# Callidus Capital Corporation

Management's Discussion and Analysis

September 30, 2018

This Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompany notes for the period ended September 30, 2018 ("**Interim Financial Statements**") prepared in accordance with IAS 34, and the audited annual consolidated financial statements ("**Financial Statements**") of Callidus Capital Corporation ("**Callidus**", the "**Corporation**" or the "**Company**" or "**we**") as at December 31, 2017 and 2016, and for the years ended December 31, 2017 and 2016, and the related notes attached thereto, which were prepared in accordance with International Financial Reporting Standards ("**IFRS**") and the annual information form dated April 2, 2018 filed with the various securities regulatory authorities throughout Canada. Effective January 1, 2018, the Corporation prospectively adopted IFRS 9 Financial Instruments and adopted IFRS 15 Revenue from Contracts with Customers. Under IFRS 9, we refer to the allowance/provision for loan losses on impaired loans and the allowance/ provision for losses on non-impaired loans, instead of specific allowance/provision and collective allowance provision as previously noted under IAS 39 Financial Instruments: Recognition and Measurement. Prior periods have not been restated. Refer to note 3 in the Interim Financial Statements for further details. Under IFRS 9, the Corporation measures expected credit losses of a financial asset on an unbiased and probability-weighted basis that evaluates a range of possible outcomes, the time value of money and reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. 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 November 14, 2018 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", "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 regulation of asset based lending, continued operation of key systems, debt service, the expectation that the number of industry competitors in Callidus' marketplace will continue to decline, the expectation that 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 for 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 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 initially structured as demand, first lien (senior secured) facilities, on a fully collateralized basis with targeted gross yields of approximately 10% to 17% currently. Callidus typically offers loans ranging in size from $15 million to $150 million, but may also accommodate larger commitments where exposure to identifiable asset groups can be compartmentalized. The largest loan commitment provided by the Corporation to date is approximately $270 million.

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. 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 enable 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, other term assets and enterprise values, and monitors this collateral on an ongoing basis. From time to time, in order to protect its collateral position, the Corporation will become the owner of businesses, acquired through a restructuring, at which point, the businesses will be consolidated and accounted for on this basis, until rehabilitated, marketed, and ultimately sold. While the business has evolved, management believes that the Corporation's fundamental strategy and business model, that of being a specialty asset-based lender, has not changed. Management believes that the proportion of businesses consolidated in the overall portfolio will decrease over time as: (i) loan growth continues and (ii) businesses are sold.

**Corporate Plan to Restore and Build Shareholder Value**

The Corporation is committed to restoring and building shareholder value and intends to do so, by: (i) prudently growing the loan portfolio; (ii) actively managing the loan portfolio to minimize realized losses with a goal to recover some of the loan loss provisions recorded to date; (iii) maximizing the cash-flow and value of businesses acquired; (iv) prudently increasing leverage, including seeking external sources of financing at the subsidiary level; (v) enhancing the management team as appropriate; and (vi) considering other transactions that could support and/or benefit the Corporation's plan.

**Current Status of the Business**

As a result of ongoing, continuous process changes and improvements, the Corporation revised its measure of growth prospects, referred to as its pipeline of potential borrowers, to include what was internally categorized as lower probability in order to present what Management believes is a more accurate measure of opportunities being pursued and a better reflection of the size of the addressable market. The Corporation included this category as there have been instances of migration of opportunities within the pipeline from lower to higher probability categories.

This pipeline at September 30, 2018 was $1.4 billion, and currently stands at approximately $1 billion with two signed back term sheets totaling approximately $105 million.

The Corporation continues to maintain a cautious approach in reviewing potential prospects due to increased sectoral liquidity, as it has observed a rising number of deals being signed by competitors at lower yields as credit dollars continue to pour back into the market.

See "Forward-Looking Statements" and "Risk Factors".

**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 net loan portfolio outstanding after adjusting for loans classified as businesses acquired. While gross yield is sensitive to non-recurring fees and yield enhancements earned (for example, as a result of early repayment), the Corporation has included this information as it believes the information to be instructive given the frequency of receipt of non-recurring fees and enables readers to see, at a glance, trends in the yield of the loan portfolio.

**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 businesses acquired as they appear on the balance sheet, and (iv) discounts on loan acquisitions. The following is a reconciliation, before and after derecognition, of gross loans receivable to net loans receivable in the statements of financial position and a summary of gross loans receivable as at September 30, 2018 and December 31, 2017.

| ($ 000s) | **After Derecognition September 30, 2018** | **Before Derecognition September 30, 2018** | After Derecognition December 31, 2017 | Before Derecognition December 31, 2017 |
|---|---|---|---|---|
| Loan facilities | **$ 1,204,982** | **$1,372,704** | $ 1,096,888 | $ 1,162,483 |
| Gross loans receivable | **1,041,894** | **1,163,092** | 1,022,193 | 1,046,983 |
| Less: Discounted facilities | **-** | **-** | (7,575) | (7,575) |
| Less: Allowance for loan losses | **(265,698)** | **(267,347)** | (358,217) | (359,079) |
| Less: Cumulative change in fair value of financial instruments[1] | **(42,056)** | **(42,056)** | - | - |
| Less: Impairment on goodwill and businesses acquired[2] | **(87,058)** | **(87,058)** | (57,421) | (57,421) |
| Less: Businesses acquired[2] | **(400,050)** | **(400,050)** | (375,602) | (375,602) |
| **Net loans receivable** | **$ 247,032** | **$ 366,581** | $ 223,378 | $ 247,306 |

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

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

(2) Businesses acquired are presented in the statements of financial position by their respective assets and liabilities.

**Interest yield** is defined as total interest before derecognition divided by average loan portfolio outstanding after adjusting for loans classified as businesses acquired.

**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) businesses acquired, (ii) the allowance 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.

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

**Cumulative change in fair value of financial instruments** is defined as the accumulation of period-over-period changes in fair value since the origination dates of certain loans receivable that are measured at fair value through profit or loss under IFRS 9.

**Allowance for loan losses/goodwill impairment ratio** is defined as the sum of the allowance for loan losses, cumulative change in fair value of financial instruments (related to loans receivable at FVTPL) and accumulated impairment on goodwill divided by gross loans receivable before derecognition.

**Operating expenses of the corporate lending business** is defined as total operating expenses (consisting of salaries and wages, stock options expense, general and administrative expenses, net of Catalyst’s share of these operating expenses) for the corporate lending business only.

**Operating expense ratio** is defined as operating expenses for the corporate lending business divided by average loan portfolio outstanding.

**Return on equity (“ROE”)** is defined as net income after derecognition divided by quarterly average 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 unrestricted cash and cash equivalents) divided by gross loans receivable before derecognition. Total debt consists of the senior debt, revolving credit facilities, collateralized loan obligation and subordinated bridge facility.

**Yield enhancement** is defined as a component of a lending arrangement that Callidus negotiates in addition to the original loan agreement including additional fees, profit participation arrangements and equity and equity like instruments. Should a value be determined for the enhancement and depending on its contractual nature, the related amount may be recognized in the statements of comprehensive income as a part of interest income, fee income or as a financial instrument at fair value through profit or loss ("recognized yield enhancements”) or may be unrecognized, which includes yield enhancements relating to controlling interests, depending on the appropriate accounting treatment under IFRS. The Company has discontinued disclosure of unrecognized yield enhancements in light of comments expressed by the Ontario Securities Commission.

**Gross margin** is defined as non-interest revenues less cost of sales, divided by non-interest revenues, expressed as a percentage.

**Total gross margin** is defined as total non-interest revenues less total cost of sales, divided by total non-interest revenues, expressed as a percentage.

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.

## Selected Financial Information

The selected financial information set out below for the periods ended September 30, 2018 and September 30, 2017 and as at September 30, 2018 has been derived from the Company's interim financial statements prepared in accordance with IAS 34 and the Company's audited annual financial statements as at December 31, 2017 prepared in accordance with IFRS, as well as the Company's financial records. The following information should be read in conjunction with those statements and related notes. 2018 amounts are under IFRS 9 and 2017 amounts are under IAS 39.

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ($ 000s unless otherwise indicated) | **2018** | 2017 | **2018** | 2017 |
| Average loan portfolio outstanding (1) | **$ 1,148,956** | $ 1,024,383 | **$ 1,116,373** | $ 1,090,760 |
| Gross yield (1)(2) | **8.7%** | 10.7% | **7.2%** | 14.7% |
| **Income Statement Data (After Derecognition Unless Indicated):** | | | | |
| Total interest, fee and other revenue | **$ 10,336** | $ 17,951 | **$ 27,999** | $ 75,742 |
| Operating expenses of the corporate lending business (3) | **(5,202)** | (6,128) | **(19,185)** | (19,343) |
| Provision for loan losses | **(24,704)** | (9,731) | **(60,969)** | (64,146) |
| Recognized yield enhancements (4) | **-** | 900 | **-** | 6,700 |
| Recovery under the Catalyst guarantee | **13,101** | 7,033 | **50,365** | 15,504 |
| Net interest margin (1) | **-0.2%** | 2.5% | **-0.4%** | 4.7% |
| Allowance for loan losses/goodwill impairment ratio (1) | **34.1%** | 24.9% | **34.1%** | 24.9% |
| Operating expense ratio (1) | **0.5%** | 60.0% | **1.7%** | 1.8% |
| Net (loss) income | **$ (20,388)** | $ (17,569) | **$ (68,236)** | $ (46,887) |
| ROE (1) | **-68.9%** | -18.7% | **-67.9%** | -15.5% |
| **Balance Sheet & Other Data:** | | | Change from 2017 | |
| ($ 000s unless otherwise indicated) | **September 30, 2018** | December 31, 2017 | $ | % |
| Total assets | **$ 752,951** | $ 736,620 | $ 16,331 | 2% |
| Gross loans receivable (before derecognition) (1) | **1,163,092** | 1,046,983 | 116,109 | 11% |
| Net loans receivable | **247,032** | 223,378 | 23,654 | 11% |
| Senior debt and collateralized loan obligation | **114,543** | 125,834 | (11,291) | -9% |
| Subordinated bridge facility, due to Catalyst | **377,244** | 315,406 | 61,838 | 20% |
| Leverage ratio (1) | **38.8%** | 37.3% | | |

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

(1) Refer to "Description of Non-IFRS Measures".
(2) Callidus Lite was not a significant portion of the portfolio in the current year.
(3) Consists of salaries and wages, stock options expense, general and administrative expenses, net of Catalyst's share of these operating expenses (YTD Q3-2018 - $1.3 million; YTD Q3-2017 - $1.4 million).
(4) Recognized yield enhancements are recorded in the statements of income in total revenues (YTD Q3-2018 – nil; YTD Q3-2017 - $9.8 million) and in loss on derivative assets associated with loans (YTD Q3-2018 – nil; YTD Q3-2017 - loss of $3.1 million).
(5) Certain comparative figures have been reclassified to conform with current period presentation.

