CALLIDUS
CAPITAL

Callidus Capital Corporation

Consolidated Financial Statements

For the Years ended December 31, 2014 and 2013

March 30, 2015

Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Financial statements are not precise since they include certain amounts based upon estimates and judgements. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances in order to ensure that the consolidated financial statements are presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

The company maintains systems of internal controls, which are designed to provide reasonable assurance that accounting records are reliable and to safeguard the company's assets. The control framework applied by the Company for assessing its internal control, as required by CSA's Multilateral Instrument 52-109, is the Internal Control – Integrated Framework (2013) as published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit & Risk Committee.

The Audit & Risk Committee meets periodically with management and the external auditors to discuss internal control over the financial reporting process, auditing matters and other financial reporting issues. The Audit & Risk Committee reviews management's discussion and analysis and the consolidated financial statements prepared by management, and then recommends them to the Board of Directors for approval. The Audit & Risk Committee also recommends to the Board of Directors and the shareholders the appointment of the external auditors and approves their services and fees.

The consolidated financial statements have been audited by the Company's external auditors, KPMG LLP, in accordance with Canadian generally accepted auditing standards. KPMG LLP has full and free access to management and the Audit Committee.

March 30, 2015

"Newton Glassman"
Chairman and CEO

"David Reese"
President and COO

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Callidus Capital Corporation

We have audited the accompanying consolidated financial statements of Callidus Capital Corporation, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Callidus Capital Corporation as at December 31, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 30, 2015
Toronto, Canada

CALLIDUS CAPITAL CORPORATION

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

	December 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	**$ 59,636**	$ 38,014
Income taxes receivable	**-**	9
Derivative assets (note 16)	**466**	-
Assets held for sale (note 18)	**-**	11,360
Loans receivable (note 5)	**791,573**	349,992
Deferred tax asset (note 12)	**7,498**	1,228
Guarantee asset (note 10)	**22,606**	-
Other assets	**1,655**	17
	$ 883,434	$ 400,620
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities (note 10)	**$ 12,915**	$ 788
Income and other taxes payable	**19,961**	-
Borrower deposits	**169**	235
Deferred facility fees	**6,486**	3,701
Derivative liabilities (note 16)	**-**	329
Due to Catalyst Fund Limited Partnerships (note 7)	**-**	330,703
Revolving credit facilities (note 8 & note 9)	**210,409**	19,879
Subordinated bridge facility, due to Catalyst (note 7)	**116,010**	-
Senior debt (note 7)	**49,654**	49,683
	415,604	405,318
Shareholders' equity:		
Share capital (note 11)	**428,291**	1
Contributed surplus (note 17)	**7,631**	5,152
Retained earnings (deficit)	**31,908**	(9,851)
	467,830	(4,698)
Contingencies (note 14)	**-**	-
	$ 883,434	$ 400,620

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

“Newton Glassman”
Chairman and CEO

“Ann Davis”
Director

CALLIDUS CAPITAL CORPORATION

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

	2014 (Note 20)	2013
Revenue:		
Interest	**$ 90,442**	$ 47,102
Fees and other	**8,604**	6,222
	99,046	53,324
Interest expense and participation fees:		
Catalyst Fund Limited Partnerships	**(18,052)**	(37,494)
Senior debt and revolving credit facilities	**(10,369)**	(4,414)
	(28,421)	(41,908)
Net interest income	**70,625**	11,416
Other income (expenses):		
Provision for loan losses (note 6)	**(18,963)**	(5,976)
Recovery under the Catalyst guarantee (note 10)	**22,606**	-
Foreign exchange loss	**(1,165)**	(1,363)
Catalyst's share of overhead expenses (note 20)	**2,244**	451
	4,722	(6,888)
Non-interest expenses:		
Salaries and wages	**(7,376)**	(4,248)
Stock options expense (note 17)	**(2,479)**	(5,152)
General and administrative	**(5,040)**	(2,036)
	(14,895)	(11,436)
Income (loss) before income taxes	**60,452**	(6,908)
Income taxes (expense) recovery (note 12):		
Current	**(19,896)**	(34)
Deferred	**1,203**	1,228
	(18,693)	1,194
Income (loss) and comprehensive income (loss)	**$ 41,759**	$ (5,714)
Earnings per common share (dollars)		
Basic (note 21)	**$ 1.04**	$ (0.28)
Diluted (note 21)	**$ 1.03**	$ (0.27)

See accompanying notes to consolidated financial statements.

