-to-date period, the total interest, fee and other revenue earned on loans with no impairment was $2.3 million (year-to-date Q3-2017 - $33.4 million). For the current year-to-date period, the total interest, fee and other revenue earned on loans with an impairment but for which interest is currently being collected was $22.9 million (year-to-date Q3-2017 - $40.4 million). For the current year-to-date period, the total interest, fee and other revenue earned on loans with an impairment but for which interest is currently not being collected was $2.8 million (year-to-date Q3-2017 - $2.0 million).

Given the nature of the business, loans may be renewed past their original contractual maturity. The historical average time for a loan to be repaid/realized has been approximately 1.7 years. Of our loans receivables, 69% are expected to be realized beyond 12 months.

As at September 30, 2018, the Company had one loan that exceeded $100 million in gross loans receivables. This stage 3 loan (in accordance with IFRS 9) had a gross loans receivable and net loans receivable of $245.8 million and $78.6 million, respectively, as at September 30, 2018. This particular loan is concentrated in the energy sector and the significant risk factors that impact its operations include the ability of the borrower to maintain and execute a project contract, the ability of the borrower to achieve forecasted EBITDA targets, unexpected changes in working capital requirements, political risk associated with certain countries of operations, competitor risk and execution risk. Timing on the realization of this loan is uncertain and is assessed continuously, taking into account performance of the investment and the macro-economic conditions impacting the sectors of the investment.

7. LOAN LOSS ALLOWANCE:

As at September 30, 2018, the Company has an allowance for loan losses of $265,698 (December 31, 2017 - $358,217), which is presented against loans receivable on the consolidated statements of financial position in accordance with IFRS 9.

	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2018	$ 35	$ 97	$ 308,453	$ 308,585
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	(97)	97	-
Net remeasurement	(9)	-	60,848	60,839
Originations	152	-	-	152
Repayments	(22)	-	-	(22)
Total allowance for loan losses	156	-	369,398	369,554
Write-offs	-	-	(103,310)	(103,310)
Recoveries	-	-	-	-
Foreign exchange and other[1]	-	-	(546)	(546)
Balance as at September 30, 2018	**$ 156**	**$ -**	**$ 265,542**	**$ 265,698**

[1] Other includes transfers related to businesses acquired through loans.

The table below relates to the allowance recorded under IAS 39 which has not been restated:

	December 31, 2017
Allowance for loan losses	
Balance, beginning of period[1]	$ 164,973
Changes for the year:	
Provisions for impaired loans	219,967
Provisions for non-impaired loans	(2,585)
Provision related to businesses acquired	(24,138)
Balance, end of period	$ 358,217

The impaired loans/specific loan loss provisions for the year-to-date period of $60,945 (December 31, 2017 - $219,967) related to a pool of loans with gross loans receivables of $512,773 (December 31, 2017 - $581,875).

The following table represents loan loss allowances on impaired loans before derecognition (see note 25) by country and industry:

Stage 3/Individually Impaired by Geographical Region and Industry	September 30, 2018	December 31, 2017
Canada		
Agriculture	**$ -**	$ 43,382
Industrials	**-**	27,229
Mining	**-**	22,240
	-	92,851
United States		
Industrials	**28,697**	49,449
Mining	**-**	29,630
Energy	**167,225**	131,924
Technology & Hardware	**43,865**	38,342
Other	**26,985**	16,684
	266,772	266,029
Total	**$ 266,772**	$ 358,880

2018 amounts are under IFRS 9 and IFRS 15 and 2017 amounts are under IAS 39 and IAS 18.

8. OTHER ASSETS:

	September 30, 2018	December 31, 2017
Other receivables	**$ 5,595**	$ 12,052
Mortgage receivable	**3,092**	4,500
Employee receivables	**-**	1,011
Prepaid assets	**5,198**	5,507
Leasehold improvements	**1,437**	1,605
Other	**11,240**	6,780
	$ 26,562	$ 31,455

The other receivables consists of contractual receivables under legal proceedings.

9. PROPERTY, PLANT AND EQUIPMENT:

	Land	Building	Machinery and Equipment	Other	Total
January 1, 2017	$ 9,909	$ 5,130	$ 19,214	$ 365	$ 34,618
Additions (through non-cash exchange)	2,602	13,288	42,586	1,000	59,476
Additions (other)	24	889	4,778	1,562	7,253
Depreciation	-	(430)	(2,891)	(295)	(3,616)
Dispositions	(247)	(591)	(2,718)	(32)	(3,588)
Reclass to assets held for sale	(8,891)	-	(1,631)	-	(10,522)
Impairment	-	-	(1,441)	-	(1,441)
Foreign currency translation	(737)	(587)	(5,565)	(41)	(6,930)
December 31, 2017	$ 2,660	$ 17,699	$ 52,332	$ 2,559	$ 75,250

	Land	Building	Machinery and Equipment	Other	Total
January 1, 2018	$ 2,660	$ 17,699	$ 52,332	$ 2,559	**$ 75,250**
Additions (through non-cash exchange)	4,981	2,455	6,140	-	**13,576**
Additions (other)	-	986	22,422	1,482	**24,890**
Depreciation	-	(666)	(8,861)	(368)	**(9,895)**
Dispositions	(542)	(91)	(2,226)	(619)	**(3,478)**
Reclass to assets held for sale	(37)	(1,813)	(10,931)	(693)	**(13,474)**
Impairment	-	-	-	-	**-**
Foreign currency translation	191	466	1,446	59	**2,162**
September 30, 2018	**$ 7,253**	**$ 19,036**	**$ 60,322**	**$ 2,420**	**$ 89,031**

10. INTANGIBLES:

	September 30, 2018	December 31, 2017
Gaming technology	**$ 16,009**	$ 18,210
Customer relationships	**9,546**	10,394
Forestry licenses	**1,862**	69,417
Other patents, trademarks and development costs	**9,363**	6,687
	$ 36,780	$ 104,708

Amortization of intangibles for the year-to-date period was $5.3 million (year-to-date Q3-2017: $2.9 million). The decrease in forestry licenses during for the year-to-date period is a result of reclassification to assets held for sale (note 23).