## Highlights

- During the current quarter, the Company originated two new loans with commitments totaling $162 million and a gross loans receivable and net loans receivable balance as of September 30, 2018 of $139 million before derecognition ($39 million after derecognition). In addition, the Company received full repayment of one loan with commitments totaling $26.3 million and gross loans receivable and net loans receivable balance of $11.1 million before derecognition ($2.8 million after derecognition).
- As at September 30, 2018, gross loans receivable before derecognition was $1,163 million, an increase of $116 million or 11% from December 31, 2017. The increase was primarily due to the origination of two new loans and the funding of existing loans in the current year partially offset by the write-off of five loans in the current year. At September 30, 2018, there were 15 gross loans receivable and the average amount funded was approximately $78 million. This compares with 19 gross loans receivable and an average gross amount funded of $55 million at December 31, 2017. Net loans receivable increased 48% from year-end due to loan originations and increased funding which was partially offset by higher provisions for loan losses and the

consolidation of Midwest Asphalt Corporation in the first quarter of 2018 as this loan was removed from loans receivable and the company was consolidated in the financial statements.

- Gross yield for the current quarter was 8.7%, a decrease of 2.0% from the same quarter last year due primarily to (i) the elimination, for accounting purposes, of interest revenue on the consolidation of C&C Resources Inc. commencing November 2017 after acquiring the company and (ii) lower interest rates charged and earned on net loans receivable. Gross yield for the current year-to-date period was 7.2%, a decrease of 7.5% from the same period last year due primarily to (i) the elimination, for accounting purposes, of interest revenue on the consolidation of Bluberi Gaming Technologies Inc. commencing February 2017, Otto Industries North America Inc. commencing June 2017 and C&C Resources Inc. commencing November 2017 after acquiring the companies and (ii) lower interest rates charged and earned on net loans receivable.
- Total non-interest revenues: (i) for the third quarter of 2018 was $91.0 million, an increase of $43.0 million or 90% from the same quarter last year and (ii) for the current year-to-date period was $239.1 million, an increase of $164.5 million or 221% from the same year-to-date period last year, primarily due to the consolidation and recognition, for accounting purposes, of non-interest revenues of the injection molding, forest products, and paving businesses since June 2017, November 2017 and January 2018 respectively.
- Total gross margin for these acquired subsidiary companies for the third quarter of 2018 was 11.2%, a decrease from 13.0% in the same quarter last year. Gross margin for the current year-to-date period was 12.1%, a decrease from 13.9% in the same year-to-date period last year.
- Provision for loan losses for the current quarter was $24.7 million (Q3-2017 - $9.7 million) primarily related to a $13.1 million provision on one specific loan concentrated in the energy sector as a result of a delay in expected future cashflows. Provision for loan losses for the current year-to-date period of $61.0 million (year-to-date Q3-2017 - $64.1 million), was recorded in the statements of income.
- 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 year-to-date period.
- During the current quarter, the Company recognized a recovery in the statements of comprehensive income of $13.1 million under the Catalyst guarantee due to the recognition of specific loan loss provisions and other asset impairments in the current quarter. During the current year-to-date period, the Company recognized a recovery in the statements of comprehensive income of $50.4 million under the Catalyst guarantee due to the recognition of specific loan loss provisions and other asset impairments in the current year and confirmation of coverage of the Catalyst guarantee related to a specific loan.
- During the current quarter, 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 quarter, the average loan portfolio outstanding was $1,149 million, an increase of $125 million or 12% from the same quarter last year. For the current year-to-date period, the average loan portfolio outstanding was $1,116 million, an increase of $25 million or 2% from same period last year.
- The leverage ratio increased from 37.3% at December 31, 2017 to 38.8% at September 30, 2018.
- For the current quarter, the Company recorded a net loss of $20.4 million (Q3-2017 - $17.6 million). For the current year-to-date period, the Company recorded a net loss of $68.2 million (year-to-date Q3-2017 – $46.9 million).
- In January 2018, the Company gained control of one of its borrowers (Midwest Asphalt Corporation, a paving and maintenance company). The business acquired 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.
- 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 on 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.

- 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. The Company remains reliant on continued funding from Catalyst. 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.
- 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 further advances to a 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. No amounts are outstanding under these Catalyst Letter Agreements as of the date hereof.
- In July 2018, the Company announced that its Board of Directors has approved eliminating the Company's dividend effective immediately.
- 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.
- In August 2018, the Company announced that Newton Glassman, Callidus' Executive Chairman and Chief Executive Officer, will take a medical leave of absence.
- Subsequent to the period end, the Company announced that effective November 5, 2018, Patrick Dalton will join as Interim Chief Executive Officer. Mr. Dalton is an accomplished investment management executive with over 25 years of experience in private credit markets, including senior leadership positions at Fifth Street Asset Management, Gordon Brothers Finance Company, Apollo Investment Corporation and Goldman Sachs.

**Results of Operations**
**Net Income**
**Condensed Consolidated Statement of Income**

| ($ 000s except per share information) | Three Months Ended September 30 2018 | 2017 | Nine Months Ended September 30 2018 | 2017 |
|---|---|---|---|---|
| Interest | **$ 9,886** | $ 14,926 | **$ 27,149** | $ 68,224 |
| Fees and other | **450** | 3,025 | **850** | 7,518 |
| 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) |
| Net interest income | **(723)** | 6,568 | **(3,136)** | 38,385 |
| Revenues from injection molding business | **29,820** | 37,928 | **96,138** | 46,911 |
| Cost of sales from injection molding business | **(28,731)** | (35,931) | **(92,445)** | (44,418) |
| Revenues from forestry products business | **35,257** | - | **93,171** | - |
| Cost of sales from forestry products business | **(28,450)** | - | **(73,442)** | - |
| Revenues from aluminum castings business | **1,949** | 4,325 | **5,572** | 12,828 |
| Cost of sales from aluminum castings business | **(3,355)** | (5,083) | **(9,415)** | (15,022) |
| Revenues from gaming business | **5,291** | 4,700 | **15,955** | 12,816 |
| Cost of sales from gaming business | **(2,431)** | (182) | **(7,092)** | (3,558) |
| Revenues from drilling services business | **854** | 1,018 | **2,034** | 2,062 |
| Cost of sales from drilling services business | **(602)** | (559) | **(1,442)** | (1,261) |
| Revenues from paving business | **17,821** | - | **26,220** | - |
| Cost of sales from paving business | **(17,259)** | - | **(26,406)** | - |
| Provision for loan losses | **(24,704)** | (9,731) | **(60,969)** | (64,146) |
| Recovery under the Catalyst guarantee | **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 | **(474)** | (4,311) | **(24,733)** | (9,107) |
| Foreign exchange (loss) income | **(3,495)** | (620) | **(3,573)** | (2,330) |
| Depreciation | **(2,853)** | (2,197) | **(8,474)** | (3,518) |
| Salaries and wages | **(9,819)** | (6,872) | **(27,511)** | (18,599) |
| Stock options expense | **(233)** | (199) | **(885)** | (893) |
| General and administrative | **(8,741)** | (10,125) | **(25,812)** | (18,289) |
| Catalyst's share of overhead expenses | **561** | 102 | **853** | 5,758 |
| Loss before income taxes | **(21,765)** | (16,073) | **(67,393)** | (50,013) |
| Income taxes expense | **1,377** | (1,496) | **(843)** | 3,126 |
| **Net loss** | **$ (20,388)** | $ (17,569) | **$ (68,236)** | $ (46,887) |
| **Earnings per common share (dollars):** | | | | |
| Basic | **$ (0.36)** | $ (0.35) | **$ (1.26)** | $ (0.93) |
| Diluted | **$ (0.36)** | $ (0.35) | **$ (1.26)** | $ (0.93) |

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

The following provides a discussion of the Company's operating results related to the corporate lending business and those of the other operating businesses.

***CORPORATE LENDING BUSINESS***

The corporate lending business consists of specialty asset-based loans, focused primarily on Canadian companies and 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 initially generally structured as demand, first lien (senior secured) facilities, on a fully collateralized basis which includes accounts receivable, inventory, fixed assets, intangibles and enterprise value.

*Q3-2018 vs. Q3-2017*

For the current quarter, interest income decreased $5 million or 34% from the same quarter last year, as a result of lower net loans receivables and lower interest yield.

For the current quarter, fee income was $0.5 million, a $2.6 million decrease from the same quarter last year as a result of the recognition of higher fees in the same quarter last year.