CALLIDUS CAPITAL CORPORATION

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

	Share Capital Amount	Contributed Surplus	Retained Earnings	**Total**
Balance, January 1, 2013	$ 1	$ -	$ (4,137)	**$ (4,136)**
Net loss	-	-	(5,714)	**(5,714)**
Stock options expense (note 17)	-	5,152	-	**5,152**
Balance, December 31, 2013	$ 1	$ 5,152	$ (9,851)	**$ (4,698)**
Balance, January 1, 2014	$ 1	$ 5,152	$ (9,851)	**$ (4,698)**
Net income	-	-	41,759	**41,759**
Shares issued/issuance costs	428,290	-	-	**428,290**
Stock options expense (note 17)	-	2,479	-	**2,479**
Balance, December 31, 2014	$ 428,291	$ 7,631	$ 31,908	**$ 467,830**

See accompanying notes to consolidated financial statements.

CALLIDUS CAPITAL CORPORATION

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

	2014	2013
Cash provided by (used in):		
Operating activities:		
Income (loss) for the period	**$ 41,759**	$ (5,714)
Items not involving cash:		
Stock options expense (note 17)	**2,479**	5,152
Provision for loan losses (note 6)	**18,963**	5,976
Guarantee asset (note 10)	**(22,606)**	-
Change in non-cash operating items:		
Change in gross loans receivable, net of repayments	**(460,544)**	(241,573)
Derivative assets	**(466)**	18
Income taxes receivable	**9**	(9)
Deferred tax asset	**(6,270)**	(1,228)
Assets held for sale	**11,360**	330
Other assets	**(1,638)**	2
Accounts payable and accrued liabilities	**12,127**	(161)
Deferred facility fees	**2,785**	671
Derivative liabilities	**(329)**	329
Income and other taxes payable	**19,961**	-
Borrower deposits	**(66)**	85
Other	**(67)**	97
	(382,543)	(236,025)
Financing activities:		
Net (repayment to) advances from Catalyst Fund Limited Partnerships	**(222,298)**	205,033
Net draw on new revolving credit facility	**210,409**	-
Net (repayment) draw on revolving credit facility	**(19,879)**	19,879
Change in senior debt	**(29)**	-
Net proceeds received on share issuance	**319,952**	-
Net draw on subordinated bridge facility, due to Catalyst	**116,010**	-
	404,165	224,912
Increase (decrease) in cash and cash equivalents	**21,622**	(11,113)
Cash and cash equivalents, beginning of period	**38,014**	49,127
Cash and cash equivalents, end of period	**$ 59,636**	$ 38,014
Cash and cash equivalents is composed of the following:		
Cash	**$ 59,176**	$ 32,264
Restricted cash	**460**	5,750
	$ 59,636	$ 38,014

See accompanying notes to consolidated financial statements.

1. REPORTING ENTITY:

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

Callidus Capital Management Inc. ("**CCM**"), the former principal subsidiary of the Company, was a private company incorporated under the Business Corporations Act (Ontario). On December 14, 2012, CCM was granted registration as an investment fund manager and as an exempt market dealer with the Ontario Securities Commission ("**OSC**"). CCM was amalgamated with Callidus effective January 1, 2013 and the OSC registration name was changed to Callidus.

On April 23, 2014 the Company completed an initial public offering (the "**Offering**") of 18,000,000 common shares at a price of $14.00 per common share for gross proceeds of $252,000. On May 8, 2015, the Corporation issued 2,700,000 common shares pursuant to the full exercise of an over-allotment option granted to the underwriters in connection with the Offering for aggregate gross proceeds of $37,800.