11. GOODWILL:

	Total
January 1, 2017	$ 22,951
Acquisitions through business combinations	115,947
Disposals	-
Impairments	(9,460)
Foreign currency translation and other[1]	(1,624)
December 31, 2017	$ 127,814

	Total
January 1, 2018	**$ 127,814**
Acquisitions through business combinations	**62**
Disposals	**-**
Impairments	**(15,448)**
Foreign currency translation and other[1]	**1,445**
September 30, 2018	**$ 113,873**

[1] Includes adjustments to goodwill for final purchase price allocation.

Goodwill is allocated to the following operating businesses:

	September 30, 2018	December 31, 2017
Injection molding business	**$ 13,696**	$ 28,173
Aluminum castings business	**6,458**	5,982
Gaming business	**86,771**	86,771
Drilling services business	**6,888**	6,888
Paving business	**60**	-
	$ 113,873	$ 127,814

During the year-to-date period, there were indications of impairment at one of the Company's businesses (Otto Industries North America Inc.) that reflected declines in forecasted performance due to market conditions and lower than expected economic performance of certain businesses. As a result, an amount of $15.5 million was recorded in the statements of comprehensive income as an impairment of goodwill for the period (year-to-date Q3-2017: $13.2 million).

Details of goodwill acquired through business combinations is discussed further in note 23.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	September 30, 2018	December 31, 2017
Trade payables	**$ 47,155**	$ 36,408
Due to related party (note 15)	**65,458**	53,962
Dividend payable	**-**	5,139
Siviculture accrual	**1,103**	4,324
Note payable	**-**	3,000
Other	**14,019**	11,258
	$ 127,735	$ 114,091

All amounts are payable within one year other than related party and siviculture balances.

13. TERM DEBT:

	September 30, 2018	December 31, 2017
Senior debt	**$ 40,958**	$ 49,443
Less: associated transaction costs	**(25)**	(25)
	40,933	49,418
Collateralized loan obligation	**73,610**	76,416
Subordinated bridge facility, due to Catalyst	**377,244**	315,406
	$ 491,787	$ 441,240

The amounts due on the senior debt represent a senior secured non-revolving term loan for $50 million. The loan was originally scheduled to mature on March 31, 2017, and bears a fixed rate of interest of 8.419% which was based on the Government of Canada bond rate at the time of issuance plus 5.75%. The loan has a first priority charge over a portion of the assets of the Company. In March 2017, the Company extended the maturity of its senior debt from March 31, 2017 to the earlier of September 30, 2017 and the date when a privatization transaction closes. In September 2017, the Company extended the maturity of its senior debt from September 30, 2017 to the earlier of March 31, 2018 and the date when a privatization transaction closes. In March 2018, the Company extended the maturity of its senior debt from March 31, 2018 to the earlier of March 31, 2019 and the date in which a privatization transaction closes. All other terms remain substantially unchanged other than approximately $15.5 million of scheduled amortization over the year and potential cash sweeps. The Company was in compliance with its financial covenants, following receipt of certain waivers as requested by it, at September 30, 2018 and December 31, 2017.

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 originally matured on April 30, 2017 and can be repaid in full by the Company at any time without penalty. In September 2015, the Company increased the amount of its revolving unsecured subordinated bridge facility by US$50 million to US$250 million. In March 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility from April 30, 2017 to the earlier of (i) completion of the privatization process and (ii) October 31, 2017. In October 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility to the earlier of (i) April 30, 2018 and (ii) the day following the repayment of its senior debt in full. In March 2018, the Company extended the maturity date of its revolving unsecured subordinated bridge facility to the earlier of (i) April 30, 2019 and (ii) the day following the repayment of its senior debt in full, but no earlier than January 1, 2019. All other terms remain substantially unchanged. In May 2018, the Company amended the subordinated bridge facility to allow for the capitalization of interest and fees during the term of the extension. Catalyst intends to extend the maturity date of its revolving unsecured subordinated bridge facility at maturity, if necessary, to maintain the continuing operations of the Corporation. The Company was in compliance with its financial covenants, following receipt of certain waivers as requested by it, at September 30, 2018 and December 31, 2017.

In December 2016, the Company closed a US$125 million collateralized loan obligation transaction secured by a portion of the loan portfolio pledged to a special purpose financing vehicle wholly-owned by Callidus. The special purpose vehicle issued four investment grade debt tranches ranging from AAA (sf) to BBB (sf), representing approximately 60% of the initial issue size. The collateralized loan obligation finances a portion of the loan portfolio pledged to the special purpose financing vehicle. The obligation matures December 7, 2021 and carries an all-in blended annual interest rate of approximately 4.90%.