*YTD Q3-2018 vs. YTD Q3-2017*

For the current year-to-date period, interest income decreased $41 million or 60% from the same period last year, as a result of lower net loans receivables and lower interest yield.

For the current year-to-date period, fee income was $0.9 million, a $6.7 million decrease from the same period last year as a result of the recognition of higher fees in the same period last year.

*ACQUISITIONS*

From time to time, in order to protect its collateral position, the Corporation will become the owner of businesses, acquired through a restructuring, at which point, the businesses will be consolidated and accounted for on this basis, until rehabilitated, marketed, and ultimately sold. Callidus views such acquisitions as being incidental and ancillary to its lending business. Where Callidus acquires ownership of a business, it is not its intention to retain ownership indefinitely. Rather, Callidus will seek to maximize its recovery from that business and sell it when management believes it is timely and appropriate.

What follows is information regarding businesses currently owned by Callidus.

***INJECTION MOLDING BUSINESS***

The injection molding business consists of the Company's acquisition of Otto Industries North America Inc. ("**Otto**") in June 2017. Otto is a Charlotte, North Carolina based manufacturer and distributor of plastic injection molded products specializing in large tonnage presses; a small sub-segment of the broader industry. Approximately 75% of the sales are tied to the production of waste containers sold to various municipalities across the continental U.S.

Previous issues pertaining to resin supply were resolved during Q4-2017 and supply has been secured for 2018 and beyond. Longer term, as a result of significant recent investment in ethylene capacity in the U.S., resin supply is expected to be normal and pricing risk is expected to subside.

During the fourth quarter 2017, an injection molding press was damaged by a fire and another experienced extended downtime due to a mechanical failure. Additionally, the company upgraded its ERP system which caused temporary disruption to the business but is now functioning as expected. These events adversely impacted Q1-2018 revenues. The company has remedied the mechanical failure and partially settled with the insurer, received the replacement cost of the damaged press and continues to work with the insurer on the ongoing business interruption claim.

The injection molding business is highly competitive. Investment in automation and technology is expected to reduce labor costs and drive operating efficiencies, allowing the business to aggressively bid on new opportunities profitably.

During the current year, there were indications of impairment at Otto 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.

*Q3-2018 vs. Q3-2017*
Otto's revenues for the current quarter were $29.8 million and cost of sales were $28.7 million. This compares to revenues of $37.9 million and cost of sales of $35.9 million for the same quarter last year. The derease in revenues for the current quarter was primarily the result of weaker demand stemming from Otto's cart business. The decrease in gross margins for the current quarter were primarily the result of lower cart volume and absorption due to production unfavorability.

*YTD Q3-2018 vs. YTD Q3-2017*
Otto's revenues for the current year-to-date period were $96.1 million and cost of sales were $92.4 million. Year-to-date results were negatively impacted by the press fire in Q4 of last year and extended downtime due to a mechanical failure in Q1 of the current year. Comparatives for the same period last year are not meaningful as the acquisition occurred in the second quarter of 2017.

***FORESTRY PRODUCTS BUSINESS***
The forestry products business consists of the Company's acquisition of C&C Resources Inc. ("C&C") in November 2017. Operating across three provinces, C&C has the capacity to produce more than 330 million board feet of various solid wood products. The current solid wood product line ranges from commodity dimension lumber to high valued interior products. Additional products include wood chips, wood shavings, sawdust, bark and industrial wood pellets. Customers include original local market buyers, regional and national distributors, wholesalers, and big box North American home improvement centers. International customers include buyers of both high value lumber and construction grade material.

C&C consumes close to one million cubic meters of logs annually and employs roughly 450 people in positions ranging from woodlands to lumber sales. C&C's wood fibre supply is primarily obtained from logging of C&C's forest tenures and supplemented by market purchases of logs. The annual volume of forest tenures includes 1.0 million cubic meters of renewable/replaceable tenure and 90,000 cubic meters of annual long term non-replaceable tenure.

Most of C&C's current output is commodity dimension lumber which is subject to price fluctuations driven by supply side factors including wildfires and uncertainty with respect to current trade agreements with the USA (NAFTA, Softwood Lumber Agreement), and demand side factors – primarily US housing starts and demand from China. The company is also exposed to fluctuations in the US Dollar.

In 2017, approximately 75% of C&C's sales volumes were to the US. On April 24, 2017 the US Department of Commerce announced preliminary countervailing duties of 19.88% which were effective until August 2017. Additionally, on June 24, 2017 the US Department of Commerce announced preliminary anti-dumping duties of 6.87%. Effective December 28, 2017 the combined countervailing and anti-dumping duty is 20.23%. The Federal Government of Canada has initiated legal action under NAFTA and WTO.

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.

*Q3-2018 vs. Q3-2017*
C&C's revenues for the current quarter were $35.3 million and cost of sales were $28.5 million. Comparatives for the same quarter last year are not applicable as the acquisition occurred in November 2017.

*YTD Q3-2018 vs. YTD Q3-2017*
C&C's revenues for the current year-to-date period were $93.2 million and cost of sales were $73.4 million. Comparatives for the same period last year are not applicable as the acquisition occurred in November 2017.

***ALUMINUM CASTINGS BUSINESS***
The aluminum castings business consists of the Company's ownership of Wabash Castings Inc. ("**Wabash**"). Operating out of Wabash, Indiana, Wabash is a sand-casting manufacturer specializing in complex aluminum castings. Its capabilities include manufacturing, machining, assembly, and testing of high quality aluminum parts, mainly for the automotive industry.

Within North America, the automobile industry remains the key end market for aluminum sand casting. Manufacturers are looking for effective alternatives to reduce vehicle weight without sacrificing durability, gradually replacing steel parts with lighter components. Over the long term, aluminum content in vehicles and the demand for green sand casting from the automotive industry are expected to increase. Additionally, emissions regulations are expected to drive sales of electric vehicles, which in turn, may spur demand for aluminum castings.

For the sand-casting industry, new automotive engine development is a leading indicator of future aluminum casting demand. From 2019 to 2022, automotive industry analysts forecast that major original equipment manufacturers (OEMs) in North America will launch over 44 engines. Moreover, as engine electrification accelerates, OEMs are expected to develop additional new engine projects once they have refined their electrification strategies.

Automotive suppliers typically acquire new business via two main channels: (1) new business consisting of bidding on parts slated for future vehicle production. This channel is characterized by an extended sales cycle since awarded parts only start production in 18-24 months. (2) Take-over business involves seeking customers that are unhappy with their incumbent suppliers. Take-over business is difficult to predict due to high switching costs for end-customers. Production for awarded take-over business typically starts within 6-12 months. Wabash currently has a focused group of major customers, with a concentration of sales focused in a single customer in the electric vehicle and electric vehicle powertrain segment. In Q3-2017, a customer announced the discontinuation of one of its models, resulting in a volume reduction for the business moving forward. In response to this announcement, Wabash is managing costs and focusing on future pricing. Additionally, in an effort to diversify and increase its revenue base, Wabash has acquired significant new customers, with new long-term contracts and related production having started during the quarter.

Wabash's business is highly dependent upon motor vehicle demand, the success of its customers and its ability to source raw materials on pricing and other terms that allow it to be competitive in the market. Over the past year, the business has focused on growing its top line. Its current sales pipeline of active customer quotes continues to increase over the same quarter last year. Additionally, the business has won additional long-term contracts with new customers with production which began in the third quarter of this year.

*Q3-2018 vs. Q3-2017*
Wabash's revenues for the current quarter were $1.9 million, a decrease compared to $4.3 million in the same quarter last year due to a reduction in volume from a major customer. Wabash's cost of sales were $3.4 million compared to $5.1 million in the same quarter last year due to reduced production volume and cost-cutting initiatives. Net margins for the current quarter decreased over the same quarter last year due primarily to a decrease in the plant's utilization rate.

*YTD Q3-2018 vs. YTD Q3-2017*
Wabash's revenues for the current year-to-date period were $5.6 million, a decrease compared to $12.8 million in the same period last year due to a reduction in volume from a major customer. Wabash's cost of sales were $9.4 million compared to $15.0 million in the same period last year due to reduced production volume and cost-cutting initiatives. Net margins for the current quarter decreased over the same period last year due primarily to a decrease in the plant's utilization rate.

***GAMING BUSINESS***
The gaming business consists of the Company's acquisition of Bluberi Gaming Technologies Inc. ("Bluberi") in February 2017. Bluberi is a Drummondville, Quebec-based gaming company that specializes in the development of casino games which are installed in electronic gaming machines, and leased or sold to a variety of licensed casinos and gaming establishments. The majority of Bluberi's revenues are earned from casinos operating in the U.S. and the majority of these casinos are owned by Native American tribes.

Bluberi's success depends upon its ability to respond to dynamic customer demand by producing new and innovative games and products that receive the requisite regulatory approval to be installed in gaming establishments. Research and development spending drives game and product development. Entities in the gaming and lottery industry are subject to extensive and evolving regulation, which can vary from jurisdiction to jurisdiction. Licenses and certifications may be revoked, suspended or conditioned. If this occurs Bluberi may be prohibited from entering, or continuing to operate in a given jurisdiction, which would reduce the geographic area where Bluberi would be permitted to operate and generate revenue.

In addition to the U.S., a number of countries where Bluberi maintains industry contracts are currently considering relaxing regulatory restrictions on gambling which may present a significant opportunity for Bluberi. There is no certainty whether these restrictions will be amended in a way that permits Bluberi to access additional markets and, if they are, whether Bluberi will be successful in accessing these markets.

In recent years, industry consolidation has occurred as participants attempt to gain market share through acquisition. Some of Bluberi's competitors are substantially larger and more diversified and therefore, may be able to offer a more attractive product mix with greater volume discounts than Bluberi can offer.