2. BASIS OF PRESENTATION:

(a) **Statement of Compliance**:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The consolidated financial statements have been approved for issue by the Board of Directors on March 30, 2015.

(b) **Basis of Measurement**:

The consolidated financial statements have been prepared on a historical cost basis except for derivative instruments which are measured at fair value.

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

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

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

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

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

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the allowance for loan losses, derecognition and the Company's assessment of consolidation under IFRS 10, *Consolidated Financial Statements*, of certain loans in its loan portfolio.

3. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) **Cash and Cash Equivalents**:
Cash and cash equivalents include cash on hand and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the consolidated statements of financial position.

(b) **Loans Receivable**:
Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Loans receivable include accrued interest receivable, loans advanced to borrowers during the normal course of the Company's business, and loans acquired from other lenders at a discount.

Loans receivable are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. The loans receivable balances include accrued interest.

(c) **Impairment**:
Collectability is regularly evaluated by assessing the realizable values of the assets securing the loans and viability of the underlying business. At each reporting date, the Company assesses whether there is objective evidence that loans receivable or other financial assets are impaired. A financial asset is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes:
- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- indications that a borrower or issuer will enter unplanned bankruptcy; and
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Company considers evidence of impairment for loans at both a specific asset and collective level. All individually significant loans are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. The collective allowance is calculated by using the probability of default ("**PD**"), loss given default ("**LGD**"), and exposure at default factors, which are determined with reference to (1) historical default experience, (2) management's loss experience, and (3) loan exposure at the financial statement date. Funded exposures are multiplied by the borrower's PD and by the relevant LGD parameter. A model stress component is also applied to recognize uncertainty in the credit risk parameters and the fact that current actual loss rates may differ from the long-term averages included in the model.

Specific impairment losses are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a loan are renegotiated or modified due to financial difficulties of the borrower, then an assessment is made of whether an impairment loss should be recognized.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans receivable.

Interest on the impaired assets continues to be recognized. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

The Company writes off a loan either partially or in full, and any related allowance for impairment losses, when the Company determines that there is no likelihood of recovery.

(d) **Catalyst Guarantee**:
The Company recognizes a guarantee asset on its consolidated statement of financial position in relation to specific loans subject to the Catalyst guarantee and records a recovery of its provision for loan losses on the consolidated statement of income at the same time as the related provision is recorded.

(e) **Borrower Deposits**:
Borrower deposits include amounts received by the Company from potential borrowers as part of the loan application process. If the loan is approved and closes, the full amount of the deposit is credited against the loan. If the loan is approved on terms substantially the same as the terms and conditions contained in the term sheet provided to the potential borrower and the borrower chooses not to proceed with the credit facility, the deposit is deemed a fully earned work fee by the Company and non-refundable and is recognized into income at that time. The deposit amounts less any legal and due diligence costs incurred by the lender are refunded to such potential borrowers if the loan application is not approved.

(f) **Foreign Currency Transactions**:
Transactions in foreign currencies are translated into the functional currency of the Company at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the spot exchange rate at the end of the year.

Foreign currency differences arising on translation are recognized in the consolidated statements of comprehensive income.

(g) **Financial Assets and Financial Liabilities**:
(i) *Recognition*:
The Company initially recognizes loans and other financial assets on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are incremental and directly attributable to its acquisition or issue.

(ii) *Classification*:
Financial Assets:
The Company classifies its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; and
- at fair value through profit or loss, and within this category as:
- held for trading; or designated at fair value through profit or loss.

At December 31, 2014 and 2013, all financial assets except for derivative instruments have been categorized as loans and receivables.

Financial Liabilities:
The Company classifies its financial liabilities as measured at amortized cost or fair value through profit or loss. At December 31, 2014 and 2013, the Company has no liabilities at fair value through profit and loss.