14. REVOLVING CREDIT FACILITY:

The Company had a US$337.5 million revolving credit facility (the "**revolving credit facility")** to finance a portion of the loan portfolio pledged by a special purpose financing vehicle wholly-owned by Callidus. The

revolving credit facility could have been drawn in either Canadian or U.S. dollars and provided for an aggregate of US$281.25 million of Class A loans and US$56.25 million of Class B loans. The Class A loans and the Class B loans (together the "**Loans**") were subject to borrowing base availability dependent on certain eligible loans receivable balances approved by the lender.

The Loans were also subject to a minimum utilization of 50%, measured quarterly and carried interest at an applicable base rate (bankers' acceptance for Canadian dollar loans and LIBOR for U.S. dollar loans) plus a margin of 2.75% and 6.25% for the Class A Loans and Class B Loans, respectively.

The revolving credit facility was scheduled to mature January 15, 2019, and contained a revolving period that ended July 15, 2017, followed by a two-year amortization period. Additionally, there was a non-call period to the end of the revolving period. If Callidus had requested an extension to the facility and the lender had denied the request, the facility may have been repaid in full without penalty.

In May 2016, the Company increased the amount of the revolving credit facility to US$337.5 million in the aggregate. In January 2017, the Company extended the revolving period by six months to July 2017 and amended the amount of the revolving credit facility to US$275 million with an expandable feature to increase it to US$325 million. All other terms remained substantially unchanged.

The revolving credit facility was terminated on July 17, 2017 as there was nil outstanding at the end of the revolving period and beginning of the amortization period.

15. RELATED PARTY TRANSACTIONS:

The following transactions have occurred between the Company and its related parties other than as noted elsewhere in these financial statements.

(a) **Relationships**:

The Catalyst Capital Group Inc. ("**CCGI**") and funds managed by it (collectively "**Catalyst**") own approximately 72.2% of the issued and outstanding shares of the Company as at September 30, 2018 (December 31, 2017 – 71.1%). Catalyst also provides term debt to the Company.

The Chief Executive Officer of CCGI, Newton Glassman, is the Chief Executive Officer, Chair of the Board of Directors and Chair of the Credit Committee of the Company.

(b) **Catalyst Participation Interest**:

In connection with the initial public offering of the Company's shares in 2014 (the "**Offering**"), and repayment of the Catalyst debenture at that time, Catalyst Fund Limited Partnership IV ("**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 was derecognized from the financial statements during fiscal 2014.

The participation agreement also provided that in the event that Catalyst Fund IV wished to sell its 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.

The agreements entered into at the time of the Offering also permit other funds managed by CCGI (the "**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 below.

In accordance with the terms of the participation agreement, entered into in connection with Callidus' initial public offering, effective April 2015, Catalyst Fund Limited Partnership V began to participate in the funding of new loans originated by Callidus. This provides Callidus with access to additional funds to fund the expansion of the Company's loan portfolio (note 25).

(c) **The Catalyst Guarantees:**

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 loans in the portfolio at the time of the Offering. The guarantee covers losses of principal incurred by the Company on certain specified loans until fully realized ("**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 were renewed by the Company at their next scheduled credit review. The scheduled credit reviews have taken place for all such loans.

As noted above, in December 2014, the Company acquired all of the Catalyst Funds' participation interest, outstanding at the time, in the loan portfolio at par plus accrued interest and fees. The participation agreement also provided that in the event that the Company purchased Catalyst Fund IV's participation interest, Catalyst Fund IV agreed to provide a guarantee that covered Catalyst's percentage ownership interest in the relevant loans at the time of the acquisition. The guarantee covers losses of principal on watch-list loans at the time of acquisition and losses of principal on all other loans until such loans are renewed at the next scheduled review. The scheduled credit reviews have taken place for all such loans.

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 be subject to the Company's control. The Company and Catalyst have agreed that the Company will operate the cash sweep so that the 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 at September 30, 2018, the Company recorded a guarantee payable of $16,771 (December 31, 2017 – a receivable of $8,429) related to the Catalyst guarantee as a result of advances in excess of amounts receivable under the guarantee. During the year-to-date period, $69,898 (year-to-date Q3-2017 – $32,271) was received under the Catalyst guarantee. Amounts received are subject to refund if further collections are made on the guaranteed loans.

(d) **Other Transactions during the Period**:

During the year-to-date period ended September 30, 2018, commitment fees of $3,604 (year-to-date Q3-2017 - $1,429), were accrued to Catalyst. Interest expense also includes $21,283 (year-to-date Q3-2017 - $19,673) accrued to Catalyst on a year-to-date basis. All transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As at September 30, 2018, accounts payable and accrued liabilities included $46,341 (December 31, 2017 – $27,900) representing participation interest funding payable to Catalyst, nil (December 31, 2017 - $28,157) representing the unpaid portion of interest expense and commitment fees due to Catalyst on the subordinated bridge facility (which is payable in 2019), $16,771 (December 31, 2017 – nil) representing the advances under the Catalyst guarantee, a receivable of $1,919 (December 31, 2017 – payable of $10,763) representing the unpaid portion of net income due to the Fund's participation interest in the loan portfolio (note 25) and $5,750 (December 31, 2017 – nil) representing advances under the Catalyst Letter Agreements.

As at September 30, 2018, there was nil (December 31, 2017 – $1.0 million) in loans receivable outstanding relating to advances provided by the Company on an employee retention plan.