During 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.

*Q3-2018 vs. Q3-2017*

Bluberi's revenues for the current quarter were \$5.3 million, an increase compared to \$4.7 million in the same quarter last year due to a widened product offering, an increased level of sold versus participation deployments and the execution of a royalty agreement with a large, diversified gaming company. Bluberi's cost of sales were \$2.4 million for the current quarter compared to \$0.2 million in the same quarter last year due to Q3-2017 costs of sales being impacted by a one time inventory costing adjustment.

*YTD Q3-2018 vs. YTD Q3-2017*

Bluberi's revenues for the current year-to-date period were \$16.0 million, an increase compared to \$12.8 million in the same period last year due to a widened product offering and the execution of a royalty agreement with a large, diversified gaming company. Bluberi's cost of sales were \$7.1 million for the current year-to-date period compared to \$3.6 million in the same period last year due to the one time inventory costing adjustment.

***DRILLING SERVICES BUSINESS***

The drilling services business consists of the Company's ownership of Altair Water and Drilling Inc. ("**Altair**"). Altair is a Red Deer, Alberta based water well and shallow drilling services company for oil and gas, domestic, and industrial segments with the majority of its work confined to the province of Alberta.

The majority of Altair's business is subject to many of the same risks that affect the oil and gas industry. The primary risk that the business currently faces is the extent to which the oil and gas industry will rebound and, if it does, how long that will take. Although oil and gas drilling activity continues to pick up in western Canada, it remains depressed from the levels seen in the past. Due to reduced exploration activities connected to the oil and gas sectors, Altair's coring division has seen limited work. However, this line of business is expected to pick up in 2019 and beyond based on a slow and gradual recovery of the oil and gas sectors and increased activity in the exploration activities associated with the mining sector.

The water well and shallow drilling and services business is a highly fragmented and competitive industry with many regional players. In addition to the need for strong relationships with customers and contractors, being competitive on a cost basis is often driven by the proximity to the project being bid on and so the projects that are won are typically those that require lower amounts of mobilization costs.

*Q3-2018 vs. Q3-2017*

Altair's revenues for the current quarter were \$0.9 million compared to \$1.0 million in the same quarter last year. Altair's cost of sales were \$0.6 million compared to \$0.6 million in the same quarter last year.

*YTD Q3-2018 vs. YTD Q3-2017*

Altair's revenues for the current year-to-date period were \$2.0 million compared to \$2.1 million in the same period last year. Altair's cost of sales were \$1.4 million compared to \$1.3 million in the same period last year.

***PAVING BUSINESS***

The paving business consists of the Company's acquisition of Midwest Asphalt Corporation ("**Midwest**") in January 2018. Operating out of Eden Prairie, Minnesota, Midwest is a paving and asphalt construction services company serving the Minneapolis/St. Paul area. Operations include: asphalt milling, asphalt reclamation, asphalt paving and aggregate sales. Midwest's customer base includes both private (commercial and residential) and public (municipal) customers. Midwest is a seasonal business with the majority of its revenue being earned from spring to fall.

During the first half of 2018, Midwest has successfully obtained a USD$10 million bonding line from a Massachusetts based insurance company and a USD$3.5 million term loan supported by a portion of its equipment fleet from a Minnesota based bank.

Midwest, due to its seasonal nature, saw materially increased activity in its operations throughout Q3-2018. The expectation is to see a decline in operating activity (as compared to Q3-2018) in Q4-2018.

*Q3-2018 vs. Q3-2017*

Midwest revenues for the current quarter were $17.8 million and cost of sales were $17.3 million. Comparatives for the same quarter last year are not applicable as the acquisition occurred in the current year.

*YTD Q3-2018 vs. YTD Q3-2017*

Midwest revenues for the current year-to-date period were $26.2 million and cost of sales were $26.4 million. Comparatives for the same period last year are not applicable as the acquisition occurred in the current year.

**Provision for Loan Losses**

| | **Three Months Ended September 30** | | **Nine Months Ended September 30** | |
|---|---|---|---|---|
| ($ 000s) | **2018** | 2017 | **2018** | 2017 |
| Provision for impaired loans | **$ 24,627** | $ 9,740 | **$ 60,945** | $ 66,731 |
| Provision for non-impaired loans | **77** | (9) | **24** | (2,585) |
| **Total** | **$ 24,704** | $ 9,731 | **$ 60,969** | $ 64,146 |

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

The Corporation conducts a detailed assessment of the loan portfolio to assess for impairment on an expected credit loss basis under IFRS 9. 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 examinations, management believes that it is able to assess for impairment on a timely basis and put in place appropriate measures to mitigate and limit loan losses.

The provision for loan losses for the current year-to-date period was $61.0 million. The majority of this provision related to the primary factors as outlined in the Highlights section.

For the current year-to-date period, the total interest revenue earned on loans with no specific impairment was $2.3 million. For the current year-to-date period, the total interest revenue earned on loans with an impairment but for which interest is currently being collected was $22.9 million. For the current year-to-date period, the total interest revenue earned on loans with an impairment but for which interest is currently not being collected was $2.8 million.

For the current year-to-date period, all provisions and impairments were calculated on an individual instrument basis. For the current year-to-date period, the total provision for loan losses and impairment of goodwill and other assets recognized on gross loans with an impairment but for which interest is currently being collected or non-interest revenue is being earned was $54.4 million. For the current year-to-date period, the total provision for loan losses and impairment of goodwill and other assets recognized on gross loans with an impairment but for which interest is currently not being collected was $6.9 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 allowance for loan losses to be adequate.

## Selected Quarterly Information[4]

| ($ 000s unless otherwise indicated) | **Q3-2018** | Q2-2018 | Q1-2018 | Q4-2017 | Q3-2017 | Q2-2017 | Q1-2017 | Q4-2016 |
|---|---|---|---|---|---|---|---|---|
| Average loan portfolio outstanding (1) | **$ 1,148,956** | $ 1,119,327 | $ 1,080,836 | $ 1,055,468 | $ 1,024,383 | $ 1,029,803 | $ 1,218,125 | $ 1,282,593 |
| Gross yield (1) | **8.7%** | 6.6% | 6.3% | 10.8% | 10.7% | 11.2% | 20.2% | 20.1% |
| Total interest, fee and other revenue | **$ 10,336** | $ 9,116 | $ 8,547 | $ 16,778 | $ 17,951 | $ 21,376 | $ 36,415 | $ 48,486 |
| Operating expenses of the corporate lending business(1)(2) | **(5,202)** | (7,515) | (6,468) | (6,380) | (6,128) | (6,395) | (6,820) | (3,849) |
| Provision for loan losses | **(24,704)** | (21,300) | (14,965) | (153,236) | (9,731) | (35,039) | (19,376) | (86,329) |
| Recognized yield enhancements (3) | **-** | - | - | 900 | 900 | - | 5,800 | (23,800) |
| Recovery under the Catalyst guarantee | **13,101** | 7,422 | 29,842 | 8,429 | 7,033 | 6,867 | 1,604 | 18,138 |
| Net interest income | **(723)** | (1,392) | (1,021) | 5,047 | 6,568 | 8,773 | 23,044 | 35,910 |
| Net interest margin (1) | **-0.2%** | -0.5% | -0.4% | 1.9% | 2.5% | 3.5% | 7.7% | 11.1% |
| Allowance for loan losses/goodwill impairment ratio (1) | **34.1%** | 42.1% | 39.8% | 39.8% | 24.9% | 23.7% | 20.1% | 14.2% |
| Operating expense ratio (1) | **0.5%** | 0.7% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% | 0.3% |
| Net (loss) income | **$ (20,388)** | $ (40,825) | $ (7,023) | $ (171,599) | $ (17,569) | $ (25,801) | $ (3,518) | $ (58,542) |
| ROE (1) | **-68.9%** | -131.0% | -16.5% | -255.1% | -18.7% | -25.3% | -3.3% | -49.5% |
| Leverage ratio (1) | **38.8%** | 40.5% | 38.2% | 37.3% | 37.1% | 37.1% | 39.9% | 40.4% |

(1) Refer to "Description of Non-IFRS Measures".
(2) Consists of salaries and wages, stock options expense, general and administrative expenses, net of Catalyst's share of these operating expenses. These expenses represent the portion related to the corporate lending business only as detailed under "Operating and Other Expenses".
(3) Recognized yield enhancements are recorded in the statements of income in total revenues (Q3-2018 – nil; Q3-2017 - $2.8 million) and in loss on derivative assets associated with loans (Q3-2018 – nil; Q3-2017 - $1.9 million).
(4) Comparative figures are not restated for IFRS 9 and are presented on a IAS 39 basis, as applicable.

### *Q3-2018 vs. Q2-2018*

- For the current quarter, the average loan portfolio outstanding was $1,149 million, an increase of $30 million or 3% from the prior quarter due primarily to the origination of two new loans during the current quarter.
- Gross yield for the quarter was 8.7%, an increase of 2.1% from the prior quarter due to the recognition of non-recurring fees in the current quarter.
- Provision for loan losses for the quarter increased $3.4 million from the prior quarter.
- During the current quarter, the Company recognized a recovery of $13.1 million under the Catalyst guarantee due to the recognition of specific loan loss provisions in the current quarter.

### *Q3-2018 vs. Q3-2017*

- For the current quarter, the average loan portfolio outstanding was $1,149 million, an increase of $125 million from the same quarter last year due primarily to the repayment of 7 loans during 2017 partially offset by the origination of 2 new loans and additional funding of existing loans partially offset by the write-off of 5 loans during the current quarter.
- Gross yield for the quarter was 8.7%, a decrease of 2.0% from the same quarter last year due primarily to the impact of acquired business revenues, lower interest rates charged and earned on net loans receivable.
- Provision for loan losses for the quarter increased $15.0 million from the same quarter last year.