(iii) *Derecognition*:
Financial Assets:
The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income ("**OCI**") is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial Liabilities:
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) *Offsetting*:
Financial assets and financial liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company currently has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the

asset and settle the liability simultaneously. No such instruments subject to offsetting were outstanding at the financial statement date.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

(v) *Amortized Cost Measurement*:
The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vi) *Fair Value Measurement*:
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(h) **Derivatives Held for Risk Management Purposes**:
Derivatives held for risk management purposes are measured at fair value in the consolidated statements of financial position.

All changes in fair value are recognized immediately in the consolidated statements of comprehensive income.

(i) **Income Taxes**:
Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI.

(j) *Current Tax*:
Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

(ii) *Deferred Tax*:
Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(iii) *Tax Exposures*:
In determining the amount of current and deferred tax, the Company considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(j) **Consolidation**:
The Company consolidates any entities which it controls. Control is established when the Company 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 Company assesses individual loans for control at each reporting date.

(k) **Interest**:
Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the

effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income includes interest earned on loans receivable. Interest income is calculated on the daily balance and charged monthly. Fees are recognized in accordance with the signed loan agreements.

Facility fees are earned on commitment of a new facility or renewal of existing facilities, and are payable by the borrower (i) at closing or renewal, or (ii) the earlier of maturity or repayment of the credit facility. These fees are non-refundable and are recognized as income over the expected term of the facility.

Unused line fees are calculated daily based on the unused portion of the credit facility and are payable by the borrower monthly.

Discounts on acquired loans are recognized as payments are received.

As at December 31, 2014, there were $6,486 (2013 - $3,701) in deferred facility fees that will be recognized in income in fiscal 2015 and 2016.

As at December 31, 2014, there were $9,793 (2013 - $9,793) in discounts on acquired loans that will be recognized when the related loans are fully repaid.

(l) **Loan Commitments**:

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

(m) Stock-based Compensation:

a. *Stock Option Plan*:

The Company uses the fair value-based method of accounting for stock options and recognizes compensation expense based on the fair value of the options on the date of the grant, which is determined using the Black-Scholes option pricing model. The fair value of the options is recognized on a straight-line basis over the vesting period of the options granted as compensation expense with a corresponding increase in Contributed surplus. The awards are delivered in tranches; each tranche is considered a separate award and is valued and amortized separately. Expected forfeitures are factored into determining the stock option expense and the estimates are periodically adjusted in the event of actual forfeitures or for changes in expectations. The Contributed surplus balance is reduced as the options are exercised and the amount initially recorded for the options in Contributed surplus balances is reduced as the options are exercised and the amount initially recorded for the options in Contributed surplus is reclassified to capital stock. Stock options granted to employees are recognized in salary and wage expense on the consolidated statements of comprehensive income.

b. *Deferred Share Unit ("DSU") Plan*:
The Company has a DSU plan for Directors. The obligation that results from the award of a DSU is recognized in income upon the grant of the unit and the corresponding amount is included in Other Liabilities in the consolidated statements of income for the period in which the changes occur.

(n) **Assets Held for Sale**:
Assets held for sale are carried at the lower of the carrying amount at designation and fair value less costs to sell.

Changes in Financial Statement Presentation During the Year
Financial Assets and Financial Liabilities **-** *Derecognition*

As described in note 3(g)(iii).

4. FUTURE ACCOUNTING DEVELOPMENTS:

(a) Financial Instruments (IFRS 9):
IFRS 9 (2014) addresses classification and measurement of financial assets and liabilities, including impairment of financial assets, and hedge accounting. Under this standard, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The accounting model for financial liabilities is largely unchanged from IAS 39 except for the presentation of the impact of own credit risk on financial liabilities designated at fair value through profit or loss account. The new impairment model is an expected loss model as against an incurred loss model in IAS 39. The new general hedge accounting principles under IFRS 9 are aimed to align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it is expected to provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact of IFRS 9 on the Company's financial statements.

(b) **Revenue from Contracts with Customers (IFRS 15):**
The IASB issued IFRS 15, *Revenue from Contracts with Customers*, which is effective for fiscal years beginning on January 1, 2017 and is available for early adoption. IFRS 15 will replace IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The Company is in process of evaluating the impact of IFRS 15 on the Company's financial statements.