(e) **Key Management Personnel Compensation**:
No compensation is paid by the Company to its Chief Executive Officer. Other key management personnel compensation for two employees and three directors comprised the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	**2018**	2017
Short-term employee benefits	**$ 841**	$ 730	**$ 2,523**	$ 3,489
Share-based payments	**70**	110	**247**	319
Director fees	**187**	172	**552**	555
	$ 1,098	$ 1,012	**$ 3,322**	$ 4,363

16. SHARE CAPITAL:

	September 30, 2018		December 31, 2017	
	Shares	**Amount**	Shares	Amount
Common shares outstanding, beginning of period	**51,391,617**	**$ 463,234**	49,916,781	$ 435,413
Issue of common shares	**5,729,805**	**32,487**	3,970,675	50,172
Purchase and cancellation of common shares	**-**	**-**	(2,495,839)	(22,351)
Common shares outstanding, end of period	**57,121,422**	**$ 495,721**	51,391,617	$ 463,234

Note: The stated capital of each common share is $1.

In August 2015, the Company adopted a dividend policy pursuant to which the Company would declare and pay quarterly cash dividends to holders of its outstanding common shares of record as of the close of business on the last business day of each calendar quarter. In addition, the Company implemented a dividend reinvestment plan ("**DRIP**") pursuant to which eligible shareholders may elect to automatically reinvest their cash dividends payable in respect of the common shares to acquire additional common shares. During the year-to-date period, 4.3 million shares (year-to-date Q3-2017 – 2.6 million shares) were granted to those who elected to participate in the DRIP. Catalyst elected to participate in the DRIP on 100% of their shareholdings of the Company and, therefore, received 3.5 million shares (year-to-date Q3-2017 – 2.2 million shares) in consideration of the dividend. Cash outflow during the year-to-date period for the dividend was $4.8 million (year-to-date Q3-2017 – $8.2 million). In April 2016, the Company adopted a dividend policy pursuant to which it would declare and pay monthly dividends in lieu of quarterly dividends. In May 2016, the Company increased the amount of its aggregate annual dividend to $1.00 per share. In October 2016, the Company increased the amount of its aggregate annual dividend to $1.20 per share. A dividend of nil was accrued as at September 30, 2018 (December 31, 2017 - $5.1 million). During the current quarter, the Company announced that its Board of Directors has approved eliminating the Company's dividend effective immediately.

17. INCOME TAXES:

Components of deferred tax assets:

	September 30, 2018	December 31, 2017
Provision for loan losses	**1,125**	1,734
Other	**-**	-
Total recognized deferred tax balances	**$ 1,125**	$ 1,734

18. FAIR VALUES OF FINANCIAL INSTRUMENTS:

Fair values and carrying values of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal market, or in its absence, the most advantageous market to which the Company has access. The fair value of a liability reflects its non-performance risk. Some of the Company's financial instruments lack an available trading market. As such, the fair values of such instruments are based on estimates using discounted cash flows and other valuation techniques. The fair values derived from such valuation techniques are significantly affected by the assumptions used to determine discount rates and the amount and timing of future cash flows. Due to this estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the financial instruments.

The amounts in the following table represent the fair values and fair value hierarchy of all the financial instruments carried on the Company's consolidated statements of financial position:

			September 30, 2018			December 31, 2017	
	Fair Value	Carrying Value	Fair Value Over Carrying	Fair Value	Carrying Value	Fair Value Over Carrying	Fair Value Hierarchy
Assets							
Cash and cash equivalents	**$ 47,081**	**$ 47,081**	$ -	$ 59,577	$ 59,577	$ -	**1**
Accounts receivable	**37,434**	**37,434**	-	29,123	29,123	-	**3**
Loans receivable - not covered by	**206,865**	**206,865**	-	212,258	212,258	-	**3**
Loans receivable - covered by guarantee	**40,167**	**40,167**	-	11,120	11,120	-	**3**
Assets held for sale	**121,968**	**121,968**	-	13,758	13,758	-	**3**
Derivative assets	**3,799**	**3,799**	-	9,958	9,958	-	**2**
Guarantee asset	**-**	**-**	-	8,429	8,429	-	**3**
	$ 457,314	**$ 457,314**	$ -	$ 344,223	$ 344,223	$ -	
Liabilities							
Accounts payable and accrued liabilities	**$ 127,735**	**$ 127,735**	$ -	$ 114,091	$ 114,091	$ -	**2**
Derivative liabilities	**3,417**	**3,417**	-	-	-	-	**2**
Senior debt	**40,933**	**40,933**	-	49,418	49,418	-	**3**
Collateralized loan obligation	**73,610**	**73,610**	-	76,416	76,416	-	**3**
Subordinated bridge facility, due to Catalyst	**377,244**	**377,244**	-	315,406	315,406	-	**3**
	$ 637,971	**$ 637,971**	$ -	$ 555,331	$ 555,331	$ -	

The above table categorizes financial instruments recorded at fair value on the consolidated statements of financial position into one of the three fair value hierarchy levels:

- Level 1 - fair values are based on unadjusted quoted prices from an active market for identical assets or liabilities;
- Level 2 - fair values are based on inputs other than quoted prices that are directly or indirectly observable in an active market; and
- Level 3 - fair values are based on inputs not observable in the market.

There were no transfers between levels during the period. The fair value hierarchy levelling is applicable for all periods.

The following methods and assumptions are used to estimate the fair values of financial instruments:

(i) The carrying value of cash and cash equivalents, accounts receivable, revolving and non-revolving credit facilities, the guarantee asset and accounts payable and accrued liabilities is a reasonable approximation of fair value because these instruments are either short-term in nature or re-priced to current market rates frequently.