**Catalyst Guarantee**

In connection with the repayment of the Catalyst debenture at the time of the Corporation's initial public offering (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 any 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.

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 Limited Partnership 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 until fully realized 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. Neither guarantee generally applies to accrued and unpaid interest. The scheduled credit reviews have taken place for all such loans.

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 second to principal and any other amounts due. These cash sweep arrangements are intended to minimize losses in relation to interest and fees.

As of September 30, 2018, the amount of accrued interest and fees included in the gross loans receivable balance that is not covered by the Catalyst guarantee was $63.0 million (December 31, 2017 - $48.5 million).

| At September 30, 2018 (Before Derecognition) | ($ 000s) | % |
|---|---|---|
| **Guarantee Coverage of Gross Loans Receivable** | | |
| Portion of gross loans receivable covered by a guarantee: | | |
| Watch-list loans | **$ 142,741** | **12%** |
| Non-watch-list loans | **5,336** | **0%** |
| Portion of gross loans receivable not covered by a guarantee: | | |
| Watch-list loans | **722,887** | **62%** |
| Non-watch-list loans | **292,128** | **26%** |
| Total gross loans receivable | **$ 1,163,092** | **100%** |
| **Guarantee Coverage of Allowance and Impairment of Gross Loans Receivable** | | |
| Allowance for loan losses/goodwill impairment covered by a guarantee: | | |
| Watch-list loans | **$ 78,081** | **20%** |
| Non-watch-list loans | **-** | **0%** |
| Allowance for loan losses/goodwill impairment not covered by a guarantee: | | |
| Watch-list loans | **317,805** | **80%** |
| Non-watch-list loans | **575** | **0%** |
| Total allowance for loan losses/goodwill impairment | **$ 396,461** | **100%** |

For the current year-to-date period, the Company recognized a recovery of $50.4 million under the Catalyst guarantee due to the recognition of specific loan loss provisions.

Approximately $143 million or 12% of the gross loans receivable at September 30, 2018 is covered by the guarantee until those loans are fully realized.

**Operating and Other Expenses[1]**

| | Three Months Ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | | | **2018** | | | 2017 |
| ($ 000s) | **Corporate Lending Business** | **All Other** | **Total (As Reported)** | Corporate Lending Business | All Other | Total (As Reported) |
| Salaries and wages | **$ 3,841** | **$ 5,978** | **$ 9,819** | $ 3,516 | $ 3,356 | $ 6,872 |
| Stock options expense | **233** | **-** | **233** | 199 | - | 199 |
| General and administrative | **2,090** | **6,651** | **8,741** | 2,513 | 7,612 | 10,125 |
| Foreign exchange loss (gain) | **3,467** | **28** | **3,495** | 291 | 329 | 620 |
| Catalyst's share of these operating expenses | **(962)** | **-** | **(962)** | (100) | - | (100) |
| **Total** | **$ 8,669** | **$ 12,657** | **$ 21,326** | $ 6,419 | $ 11,297 | $ 17,716 |

| | Nine Months Ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | | | **2018** | | | 2017 |
| ($ 000s) | **Corporate Lending Business** | **All Other** | **Total (As Reported)** | Corporate Lending Business | All Other | Total (As Reported) |
| Salaries and wages | **$ 12,079** | **$ 15,432** | **$ 27,511** | $ 11,647 | $ 6,952 | $ 18,599 |
| Stock options expense | **885** | **-** | **885** | 893 | - | 893 |
| General and administrative | **7,479** | **18,333** | **25,812** | 7,964 | 10,325 | 18,289 |
| Foreign exchange loss (gain) | **3,557** | **16** | **3,573** | 2,001 | 329 | 2,330 |
| Catalyst's share of these operating expenses | **(1,258)** | **-** | **(1,258)** | (1,399) | - | (1,399) |
| **Total** | **$ 22,742** | **$ 33,781** | **$ 56,523** | $ 21,106 | $ 17,606 | $ 38,712 |

(1) This analysis provides a break down of expenses between the Company's corporate lending business and other businesses acquired through loans.

*Salaries and Wages and Stock Options Expense*
Growth in salaries and wages of the other businesses represents acquisitions in those businesses.

*Foreign Exchange Gain/Loss*
Certain of the Corporation's assets, including cash and loans receivable, and liabilities, including amounts outstanding under the revolving credit facility and subordinated bridge facility, 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 in an amount offsetting the net balance sheet exposure at a cost dependent on the forward premium at the transaction date.

**Income Taxes**
The Corporation recognized a net $1 million deferred tax asset as at September 30, 2018 (December 31, 2017 – deferred tax asset of $2 million).

As disclosed in prior quarters, our effective tax rate was higher than the statutory tax rate. This was due primarily to the fact that deferred tax assets on certain deductible temporary differences and unused tax losses have not been recognized as it is not probable that realization of these assets will occur.

**Condensed Consolidated Statements of Financial Position**

| | | | Change from 2017 | |
|---|---|---|---|---|
| ($ 000s) | **September 30, 2018** | December 31, 2017 | $ | % |
| Cash and cash equivalents | **$ 47,081** | $ 59,577 | $ (12,496) | -21% |
| Accounts receivable | **37,434** | 29,123 | 8,311 | 29% |
| Inventory | **28,266** | 37,197 | (8,931) | -24% |
| Net income taxes receivable | **(411)** | 14,225 | (14,636) | -103% |
| Loans receivable | **247,032** | 223,378 | 23,654 | 11% |
| Net assets held for sale | **106,936** | 13,758 | 93,178 | n/a |
| Deferred tax asset | **1,125** | 1,734 | (609) | -35% |
| Guarantee asset | **-** | 8,429 | (8,429) | -100% |
| Other assets | **26,562** | 41,413 | (14,851) | -36% |
| Property, plant and equipment | **89,031** | 75,250 | 13,781 | 18% |
| Goodwill and other intangibles | **150,653** | 232,522 | (81,869) | -35% |
| **Total** | **$ 733,709** | $ 736,606 | $ (2,897) | 0% |
| Accounts payable and accrued liabilities | **$ 127,735** | $ 114,091 | $ 13,644 | 12% |
| Deferred facility fees and other | **4,472** | 4,307 | 165 | 4% |
| Senior debt and collateralized loan obligation | **114,543** | 125,834 | (11,291) | -9% |
| Subordinated bridge facility, due to Catalyst | **377,244** | 315,406 | 61,838 | 20% |
| Shareholders' equity | **109,715** | 176,968 | (67,253) | -38% |
| **Total** | **$ 733,709** | $ 736,606 | $ (2,897) | 0% |

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

**Current Loan Portfolio (Before Derecognition)**

| | **Number of Loans** | | **($ 000s)** | |
|---|---|---|---|---|
| **Gross Loans Receivable Continuity** | **Nine Months Ended September 30, 2018** | Nine Months Ended September 30, 2017 | **Nine Months Ended September 30, 2018** | Nine Months Ended September 30, 2017 |
| Balance, beginning of period | **19** | 24 | **$ 1,046,983** | $ 1,313,993 |
| Originations | **2** | 2 | **138,742** | 29,190 |
| Full repayments or write-offs | **(6)** | (6) | **(127,390)** | (377,421) |
| Net funding | **-** | - | **104,757** | 72,830 |
| Balance, end of period | **15** | 20 | **$ 1,163,092** | $ 1,038,592 |

As of September 30, 2018, the gross loan portfolio consisted of 15 loans with an aggregate gross loans receivable amount outstanding of $1,163 million or $247 million of net loans receivable after derecognition. This compares with 19 loans and $1,047 million outstanding or $817 million after derecognition as of December 31, 2017. As of September 30, 2018, the largest gross loan outstanding was $246 million and the smallest gross loan outstanding was $3 million.

As of September 30, 2018, the gross loans receivable portfolio was distributed 32% in Canada and 68% in the U.S. by dollar amount funded (December 31, 2017 - 40% in Canada and 60% in the U.S.).

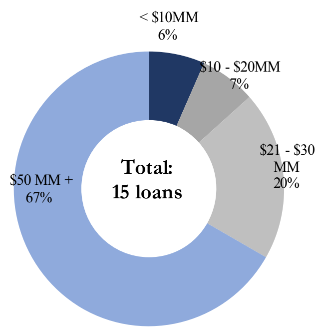
As at September 30, 2018, the estimated collateral value coverage across aggregate net loans receivable was approximately 111% with a range between 100% and 177% on an individual loan basis. Furthermore, the aggregate watchlist loans had an estimated aggregate collateral value coverage of 101% and non-watchlist loans had an estimated collateral value coverage of 127%. It should be noted that there is no cross-collateralization of the asset coverage as between borrowers. The composition of the collateral coverage is as follows:

| | **September 30, 2018** | December 31, 2017 |
|---|---|---|
| Accounts receivable and tax credits | **4%** | 5% |
| Inventory | **3%** | 3% |
| Machinery and equipment | **6%** | 9% |
| Real estate | **4%** | 9% |
| Present value of future cashflows | **10%** | 4% |
| Other | **2%** | 4% |
| Enterprise value for loans | **30%** | 16% |
| Enterprise value for operating subsidiaries | **52%** | 70% |
| Total | **111%** | 120% |

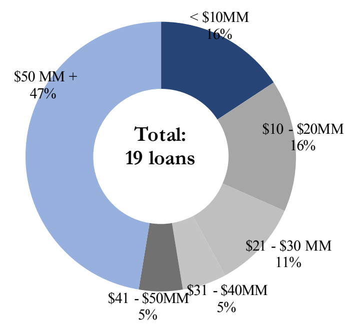
In instances where enterprise valuation is used in determining collateral values, significant estimations and critical judgments are used including assumptions over and not limited to future cash flows, interest rates, execution risk and company-specific risks. Inherently, there are risks and uncertainties relating to the valuation of these forms of collateral that may result in significant variation and volatility in our provisions from period to period. Such risks and uncertainties include unforeseen economic and technological changes in a particular industry, inability to meet future cash flows targets and changes in commodity prices. As a general practice, the Company obtains third-party reviews of enterprise valuations at least annually.