(Expressed in thousands of Canadian dollars)

5. LOANS RECEIVABLE:

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

Contractual Maturity	December 31, 2014	December 31, 2013
0 - 3 months	$ **120,341**	$ 169,318
4 - 6 months	**132,662**	16,538
7 - 12 months	**262,915**	160,448
13 months or more	**275,655**	-
No specific maturity	**-**	3,688
	$ **791,573**	$ 349,992

The loans can be prepaid subject to prepayment penalties. The total credit facilities available to borrowers subject to borrowing base availability at December 31, 2014 was $1,028,989 (December 31, 2013 - $479,300). Of the total loan balance noted in the table above, $169,307 related to watch listed loans.

The loans receivable charge interest at fixed rates. For the current year, the loan portfolio generated a blended yield, including all interest and fees of approximately 20% (2013 - 21%). The loans are generally senior secured credit facilities with revolving and non-revolving loans secured by a first charge on substantially all of the borrowers' assets.

6. LOAN LOSS ALLOWANCE:

As at December 31, 2014, the Company has allowance for loan losses of $29,139 (December 31, 2013 - $10,176), which is offset against loans receivable on the consolidated statements of financial position.

	December 31, 2014	December 31, 2013
Individual allowance for impairment		
Balance, beginning of period	$ **10,176**	$ 4,200
Charges for the period:		
Specific individual loan loss provisions	**12,601**	5,976
Collective allowances	**6,362**	-
Balance, end of period	$ **29,139**	$ 10,176

During the period, the Company had direct write-offs of $nil (2013 - $nil).

7. LONG-TERM AND CALLABLE DEBT:

	December 31, 2014	December 31, 2013
Due to Catalyst Fund Limited Partnerships	$ **-**	$ 330,703
Senior debt	**50,000**	50,000
Less: associated transaction costs	**(346)**	(317)
	49,654	49,683
Subordinated bridge facility, due to Catalyst	**116,010**	-
	$ **165,664**	$ 380,386

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

The amounts due on the senior debt represent a senior secured non-revolving term loan for $50 million. The loan has a term of six years, matures March 31, 2017, and bears a fixed rate of interest of 8.419% which is based on Government of Canada Bond rate at the time of issuance plus 5.75%. The loan has a first priority charge over a portion of assets of the Company. The Company was in compliance with its financial covenants at December 31, 2014 and December 31, 2013.

In December 2014, the Company obtained a US$200 million revolving unsecured subordinated bridge facility from Catalyst. The facility carries an interest rate of 8% per annum plus an annual fee equal to 1.5% of the maximum amount available under the facility and a standby fee equal to 1% per annum of undrawn amounts. The facility matures on April 24, 2017 and is pre-payable by the Company at any time without penalty.

The Company paid $584 in transaction costs in 2011 and an additional $169 in 2014 associated with the above long-term financing, which has been deferred and is being amortized into interest expense over the term of the loan using the effective interest rate method.

8. NEW REVOLVING CREDIT FACILITY:

On April 10, 2014, the Company obtained a US$200 million revolving credit facility (the "**New Revolving Credit Facility")** to finance a portion of the loan portfolio ("**Revolver Pool**") held by a special purpose vehicle wholly-owned by Callidus (the "**Borrower**"). The New Revolving Credit Facility may be drawn in either Canadian or U.S. dollars and provides for an aggregate of approximately US$167 million of Class A loans (the "**Class A Loans**") and approximately US$33 million of Class B loans (the "**Class B Loans**", and together with the Class A Loans, the "**Loans**"), subject to borrowing base availability dependent on certain eligible loans receivable balances, approved by the lender in its sole discretion.

The Loans are also subject to a minimum utilization of 50%, measured quarterly and bear interest at an applicable base rate plus a margin of 3% and 5% for the Class A Loans and Class B Loans, respectively.