(ii) The fair value of the loan portfolio is determined by aggregating the present value of the discounted cash flows factoring current interest rates and estimates of credit risk. Discount rates used to determine the fair value of loans range between 6.0% and 30.0%.

In determining collateral values, the Company engages a variety of independent third parties such as lawyers, appraisal firms, enterprise valuation and other valuation specialists, in addition to performing quarterly field examinations. In instances where enterprise valuation is used in determining collateral values, significant estimations and critical judgments are used including assumptions over and not limited to future cash flows, interest rates, execution risk and company-specific risks. Inherently, there are risks and uncertainties relating to the valuation of these forms of collateral that may result in significant variation from period to period. Such risks and uncertainties include and are not limited to unforeseen economic and technological changes in a particular industry, inability to meet future cash flows targets and changes in commodity prices.

(iii) Fair values of derivative instruments are determined using pricing models, which take into account current market and contractual prices of underlying instruments, as well as time value and yield curve underlying the positions, which are observable. Accordingly, such instruments are classified in Level 2 of the fair value hierarchy. Fair values of the derivative assets associated with loans are valued based on the underlying enterprise value of the borrowers in which the Company has an equity interest. Accordingly, such instruments are classified as Level 3 in the fair value hierarchy.

19. CONTINGENCIES:

In the normal conduct of the Company’s operations, there are sometimes pending claims against the Company, including related to its lending collateral and personal guarantees. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, final determination of any litigation exposure has been factored into the Company's provisioning, including loan loss provisioning as appropriate.

West Face Capital Inc. and Gregory Boland have filed a statement of defence and counterclaim seeking $500 million of damages and punitive damages against the Company, among others. The basis of the claim is, among other things, an allegation of conspiracy and defamation. The proceedings are at a preliminary stage and the Company is not able to ascertain whether the claim against it is has any merit.

In the current year, a counterclaim was brought against the Company by a former employee of an investment banking firm for approximately $3.4 million of damages based upon allegations that the Company, among others, improperly contacted the investment banking firm for the purpose of causing him harm. The proceedings are at a preliminary stage and the Company is not able to ascertain whether the claim against it has any merit.

In the current year, the Quebec court dealing with the insolvency of Bluberi and related companies, issued an order authorising a litigation funding arrangement from a third-party professional funder and the commencement of an action against the Company. The action would seek compensatory, moral and punitive damages in connection with the Company’s enforcement of its loan and security therefor which gave rise to the Company’s acquisition of Bluberi. So far as the Company is aware, no such action has been commenced and there is no bona fide basis for such an action. The Company had sought leave to appeal the Quebec court’s order permitting the action and will defend any action that is ultimately brought against it. The Company received leave to appeal to the Quebec Court of Appeal on April 19, 2018 regarding the litigation funding and other matters.

There are no other claims against the Company which are expected to materially affect the Company's consolidated financial position or consolidated results of operations.

The Company has entered into certain post-acquisition earnout arrangements with key members of its operating subsidiaries whereby a cash payment will be made contingent on successful sale of those operating subsidiaries over and above certain thresholds. As at September 30, 2018, the total undiscounted contingent consideration was $11.6 million (December 31, 2017 – $7.8 million). No amount is recorded in the condensed consolidated interim financial statements related to this contingency.

20. FINANCIAL RISK MANAGEMENT:

The Company's exposure to risks associated with financial instruments includes currency risk, interest rate risk, liquidity risk and credit risk.

(a) **Currency Risk**:

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. This exposure is the result of indebtedness and related interest expense denominated in U.S. dollars, as well as assets and liabilities including consolidated subsidiaries that will be settled in U.S. dollars. The Company has entered into foreign exchange forward contracts to mitigate this risk (note 21).

A change of 1% in the value of the Canadian dollar as compared to the U.S. dollar would result in an immaterial change to the Canadian equivalent amount of U.S. dollar foreign exchange exposure as at September 30, 2018 and December 31, 2017 as the gain or loss on translation is offset by the mark-to-market value of the foreign exchange forward contracts.

(b) **Interest Rate Risk**:

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

The Company's loans receivable primarily bear interest at fixed rates, as do the Company's senior debt and subordinated bridge facility. Any changes in interest rate indices will not have an immediate impact on the Company's interest income and related expenses on these financial instruments.

(c) **Liquidity Risk**:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares cash forecasts to ensure it has sufficient funds to fulfill its obligations and actively pursues new sources of funding to meet liquidity needs (note 13).

The Company in the normal course needs to raise new funding and extend funding sources, including related party funding (which has historically been provided as needed), to fund its ongoing operations and loan growth plans. The Company is currently reliant on continued funding from Catalyst. The Company's liquidity may be adversely impacted by market conditions and unfavourable results. The outcome of these matters is inherently not predictable. To address the requirements, the Company extended in March 2018 financing from both its senior debt provider and existing shareholders into 2019, and continues to seek new debt financing and asset disposals.

In addition to the Bridge Facility, in March 2018, the Corporation entered into letter agreements (the "Catalyst Letter Agreements") with certain Catalyst Funds, in which the Catalyst Funds agreed, among other things, to provide additional financing to the Corporation to enhance its liquidity. The Catalyst Letter Agreements provide for additional financing to the Corporation of up to $15.5 million if required for the purposes of making scheduled amortization payments under the Term Loan and an amount of up to the face amount of loans subject to the Catalyst Guarantee that have been pledged to the lender under the Term Loan. These amounts would be advanced on the same terms as the Bridge Facility.