**Loan Portfolio by Amount Funded**

**September 30, 2018**




**December 31, 2017**

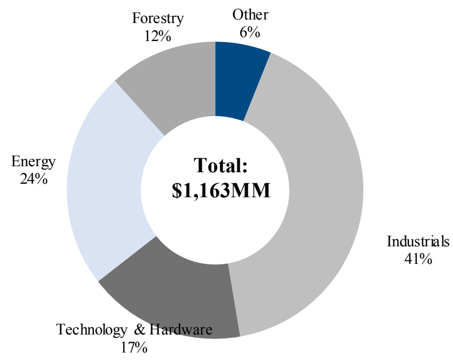


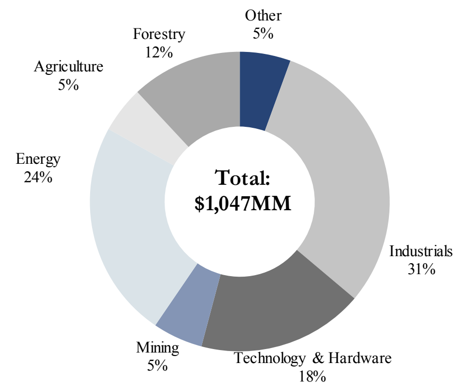

The average amount funded per gross loan receivable increased to $78 million as at September 30, 2018 from $55 million as at December 31, 2017. The number of loans greater than $20 million increased from 68% at December 31, 2017 to 87% at September 30, 2018 and the numbers of loans exceeding $50 million increased from 47% at December 31, 2017 to 67% at September 30, 2018.

As at September 30, 2018, the Company had one loan that exceeded $100 million in gross loans receivables. This stage 3 loan 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 was concentrated in the energy sector and the significant risk factors that impact its operations included 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. Confirmation of the coverage of the Catalyst guarantee relating to a loan that was assumed by this borrower was obtained in Q1-2018 resulting in the recognition of a related guarantee asset in Q1-2018 of $19.0 million. The borrower may require further funding and the Corporation may advance such funding, but is not required to do so. In consideration of this, the Corporation has an agreement with Catalyst related to potential further funding as further noted on page 29. See further discussion of this loan receivable in the Highlights section. Timing on the realization of this loan is uncertain and is assessed continuously, taking into account performance of the investment, the macro-economic conditions impacting the sectors of the investment and the country of operation.

**Gross Loans Receivable Before Derecognition by Borrower Sector**

| September 30, 2018 | December 31, 2017 |
|---|---|




The Corporation's investments are diversified across a variety of industries, with the industrials and energy industries comprising the largest segments. 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**", a list of borrowers with 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, which allows the Company to better manage the risk of default and/or loss for watch-list accounts. As of September 30, 2018, there were 11 positions on the Company's watch-list and these positions represented 74% of gross loans receivable. As of September 30, 2018, of these 11 gross loans, a total specific loan loss allowance and accumulated goodwill impairment of $395.9 million before derecognition had been taken, and a corresponding $13.1 million asset (net of advances) related to the Catalyst guarantee was recorded. As at September 30, 2018, the gross allowance for non-impaired loans was $0.6 million before derecognition ($0.2 million after derecognition).

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 maybe 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 risk of loss. In instances where Callidus obtains financial or non-financial assets by taking possession of collateral we hold as security and these assets are not readily convertible into cash, our policy for disposing of such assets is determined on a case by case basis after considering various factors including the types of available collateral, the economic cycle of the borrower and the amount of time and cost required to convert the collateral into cash. There is significant risk in disposing of assets not readily convertible into cash, in particular, where the Company controls the assets. These include performance of the investment and the macro-economic conditions impacting the sector of the investment.

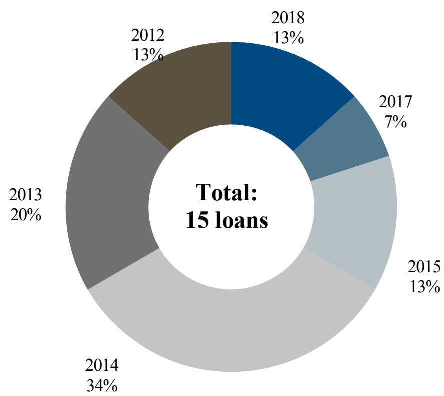
The Company's association with Catalyst, the performance leader in the Canadian distressed private equity sector and arguably one of the best in the world, provides immense value. As of September 30, 2018, 1 of 15 gross loans was going through a formal restructuring process representing 6% of gross loans receivable. As of September 30, 2018, for this 1 loan, a total loan loss allowance of $43.9 million before derecognition had been taken (part of the total $267.3 million loan loss allowance before derecognition as of September 30, 2018).

Since 2006, Callidus has advanced 107 loans representing total credit facilities of $2.6 billion of which 90 loans have been fully repaid or realized. Of the 90 loans, 13 resulted in an aggregate loss of $142 million. In addition, of the 90 loans, 6 went through a form of restructuring and were fully repaid. The balance of the 71 loans was fully repaid in the normal course. As at November 14, 2018, 15 positions are outstanding representing total credit facilities of approximately $1.3 billion. As at November 14, 2018, 1 position is going through a form of restructuring.

As of September 30, 2018, the portfolio included 2 companies involved in the oil and gas industry, representing 24% of gross loans receivable. As of September 30, 2018, for these loans, a total loan loss allowance of $180.4 million had been recognized and a corresponding nil asset (net of advances) related to the Catalyst guarantee was recorded.

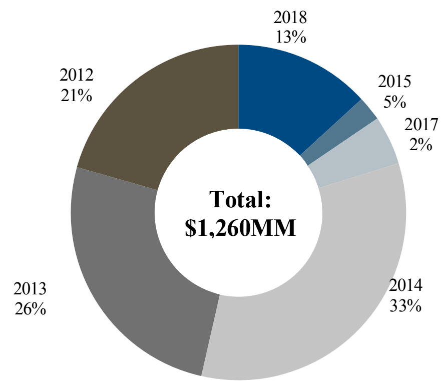
**Number of Existing Loans by Year of Origination**

**November 14, 2018**




**Total Existing Credit Facilities by Year of Origination**

**November 14, 2018**




The above graphs show that our portfolio is in line with our expected loan duration. Although loans are generally due on demand, realizations can occur over longer terms since loans can be extended.

***Yield-Enhancement Agreements***

Where borrowers seek accommodations from Callidus in relation to their credit facilities, Callidus in the normal course negotiates yield enhancements (equity and equity like interests) as compensation. Management expects that recoveries from such yield enhancements will be achieved on an irregular basis but may be substantial in amount. Significant estimation and critical judgment are involved in the measurement of separated embedded derivatives including options and, therefore, the values from such yield enhancements may significantly change from period to period causing volatility in our results. Such significant estimations and critical judgments used in the determination of recognized and unrecognized yield enhancements include assumptions about future cash flows, interest rates, execution risk and company-specific risks. Inherently, there are risks and uncertainties relating to the valuation of these yield enhancements that may result in significant variation from period to period. Such risks and uncertainties include unforeseen economic and technological changes in a particular industry, inability to meet future cash flows targets and changes in commodity prices.

The Company has discontinued disclosure of unrecognized yield enhancements in light of comments expressed by the Ontario Securities Commission. The Ontario Securities Commission has advised the Company that it will continue to name the Company on its Refilings and Errors List for the next following three years.

**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 impairment exists. In determining collateral values, the Company engages a variety of independent third parties such as lawyers, appraisal firms, enterprise valuation experts and other valuation specialists, in addition to performing quarterly field examinations where applicable. In instances where enterprise valuation is used in determining collateral values, significant estimations and critical judgments are used including assumptions about 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 unforeseen economic and technological changes in a particular industry, inability to meet future cash flows targets and changes in commodity prices.

The loan loss allowance is calculated as the difference between all contractual cash flows that are due to the Corporation in accordance with the contract and all the cash flows that the Corporation expects to receive (i.e. all cash shortfalls) discounted at the loan's effective interest rate. The extent of estimates and judgment applied in determining a loan's impaired value leads to significant measurement uncertainty, 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 calculates expected credit loss allowances on individual non-impaired loans using probability of default ("**PD**"), loss given default ("**LGD**"), and exposure at default factors, and forward-looking, probability weighted scenarios that leverage external and historical default and loss given default data. A qualitative component may also be applied to account for external factors not captured in the historical results.

***Off Balance Sheet Arrangements***

The Corporation has no off balance sheet arrangements, except for undrawn loan commitments to the Corporation's borrowers, of $8 million based on borrowing base availability (December 31, 2017 - $14 million).

**Liquidity and Capital Resources**

The Corporation's primary sources of short-term liquidity are cash and cash equivalents and undrawn credit facilities. Assuming a participation rate for Catalyst Fund Limited Partnership V ("**Catalyst Fund V**") of approximately 75%, total liquidity as at September 30, 2018 would be able to support in excess of approximately $200 million of new loans. In addition, as business acquisitions are rehabilitated, we will pursue opportunities to monetize these investments where and when we believe capital may be deployed in opportunities that generate superior returns. Timing of these divestitures is uncertain and will be assessed on a case by case basis, taking into account performance of the investment and the macro-economic conditions impacting the sector of the investment.