The New Revolving Credit Facility matures April 10, 2018, and contains a two-year revolving period, followed by a two-year amortization period. The revolving period may be extended subject to lender approval. Additionally, there is a non-call period to the end of the revolving period, if Callidus has requested an extension to the facility and the lender has denied the request, the facility may be repaid in full without penalty.

The Company was in compliance with its financial covenants at December 31, 2014.

In January 2015, the Company increased the amount of its New Revolving Credit Facility through syndication by US$62.5 million to US$262.5 million and extended its term to January 15, 2019. The Loans bear interest at an applicable rate plus margin of 2.75% and 6.25% for the Class A Loans and Class B Loans, respectively. All other terms remained substantially unchanged.

9. REVOLVING CREDIT FACILITY:

On December 19, 2013, the Company obtained a $47.5 million revolving credit facility (the "**Revolving Credit Facility**"), consisting of a $40 million revolving facility (the "**Revolver**") and a $7.5 million Treasury Risk Management Facility (the "**FEX Facility**"). The Revolver was available in either Canadian dollar or U.S. dollar advances, and bore interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR-based loans plus a margin, and in all cases subject to (i) a borrowing base calculation dependent on certain eligible loans receivable balances; and (ii) a financial ratio of total senior debt divided by the total senior debt borrowing base.

The Revolving Credit Facility ranked *pari passu* with the term loan and shared a first priority charge over all assets of the Company. In connection with the Offering, the Revolving Credit Facility was repaid in full and retired.

10. RELATED PARTY TRANSACTIONS:

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

(a) **Relationships**:

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

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

(b) **Catalyst Participation Interest**:

In connection with the Offering, and the repayment of the Catalyst debenture referred to in note 7, Catalyst Fund IV obtained an approximate 18% undivided interest in the loan portfolio of the Company. The participation agreement provided that the Company was not entitled to the risks or rewards related to Catalyst Fund IV's participation interest in the loan portfolio. Consequently, the portion of the loans corresponding to Catalyst Fund IV's participation interest had been derecognized from the financial statements during fiscal 2014.

The participation agreement also provided that in the event that Catalyst Fund IV wished to sell its participation interest in the loan portfolio, the Company had the option to acquire all or part of Fund IV's participation interest in the loan portfolio at par plus accrued interest and fees. In December 2014, the Company acquired all of the Fund's participation interest in the loan portfolio at par plus accrued interest and fees for 2,335,357 common shares, at a price of $21.41 per common share, as well as a cash payment of approximately $821 as a post-closing adjustment for foreign exchange. Details of the impact on these consolidated financial statements are set out in note 20.

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

(c) The Catalyst Guarantees

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

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

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

(Expressed in thousands of Canadian dollars)

As at December 31, 2014, the Company recorded a guarantee asset and a related income amount of $22,606 related to the Catalyst guarantee.

(d) **Transactions during the Period**:
In 2014, participation fees of $8,134 (2013 - $19,690) and commitment fees of $764 (2013 - $599), were paid or accrued to Catalyst. Interest expense also includes $8,969 (2013 - $17,205) paid and accrued to Catalyst in 2014. All transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As at December 31, 2014, accounts payable and accrued liabilities includes $7,478 (December 31, 2013 - $nil) representing the portion of net income due to the Fund's participation interest in the loan portfolio and $1,447 representing the Company's portion of leasehold improvements incurred by Catalyst.

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

	2014	2013
Short-term employee benefits	**$ 2,097**	$ 1,581
Share-based payments	**807**	1,690
	$ 2,904	$ 3,271

11. SHARE CAPITAL:

	2014		2013	
	Shares	**Amount**	Shares	Amount
Commons shares outstanding, beginning of year	**100**	**$ 1**	100	$ 1
Issue of common shares	**51,026,654**	**428,290**	-	-
Commons shares outstanding, end of year	**51,026,754**	**$ 428,291**	100	$ 1

12. INCOME TAXES:

Amounts recognized in profit or loss:

	2014	**2013**
Current tax expense		
Current year	**$ 19,896**	$ 13
Prior year adjustments	**-**	21
	19,896	34
Deferred tax expense:		
Origination and reversal of temporary differences	**(1,203)**	(376)
Other		(852)
	(1,203)	(1,228)
Total income tax expense (recovery)	**$ 18,693**	$ (1,194)

(Expressed in thousands of Canadian dollars)

Reconciliation of effective tax rate:

	2014	2013
Tax using the combined statutory tax rate	**$ 18,057**	$ (1,831)
Non-deductible expenses	**92**	15
Stock-based compensation	**657**	1,365
Recognition of previously unrecognized tax asset	**-**	(852)
Changes to estimates for prior years	**-**	22
Other	**(113)**	87
Total income tax expense (recovery)	**$ 18,693**	$ (1,194)

Components of deferred tax assets:

	December 31, 2014	December 31, 2013
Deferred tax assets:		
Deferred financing fees	**$ 1,719**	$ 980
Provision for loan losses	**7,722**	270
Deferred share issue costs	**4,053**	-
Financing costs	**11**	(22)
	13,505	1,228
Deferred tax liabilities:		
Leasehold improvements	**(16)**	-
Recovery under the Catalyst guarantee	**(5,991)**	-
Total recognized deferred tax assets	**$ 7,498**	$ 1,228

Movements in temporary differences during the year:

	Balance at January 1, 2014	Balance Recognized in Profit or Loss	Balance Recognized in Share Capital	Balance at December 31, 2014
Deferred facility fees	$ 980	$ 739	**$ -**	$ 1,719
Provision for loan losses	270	7,452	-	7,722
Financing costs	(22)	33	-	11
Leasehold improvements	-	(16)	-	(16)
Deferred share issue costs	-	(1,014)	5,067	4,053
Recovery under the Catalyst guarantee	-	(5,991)	-	(5,991)
	$ 1,228	$ 1,203	$ 5,067	$ 7,498

	Balance at January 1, 2013	Balance Recognized in Profit or Loss	Balance Recognized in Share Capital	Balance at December 31, 2013
Deferred facility fees	$ 803	$ 177	**$ -**	$ 980
Provision for loan losses	66	204	-	270
Financing costs	(17)	(5)	-	(22)
Leasehold improvements	-	-	-	-
Deferred share issue costs	-	-	-	-
Recovery under the Catalyst guarantee	-	-	-	-
Deferred tax asset not recognized	(852)	852		
	$ -	$ 1,228	$ -	$ 1,228

(Expressed in thousands of Canadian dollars)

13. FAIR VALUES OF FINANCIAL INSTRUMENTS:

Fair values and carrying values of financial instruments:

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

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

			December 31, 2014			December 31, 2013	
	Fair Value	Carrying Value	Fair Value Over Carrying	Fair Value	Carrying Value	Fair Value Over Carrying	Fair Value Hierarchy
Assets							
Cash and cash equivalents	**$ 59,636**	**$ 59,636**	$ -	$ 38,014	$ 38,014	$ -	1
Derivative assets	**466**	**466**	-	-	-	-	2
Loans receivable	**791,573**	**791,573**	-	349,992	349,992	-	3
Derivative assets	**466**	**466**	-	-	-	-	2
Guarantee asset	**22,606**	**22,606**	-	-	-	-	3
	$ 874,747	**$ 874,747**	$ -	$ 388,006	$ 388,006	$ -	
Liabilities							
Accounts payable and accrued liabilities	**$ 12,915**	**$ 12,915**	$ -	$ 788	$ 788	$ -	2
Derivative liabilities	**-**	**-**	-	329	329	-	2
Due to Catalyst	**-**	**-**	-	330,703	330,703	-	3
Revolving credit facilities	**210,409**	**210,409**	-	19,879	19,879	-	3
Subordinated bridge facility, due to Catalyst	**116,010**	**116,010**	-	-	-	-	3
Senior debt	**49,654**	**49,654**	-	49,683	49,683	-	3
	$ 388,988	**$ 388,988**	$ -	$ 401,382	$ 401,382	$ -	

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

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

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

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

(i) The carrying value of cash and cash equivalents, revolving credit facilities, other assets and other liabilities is a reasonable approximation of fair value because these instruments are either short-term in nature or re-price to current market rates frequently.