Additionally, the Catalyst Funds agreed to advance to the Corporation up to US $150 million if required by the Corporation to fund potential future advances to a specific borrower. Those amounts would be advanced on the same terms as the loan from Callidus to the borrower.

The Catalyst Funds also agreed in the Catalyst Letter Agreements to advance to the Corporation an amount equal to the face value of the loans subject to the Catalyst Guarantee. Those amounts would be advanced on an interest free basis and would be repayable at the time the amounts owing under the Bridge Facility are repayable.

As at September 30, 2018, there was $5.8 million outstanding under these Catalyst Letter Agreements.

(d) **Credit Risk**:
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to its borrowers and accounts receivable of its consolidated subsidiaries.

The Company adheres to a credit evaluation process and requires collateral to support each loan.

The Company actively monitors each loan, as appropriate depending on the risks. In most cases, the Company maintains control of the borrower's deposit account through the use of blocked accounts, which facilitate loan repayment and reduce the risk of fraud. In structuring its loans, the Company generally relies on collateral such as inventory, receivables and fixed assets, and on enterprise value and other non-working capital assets, such as intellectual property of the borrower. Financial results and collateral values are regularly monitored against business plans and industry trends. Regular meetings with the borrower's management are combined with regular field examinations as appropriate. Third party collateral appraisers generally confirm initial inventory and fixed asset values and professional restructuring advisors are involved, as necessary. This system of collateral monitoring and management contact mitigates risk by acting as an early warning system of potential credit issues. Early detection of issues facilitates implementation of proactive remedies.

The net carrying amount of all loans is at least 100% collateralized as of September 30, 2018 and December 31, 2017. Collateral securing loans receivable primarily relates to enterprise values, vessels, and machinery and equipment.

21. DERIVATIVES HELD FOR RISK MANAGEMENT:

The table below analyzes derivatives held for risk management purposes by type of instrument.

	Notional Amount*		Fair Value Asset (Liability)**	
	September 30, 2018	December 31, 2017	**September 30, 2018**	December 31, 2017
Foreign exchange forward contracts	$ 54,000	$ 181,000	$ 382	$ 6,409
Foreign exchange call option contract	70,000	70,000	3,417	3,549
Foreign exchange put option contract	70,000	70,000	(3,417)	(3,549)

*Amounts in thousands of U.S. dollars; all of the Company's forward contracts mature within 30 days of period end.
**The fair value of these assets and liabilities is shown separately on the statements of financial position as there is no legal right to offset.

22. SHARE-BASED PAYMENTS:

The Company grants stock options which vest evenly over a three-year period and are exercisable up to 10 years from the date of grant. As approved by the directors, a total of 10% of the total issued and outstanding common shares of the Company have been reserved for issuance under the plan of which approximately 7% have been awarded and remain outstanding as at September 30, 2018 (December 31, 2017 – 7%).

The value of these options is recognized on a graded vesting basis except where the employee is eligible to retire prior to a tranche's vesting date, in which case the value is recognized between the grant date and the date the employee is eligible to retire.

The amount recorded in contributed surplus as at September 30, 2018 was $8,645 (December 31, 2017 - $7,760). For the year-to-date period ended September 30, 2018, an expense of $885 (year-to-date Q3-2017 - $893) was recorded in the consolidated statements of income and comprehensive income. As at September 30, 2018, future unrecognized compensation cost for non-vested stock options was $769 (December 31, 2017 - $1,211), which is to be recognized over a weighted average period of 1.4 years (December 31, 2017 - 1.7 years).

Significant assumptions used in valuing the options granted during the quarter include a volatility rate of 49% (December 31, 2017 – 38%), a dividend rate of 0.0% (December 31, 2017 – 11.8%), an expected life assumption of 10 years (December 31, 2017 – 10 years), and a risk-free rate of 2.64% (December 31, 2017 – 2.40%).

The following table summarizes the weighted average exercise prices and the weighted average remaining contractual life of the balances of stock options outstanding at September 30, 2018.

	Options Outstanding			Options Exercisable	
Exercise Price ($)	**Options**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price ($)**	**Options**	**Weighted Average Exercise Price ($)**
$3.20 - $8.03	1,799,026	7.82	$ 6.94	863,750	$ 7.57
$8.04 - $16.34	1,502,662	9.05	$ 10.87	472,056	$ 11.47
$16.35 - $19.86	790,834	6.64	$ 17.16	683,519	$ 16.99
	4,092,522	8.04	$ 10.36	2,019,325	$ 11.67

For the year-to-date period ended September 30, 2018, nil (2017 – nil) options were forfeited or expired.

23. BUSINESS COMBINATIONS:

Businesses Acquired:

In November 2015, one of the Company's borrowers (Wabash Castings Inc., a manufacturer of aluminum castings) emerged from formal restructuring proceedings in the U.S. as a going concern. In May 2016, one of the Company's borrowers (Altair Water and Drilling Inc., a water and oil drilling services company) emerged from formal restructuring proceedings in Canada as a going concern. In February 2017, one of the Company's borrowers (Bluberi Gaming Technologies Inc., a digital slot gaming company) emerged from formal restructuring proceedings in Canada as a going concern. In June 2017, the Company gained control of one of its borrowers (Otto Industries North America Inc., an injection molding company). In November 2017, the Company gained control of one of its borrowers (C&C Resources Inc., a forestry products company). In January 2018, the Company gained control of one of its borrowers (Midwest Asphalt Corporation, a paving and maintenance company). In all instances, as a result and under the terms of its secured creditor agreements (where applicable), the Company gained 100% control of all of these borrowers and has consolidated the assets, liabilities and operations of these businesses.