The Company continues to explore financing sources, including both the private and public capital and financing at the subsidiary level markets to ensure adequate and diversified funding sources. These sources include seeking increased availability from Callidus' existing lenders and from Catalyst Funds. The Company remains reliant on continued funding by Catalyst Funds.

In December 2014, the Company obtained a US$200 million unsecured subordinated bridge facility extended by Catalyst. In September 2015, the Company increased the amount of its revolving unsecured subordinated bridge facility from Catalyst 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 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. 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. All other terms remain substantially unchanged. 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.

In April 2015, Catalyst announced the first closing of its most recent fund, Catalyst Fund V, with US$650 million of capital commitments. As of December 31, 2015, Catalyst Fund V had reached its "hard cap" of US$1.5 billion of which $300 million could be used to acquire loan participation interests. As at November 14, 2018, $155 million remains available to acquire loan participation interests.

In March 2016, Callidus' Board of Directors (the "**Board**") authorized a substantial issuer bid to purchase for cancellation up to 3,571,428 common shares at a purchase price of $14 per common share (the "**Purchase Price")** for an aggregate purchase price not to exceed $50 million (the "**Offer**"). In April 2016, an issuer bid circular and related documents (the "**Issuer Bid Circular**") in connection with the Offer were mailed to shareholders. In June 2016, the Board authorized increasing the purchase price under the Offer from $14.00 per share to $15.50 per share. In July 2016, the Board authorized an increase to the purchase price under the Offer from $15.50 per share to $16.10 per share. In August 2016, the Board authorized an increase to the purchase price under the Offer from $16.10 per share to $16.50 per share. Under the revised Offer, the aggregate maximum purchase price payable by Callidus was

$58.9 million. In October 2016, the Company announced that it was increasing the number of shares eligible under its substantial issuer bid by 1,500,000 shares, or approximately an additional 3% of the shares outstanding as at October 27, 2016. Under the revised Offer, Callidus offered to purchase for cancellation up to 5,071,428 of its outstanding common shares at $16.50 per share, from its shareholders. In December 2016, the Company announced final take-up of the revised Offer. Following the final take-up, a total of 2.8 million shares had been purchased and cancelled under the revised Offer at $16.50 per share or $47.0 million ($24.4 million through share capital and $22.6 million through retained earnings).

In April 2018, the Toronto Stock Exchange ("TSX") accepted the Company's intention to undertake a normal course issuer bid ("NCIB"). Under the terms of the NCIB, Callidus may acquire up to 2,648,529 of its common shares, representing 5% of the 52,970,597 common shares comprising Callidus' total issued and outstanding common shares as of April 2, 2018, and will be purchased only when and if the Company considers it advisable. No purchases have been made to date under the current Normal Course Issuer Bid. As the Company continues to pursue a potential privatization transaction, it is maintaining a trading blackout and purchases under the Normal Course Issuer Bid may only be effected when that blackout ceases.

Total credit facilities issued by the Corporation and available to borrowers, including consolidated businesses acquired, at September 30, 2018 were $1,373 million (December 31, 2017 - $1,162 million) subject to borrowing base availability and acceptance by the Corporation.

The Corporation's primary liquidity needs may include: funding of new and existing loans, debt service and principal repayment obligations, capital market programs such as substantial issuer bids, normal course issuer bids, dividends, payments related to financial instruments, specifically foreign currency contracts, and ongoing operating costs. The Corporation's contractual obligations are summarized in the "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. In light of the resumption of growth in the loan portfolio and anticipated funding requirements to support this growth, in July 2018, the Company announced that its Board of Directors has approved eliminating the Company's dividend effective immediately.

***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 eligible loan portfolio. To this end, the Corporation is exploring financing sources and would like to increase leverage from current levels. 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 matured, the Corporation has added additional external financing sources. Callidus continues to explore financing sources including at the subsidiary level to ensure adequate and diversified funding sources. The Corporation also relies on significant financing from the Catalyst Funds.

***Capitalization***

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. In September 2015, the Company increased the amount of its revolving unsecured subordinated bridge facility from Catalyst 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 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. 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. All other terms remain substantially unchanged. 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.

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 a special purpose financing vehicle wholly-owned by Callidus. The obligation matures December 7, 2021 and carries an all-in blended annual interest rate of approximately 4.90%. Callidus has re-started the process of growth of its loan portfolio and will utilize the facility as the primary source of funding for incremental growth. The Corporation remains committed to doubling the loan portfolio over the next two to three years. Callidus expects the securitization program to represent a growing proportion of the capital structure as it funds the incremental growth in the loan portfolio and further reduces the Corporation's cost of capital. Over time, as the securitization program expands, Callidus will review and optimize the size of its other facilities to achieve a suitable capital structure to support the doubling of its loan book.

***Financial Covenants, Restrictions and Events of Default***

The 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 was subject to a borrowing base calculation dependent upon the aggregate principal amount owing in respect of the loans in the loan portfolio. The revolving credit facility was terminated on July 17, 2017 subsequent to the end of the revolving period. The Corporation was in compliance with its financial covenants at September 30, 2018 and December 31, 2017.

**Cash Flow Summary**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ($ 000s) | **2018** | 2017 | **2018** | 2017 |
| Operating activities | **$ 8,947** | $ 15,242 | **$ (39,940)** | $ 175,699 |
| Investing activities | **(2,216)** | (920) | **(18,304)** | (2,816) |
| Financing activities | **(3,057)** | (26,325) | **45,748** | (157,066) |
| **Increase (decrease) in cash and cash equivalents** | **$ 3,674** | $ (12,003) | **$ (12,496)** | $ 15,817 |

*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 inflow of $9 million in the current quarter primarily as a result of the funding of new and existing loans partially offset by tax refunds received. This compares to a cash inflow of $15 million last year, which was primarily attributable to tax refunds received.

Cash flow from operating activities represented an outflow of $40 million in the current year-to-date period primarily as a result of the funding of new and existing loans partially offset by higher accounts payable balances and lower inventory balances. This compares to a cash inflow of $176 million last year, which was primarily attributable to the repayment of loans.

*Investing Activities*

During the current quarter, investing activities represented $2 million of cash outflow as a result of capital dispositions.

During the current year-to-date period, investing activities represented $18 million of cash outflow as a result of capital expenditures.

*Financing Activities*
During the current quarter, financing activities represented $3 million of cash outflow attributable to repayments on the Company's collateralized loan obligation and senior debt. This compares to $26 million of cash outflow last year, which was attributable to the repurchase of common shares and repayments on the Company's collateralized loan obligation and the revolving credit facility.

During the current year-to-date period, financing activities represented $46 million of cash inflow, attributable to draws made on the Company's subordinated bridge facility. This compares to $157 million of cash outflow last year, which was attributable to repayments on the Company's revolving credit facility and subordinated bridge facility.

**Contractual Obligations**
The following table summarizes Callidus' contractual obligations at September 30, 2018 and payments due for each of the next five years and thereafter:

| For the Years Ended December 31 ($ 000s) | 2018 | 2019 | 2020 | 2021 | 2022 & Thereafter | **Total** |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities[1] | $ 62,277 | $ 65,458 | $ - | $ - | $ - | **$ 127,735** |
| Borrower deposits | 327 | - | - | - | - | **327** |
| Subordinated bridge facility due to Catalyst | - | 377,244 | - | - | - | **377,244** |
| Senior debt and collateralized loan obligation | - | 40,933 | - | 73,610 | - | **114,543** |
| Total | $ 62,604 | $ 483,635 | $ 15,032 | $ 73,610 | $ - | **$ 634,881** |

[1]Included in accounts payable and accrued liabilities is $69.5 million due to Catalyst.

***Related Party Transactions***
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.

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. In September 2015, the Company increased the amount of its revolving unsecured subordinated bridge facility from Catalyst 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 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. 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. All other terms remain substantially unchanged. 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 agreements entered into at the time of the Offering also permit other funds managed by Catalyst (the "**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 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 accordance with the terms of the participation agreement, entered into in connection with Callidus' initial public offering, Catalyst Fund V participates in the funding of new loans originated by Callidus. This provides Callidus with access to additional funds to fund the expansion of its loan portfolio. As at September 30, 2018, approximately $120 million of loans were sold to Fund V and derecognized (December 31, 2017 - $24 million).

In 2016, 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 current year-to-date period, 4.3 million shares were granted to those who elected to participate in the DRIP. The Funds elected to participate in the DRIP in respect of 100% of their shareholdings of the Company and, therefore, received 3.5 million shares. In July 2018, the Company announced that its Board of Directors has approved eliminating the Company's dividend effective immediately.

Catalyst Fund II, an investment fund and major shareholder of the Company, was previously scheduled to dispose of its assets no later than 2016. The term of that Fund has now been extended at least until November 2019.

***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.

At September 30, 2018, the Corporation had outstanding obligations to sell an aggregate US $54 million at an average rate of CAD1.295 per USD maturing October 18, 2018 through foreign exchange forward contracts. The Corporation also had a call option to buy an aggregate US $70 million at a strike price of CAD1.339 per USD maturing December 7, 2021 and a mirror position consisting of a put option to sell an aggregate US $70 million at a strike price of CAD1.339 per USD maturing December 7, 2021. All foreign currency gains or losses to September 30, 2018 have been recognized as other income in net income (loss) for the period and the fair value of these instruments at September 30, 2018 was a net asset of $0.4 million (December 31, 2017 – a net asset of $10.0 million) which is recognized on the consolidated statements of financial position. A net loss of $3.8 million was recognized on contracts which were settled in the current year-to-date period (year-to-date Q3-2017 – a net gain of $20.9 million), which was included as part of foreign exchange gain/loss for the year.