The business acquired in February 2017 was initially recognized at the carrying value of the loan immediately prior to acquiring control, which was an amount of $133 million, reflecting the fair value of the consideration transferred. The major class of assets acquired included goodwill of $86 million, intellectual property of $27 million, cash of $11 million, other working capital of $5 million, machinery and equipment of $2 million, and land and buildings of $4 million. Liabilities of $2 million were assumed in the acquisition.

The business acquired in June 2017 was initially recognized at the carrying value of the loan immediately prior to acquiring control, which was an amount of $90 million, reflecting the fair value of the consideration transferred. The major class of assets acquired included property, plant and equipment of $40 million,

goodwill of $28 million, accounts receivables of $20 million, inventory of $15 million, intellectual property of $9 million, prepaids and other assets of $8 million and the assumption of accounts payable of $24 million, and other liabilities of $6 million. No other material liabilities were assumed in the acquisition.

The business acquired in November 2017 was initially recognized at the carrying value of the loan immediately prior to acquiring control, which was an amount of $104 million, reflecting the fair value of the consideration transferred. The major class of assets acquired included forestry licenses of $70 million, property, plant and equipment of $13 million, accounts receivables of $12 million, inventory of $16 million, prepaids and other assets of $5 million, cash of $8 million and the assumption of accounts payable and accrued liabilities of $16 million and a term loan of $4 million. No other material liabilities were assumed in the acquisition.

The business acquired in January 2018 was initially recognized at the carrying value of the loan immediately prior to acquiring control, which was an amount of $17 million, reflecting the fair value of the consideration transferred. The major class of assets acquired included property, plant and equipment of $14 million, accounts receivables of $4 million, inventory of $1 million and the assumption of accounts payable and accrued liabilities of $2 million. No other material liabilities were assumed in the acquisition. The amounts of revenue and net loss of the business acquired since the acquisition date recorded in the statements of comprehensive income were $17.8 million and $3.8 million, respectively. The Company is in the process of finalizing the fair values of all assets acquired and liabilities assumed.

The losses and provisions from two of these businesses (Wabash Castings Inc. and Altair Water and Drilling Inc.) are fully covered under the terms of the Catalyst guarantee and as such the full recovery of these losses has been recorded in the statements of comprehensive income.

Goodwill is tested for impairment at least annually at December 31. During the year-to-date period, there were indications of impairment at one of the Company's businesses (Otto Industries North America Inc.) that reflected declines in forecasted performance due to market conditions and lower than expected economic performance of certain businesses. As a result, an amount of $15.5 million was recorded in the statements of comprehensive income as an impairment for the year (year-to-date Q3-2017 - $13.2 million).

Assets Held for Sale:
In August 2018, the Company committed to actively market a portion of the C&C Resources Inc. business for sale.

In September 2018, the Company entered into a letter of intent with a strategic acquirer pursuant to which Callidus will sell the commodity division of C&C Resources Inc. for all-cash consideration.

As at September 30, 2018, the carrying value of all assets held for sale was $122.0 million which includes the assets from C&C Resources Inc, Altair Water and Drilling Inc. and Wabash Castings Inc. The major categories of assets held for sale include accounts receivable of $8 million, inventory of $17 million, fixed assets of $22 million, intangibles of $66 million and other assets of $9 million. As at September 30, 2018, Callidus expects the gain or loss on the sale of these assets not to be significant after customary professional fees and expenses.

24. CAPITAL REQUIREMENTS:

In March 2018, the Company voluntarily surrendered its exempt market dealer status.

25. TRANSFERS OF FINANCIAL ASSETS:

As described in note 15, in connection with the Offering, the Company, CCGI, and certain funds managed by CCGI entered into a participation agreement. Accordingly, effective April 2015, Catalyst Fund Limited Partnership V ("**Catalyst Fund V**") began to participate in the funding of new loans originated by Callidus. The tables below provide a summary of the impact of derecognition on the Company's financial statements.

As at September 30, 2018	Before Derecognition	Effect of Derecognition	**After Derecognition**
Cash and cash equivalents	$ 47,081	$ -	**$ 47,081**
Accounts receivable	37,434	-	**37,434**
Inventory	28,266	-	**28,266**
Income taxes recoverable	-	-	**-**
Derivative assets	3,799	-	**3,799**
Loans receivable - not covered by guarantee	326,414	(119,549)	**206,865**
Loans receivable - covered by guarantee	40,167	-	**40,167**
Assets held for sale	121,968	-	**121,968**
Deferred tax asset	1,125	-	**1,125**
Guarantee asset	-	-	**-**
Other assets	26,562	-	**26,562**
Property, plant and equipment	89,031	-	**89,031**
Intangibles	36,780	-	**36,780**
Goodwill	113,873	-	**113,873**
	$ 872,500	$ (119,549)	**$ 752,951**
Accounts payable and accrued liabilities[(1)]	$ 123,890	$ 3,845	**$ 127,735**
Income taxes payable	411	-	**411**
Derivative liabilities	3,417	-	**3,417**
Borrower deposits	327	-	**327**
Deferred facility fees	4,527	-	**4,527**
Liabilities held for sale	15,032	-	**15,032**
Due to Catalyst Fund Limited Partnership V	114,710	(114,710)	**-**
Senior debt	40,933	-	**40,933**
Collateralized loan obligation	80,098	(6,488)	**73,610**
Subordinated bridge facility, due to Catalyst	377,244	-	**377,244**
	760,589	(117,353)	**643,236**
Share capital	495,721	-	**495,721**
Contributed surplus	8,645	-	**8,645**
Retained deficit	(391,664)	(2,196)	**(393,860)**
Accumulated other comprehensive loss	(791)	-	**(791)**
	111,911	(2,196)	**109,715**
	$ 872,500	$ (119,549)	**$ 752,951**

(1) Payable recognized pertains to the derecognized income owed to Catalyst Fund V as a result of the participation interest.
(2) Presentation reflects as at September 30, 2018 balances with retained deficit reflecting the impact of derecognition for the current year.