***Critical Accounting Estimates***

The Corporation's accounting policies are integral to understanding and interpreting its reported financial results. Note 3 to the Financial Statements summarizes the significant accounting policies used in preparing the Financial Statements. Certain of these policies, as supplemented by Note 3 to the Financial Statements, 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 Financial Statements include the allowance for loan losses and goodwill impairment, the Corporation's assessment of when, if at all, to consolidate the results 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. 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).

*Goodwill and Other Non-Financial Assets Impairment*

Judgment is applied to determine whether indicators of impairment exist when assessing the carrying values of the Company's goodwill and non-financial assets, including indications that the performance of assets may be worse than expected and identifying significant adverse effects in the businesses' environments. Additionally, where an indication of impairment is determined to be present, judgment is applied to (i) estimate a cash-generating unit's future revenues, costs and cash flows, (ii) determine discount, growth and capitalization rates, and (iii) develop valuation techniques to determine fair value, when applicable (see note 11 to the 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 views the loan as businesses acquired through loans as the intention is not to operate the acquired entity on an ongoing basis. 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 March 2016, the Company required payment by the Catalyst Funds of a guarantee with respect to the Company's assets held for sale. The Funds acquired the loan in question and became the owners of the business. 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 the borrowers and has consolidated the assets, liabilities and operations of these businesses.

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.

*Loan Facilities with Equity and Equity-Like Features*

The Corporation receives warrants and equity options as yield enhancements from some of its borrowers. Under IFRS these warrants/options are required to be fair valued on the balance sheet, with changes in fair value recorded through the income statement. There is significant judgment required in the determination of the fair value and the Corporation uses all available information from its borrowers and at each reporting period re-estimates the cash flows used in the determination of fair values. Therefore, the values from such yield enhancements may significantly change from period to period causing volatility in our results.

*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 17 to the 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.

**Disclosure of Outstanding Share Data**

As at September 30, 2018, there were 57,121,422 common shares outstanding and 4,092,522 options outstanding, each option being exercisable into common shares on a 1:1 basis.

# 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 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. A change 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 change 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.

Callidus makes use of certain derivative instruments, including forward contracts, swaps and options to facilitate its currency economic 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:

- 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 rate indices 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 collateralized loan obligation and on its senior debt.

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

***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 cash generated from operations, funding from the Catalyst Funds, debt and the Offering. Callidus intends to fund new loans using (i) debt capital and (ii) growth capital. Assuming a participation rate for Catalyst Fund V of approximately 75%, total liquidity as at September 30, 2018 would be able to support approximately $200 million of new loans.

The Company manages its liquidity risk by monitoring its ongoing 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. The Company remains reliant on funding from Catalyst.

In addition to the Bridge Facility extension, 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 further advances to a borrower as discussed on page 8. Those amounts would be advanced on the same terms as the loan from Callidus to the Borrower. 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.

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 as of the date hereof.

***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 gross loans receivable portfolio of $1,199 million before derecognition as at November 14, 2018 ($285 million of net loans receivable after derecognition). 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 from the current loan portfolio or additional loans.

***Performance of Businesses Acquired***
As stated above, Callidus is a specialty asset-based lender, focused primarily on Canadian companies and U.S. companies that are unable to obtain adequate financing from traditional lenders. Also as stated above, from time to time in order to protect its collateral position, the Corporation will become the owner of businesses, acquired

through a restructuring, at which point, the businesses will be consolidated and accounted for on this basis, until rehabilitated, marketed, and ultimately sold. The result of any such acquisition is that, until the relevant businesses are sold, Callidus becomes subject to various risks and uncertainties specific to such businesses. Such risks and uncertainties include unforeseen economic and technological changes in a particular industry, inability to meet future cash flow targets, inability to meet production targets, inability to attract and retain qualified and experienced staff, inability to obtain access to adequate working capital, unexpected changes in working capital requirements, political risk associated with certain countries of operations, competitor risk, execution risk and changes in commodity prices. Risks and uncertainties particular to the businesses currently held by Callidus also include the following:

*Injection Molding Business*
The injection molding business is subject to various risks relating to both supply and pricing of production grade and regrind resin. In addition, the market is highly competitive and regional in nature. Risk and uncertainties include availability of production materials, continued access to adequate skilled and unskilled labour, performance of machinery and equipment and availability of competitively priced freight.

*Forestry Products Business*
The forestry products business is subject to risks and uncertainties related to fluctuations in prices and demand for lumber driven by North American economic conditions, including the strength of the U.S. housing market, demand from China and uncertainty with respect to tariffs and current trade agreements with the U.S. (NAFTA, USMCA and Softwood Lumber Agreement). As well, the forestry products business is exposed to changes in the Canadian/U.S. dollar exchange rate, fibre availability and cost, third party transportation limitations and changes to the regulatory environment.

*Aluminum Castings Business*
The aluminum casting business is subject to the economic trends largely related to the automotive industry and sand cast part suppliers. Risks and uncertainties include levels of new vehicle production and overall economic condition of various automotive tier one and OEM (original equipment manufacturers) customers and continued need for high volume sand cast automotive parts as well as actual or potential tariffs.

*Gaming Business*
The gaming business is exposed to several risks and uncertainties general to the gaming industry, including: the ability to retain the appropriate and necessary licensing to operate in certain tribal, state and/or provincial gaming jurisdictions; general trends of participation in gaming by consumers; and the need to consistently produce games attractive to the playing public and profitable for casino operators. As well, the gaming business is exposed to the need to procure contract manufacturing from third parties on acceptable terms as to pricing, quality and the timing of deliveries.

*Drilling Services Business*
The drilling services business is subject to risks and uncertainties as it is tied to the Alberta water drilling services industry which in turn is tied to resource exploration activities, which are ultimately linked with oil and commodity prices that can be volatile. The business cost structure has been realigned following the downturn in oil prices and development activities. Growth in the business' revenues from current levels requires obtaining larger contracts as development activities commence. There can be no assurance that the business will be successful in winning such contracts, as to the timing when such contracts will be awarded or, if the business wins such contracts, whether they will be on economically favourable terms.

*Paving Business*
The paving business is subject to risks and uncertainties general to the paving industry. The paving business operates in a highly competitive, regional environment. Competitive position is based on a multitude of factors including pricing, ability to obtain adequate bonding, backlog, financial strength, appetite for risk, reputation for safety, quality, timeliness and experience. The paving business has little control over what factors a potential customer may prefer. A substantial portion of the paving business' revenue is derived from fixed price contracts pursuant to which a commitment is provided to the owner of the project to complete the project at a fixed price (excluding agreed upon change orders). Any errors in quantity estimates or schedule delays or productivity losses

may result in an adverse impact to financial results. The paving business' profitability is closely tied to the general state of the economy in the region in which it operates. More specifically, the demand for construction and infrastructure development services is likely the largest single driver of the business' growth and profitability. A significant portion of the paving business' labour force is unionized and accordingly, it is subject to the detrimental effects of a strike or other labour action. Unfavourable weather conditions represent one of the most significant uncontrollable risks for the paving business. Projects are susceptible to delays as a result of extended periods of poor weather, which can have an adverse effect on profitability.

***Reliance on Certain Individuals and the Management Services Agreement***

The success of Callidus depends in large part upon the skill and expertise of the executive officers and other Callidus professionals who comprise its management team. There is no assurance that all of Callidus' management team will continue to be employed by or available to the Corporation. As well, there can be no assurance that Callidus' asset-based lending strategy will be successful in the absence of any one or more members of its management team or that Callidus will be able to attract and retain suitable candidates to replace these individuals.

Newton Glassman, the Corporation's Chief Executive Officer, has commenced a medical leave of absence and is expected to return to the Corporation in 2019. The Callidus Board of Directors has assigned Mr. Glassman's executive responsibilities to the existing management team and has also added additional members to that management team. As well, Callidus expects to continue adding to that team as the Company deploys capital and focuses on growth. It is not possible to determine the impact upon Callidus of Mr. Glassman's absence. As a result of additions to the management team, Callidus' operating expenses will increase and those increases may be significant.

The services of Messrs. Glassman and Riley are provided to Callidus by CCGI pursuant to a management services agreement (the "Management Services Agreement"). 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 to its financial health, operations or compliance with the terms under which Callidus has advanced funds. In cases of fraud, it may be 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. asset-based lending industry. The U.S. is a different lending market with different competitive dynamics and therefore presents distinct and substantial risks. The Corporation faces 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 the U.S. market 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.

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.

***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 which 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.

## Disclosure Controls and Procedures and Internal Control over Financial Reporting

***Changes in Internal Control over Financial Reporting***
There were no changes to internal control over financial reporting during the quarter ended September 30, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

For the year-end December 31, 2017, the Company identified a material weakness in our internal control over financial reporting relating to the financial close process with respect to two of our newly acquired operating subsidiaries. This material weakness created a reasonable possibility that a material misstatement of the consolidated financial statements would not be prevented or detected on a timely basis. Specifically, the Company identified control deficiencies related to the review of financial information of the subsidiaries that was not sufficiently precise to identify errors in the reported amounts. The weakness arose at one subsidiary due to an enterprise system implementation during the year and the transition of a new finance team. At the other subsidiary, the issue arose as a result of a lack of formalized internal controls over the review of financial information. As part of this finding, the Company developed a remediation plan to address the control deficiencies. The remediation plan includes the implementation of new financial controls, enhancing review processes at both the subsidiary and corporate level, and the hiring of a new CFO at one of the subsidiaries. The Company is in the process of implementing the remediation plan and testing the new controls.