Statement of Comprehensive Income

			Three Months Ended September 30, 2018			**Nine Months Ended September 30, 2018**
	Consolidated	Effect of Derecognition	**After Derecognition**	Consolidated	Effect of Derecognition	**After Derecognition**
Interest	$ 12,965	$ (3,079)	**$ 9,886**	$ 31,744	$ (4,595)	**$ 27,149**
Fees and other	1,422	(972)	**450**	2,110	(1,260)	**850**
	14,387	(4,051)	**10,336**	33,854	(5,855)	**27,999**
Catalyst Fund Limited Partnerships	(9,028)	-	**(9,028)**	(24,948)	59	**(24,889)**
Senior debt and revolving credit facilities	(2,144)	113	**(2,031)**	(6,632)	386	**(6,246)**
	(11,172)	113	**(11,059)**	(31,580)	445	**(31,135)**
Net interest income	3,215	(3,938)	**(723)**	2,274	(5,410)	**(3,136)**
Revenues from injection molding business	29,820	-	**29,820**	96,138	-	**96,138**
Revenues from forestry products business	35,257	-	**35,257**	93,171	-	**93,171**
Revenues from aluminum castings business	1,949	-	**1,949**	5,572	-	**5,572**
Revenues from gaming business	5,291	-	**5,291**	15,955	-	**15,955**
Revenues from drilling services business	854	-	**854**	2,034	-	**2,034**
Revenues from paving business	17,821	-	**17,821**	26,220	-	**26,220**
	90,992	-	**90,992**	239,090	-	**239,090**
Total revenue	94,207	(3,938)	**90,269**	241,364	(5,410)	**235,954**
Cost of sales from injection molding business	(28,731)	-	**(28,731)**	(92,445)	-	**(92,445)**
Cost of sales from forestry products business	(28,450)	-	**(28,450)**	(73,442)	-	**(73,442)**
Cost of sales from aluminum castings business	(3,355)	-	**(3,355)**	(9,415)	-	**(9,415)**
Cost of sales from gaming business	(2,431)	-	**(2,431)**	(7,092)	-	**(7,092)**
Cost of sales from drilling services business	(602)	-	**(602)**	(1,442)	-	**(1,442)**
Cost of sales from paving business	(17,259)	-	**(17,259)**	(26,406)	-	**(26,406)**
Total cost of sales	(80,828)	-	**(80,828)**	(210,242)	-	**(210,242)**
Provision for loan losses	(25,209)	505	**(24,704)**	(62,811)	1,842	**(60,969)**
Recovery under the Catalyst guarantee	13,101	-	**13,101**	50,365	-	**50,365**
Change in fair value of financial instruments	5,451	-	**5,451**	7,634	-	**7,634**
Impairment of goodwill and other assets	(474)	-	**(474)**	(24,733)	-	**(24,733)**
Foreign exchange loss	(3,864)	369	**(3,495)**	(3,944)	371	**(3,573)**
Catalyst's share of overhead expenses	-	561	**561**	-	853	**853**
Depreciation	(2,853)	-	**(2,853)**	(8,474)	-	**(8,474)**
Salaries and wages	(9,819)	-	**(9,819)**	(27,511)	-	**(27,511)**
Stock options expense	(233)	-	**(233)**	(885)	-	**(885)**
General and administrative	(8,741)	-	**(8,741)**	(25,812)	-	**(25,812)**
	(32,641)	1,435	**(31,206)**	(96,171)	3,066	**(93,105)**
Income before income taxes	(19,262)	(2,503)	**(21,765)**	(65,049)	(2,344)	**(67,393)**
Current income taxes (expense) recovery	1,986	-	**1,986**	(266)	-	**(266)**
Deferred income taxes (expense) recovery	(609)	-	**(609)**	(577)	-	**(577)**
	1,377	-	**1,377**	(843)	-	**(843)**
Income and comprehensive income	$ (17,885)	$ (2,503)	**$ (20,388)**	$ (65,892)	$ (2,344)	**$ (68,236)**

26. EARNINGS PER SHARE:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	**2018**	2017
Basic earnings per common share:				
Net loss	**$ (20,388)**	$ (17,569)	**$ (68,236)**	$ (46,887)
Weighted average number of common shares outstanding ('000s)	**56,795**	50,517	**54,359**	50,427
Basic loss per common share	**$ (0.36)**	$ (0.35)	**$ (1.26)**	$ (0.93)
Diluted earnings per common share:				
Net loss	**$ (20,388)**	$ (17,569)	**$ (68,236)**	$ (46,887)
Weighted average number of common shares outstanding ('000s)	**56,795**	50,517	**54,359**	50,427
Adjustments to average shares due to:				
Share-based payment options and others	**-**	-	**-**	-
Weighted average number of common shares outstanding ('000s)	**56,795**	50,517	**54,359**	50,427
Diluted loss per common share	**$ (0.36)**	$ (0.35)	**$ (1.26)**	$ (0.93)