(ii) The fair value of the loan portfolio is determined by aggregating the present value of the discounted cash flows factoring current interest rates and estimates of credit risk. Discount rates used to determine the fair value of loans range between 6.0% and 33.0%.

(iii) Fair values of derivative instruments are determined using pricing models, which take into account current market and contractual prices of underlying instruments, as well as time value and yield curve underlying the positions, which are observable. Accordingly, such instruments are classified in Level 2 of the fair value hierarchy.

14. CONTINGENCIES:

In the normal conduct of its lending operations, there are sometimes pending claims against the Company relating to its collateral. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, final determination of any litigation exposure has been factored into the Company's loan loss provisioning. There are no other types of claims against the Company which are expected to materially affect the Company's consolidated financial position or consolidated results of operations.

15. FINANCIAL RISK MANAGEMENT:

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

(a) **Currency Risk**:

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. This exposure is the result of indebtedness and related interest expense denominated in U.S. dollars, as well as assets and liabilities that will be settled in U.S. dollars. The Company has entered into foreign exchange forward contracts to mitigate this risk (note 16).

A change of 1% in the value of the Canadian dollar as compared to the U.S. dollar would result in a an immaterial change to the Canadian equivalent amount of U.S. dollar foreign exchange exposure as at December 31, 2014 as the gain or loss on translation is offset by the mark-to-market value of the foreign exchange forward contracts.

(b) **Interest Rate Risk**:

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

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

The Company's revolving credit facility is exposed to changes in interest rates. The Company continues to monitor the interest rate gap.

(c) **Liquidity Risk**:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's liquid assets consist of cash and cash equivalents (net of restricted cash) amounting to $59,176 or 7% of the total assets.

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

(d) **Credit Risk**:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to its borrowers.

The Company adheres to a credit evaluation process and typically requires collateral.

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

16. DERIVATIVES HELD FOR RISK MANAGEMENT:

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

	Notional Amount*		Fair Value (Liability) Asset	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Foreign exchange forward contracts	**$ 209,000**	$ 148,900	**$ 466**	$ (329)

*Amounts in thousands of U.S. dollars; all of the Company's forward contracts mature within 30 days of period end.

17. SHARE-BASED PAYMENTS:

The Company grants stocks options which vest evenly over a three-year period and are exercisable no later than 10 years after the date of the grant. As approved by the directors, a total of 10% of the total issued and outstanding common shares of the Company have been reserved for issuance under the plan of which 4% have been awarded.

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

The amount recorded in contributed surplus as at December 31, 2014 was $7,631 (December 31, 2013 - $5,152). In 2014, an expense of $2,479 (2013 - $5,152) was recorded in the consolidated statements of comprehensive income. As at December 31, 2014, future unrecognized compensation cost for non-vested stock options was $7,086 (December 31, 2013 - $3,278) which is to be recognized over a weighted average period of 2.7 years (2013 - 2.0 years).

Significant assumptions used in valuing the options include a volatility rate of 34%, a dividend rate of 0%, an expected life assumption of 10 years, and a risk-free rate of 2.34%.

The following table summarizes the weighted average exercise prices and the weighted average remaining contractual life of the balances of stock options outstanding at December 31, 2014:

(Expressed in thousands of Canadian dollars)

	Options Outstanding			Options Exercisable	
Exercise Price ($)	Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price ($)	Options	Weighted Average Exercise Price ($)
$3.41[1]	1,080,124	8.00	$ 3.41	720,083	$ 3.41
$16.89	784,876	9.97	16.89	-	16.89
	1,865,000	8.83	$ 9.08	720,083	$ 9.08

[1] The option grant date was January 1, 2013 and therefore, the number of options exercisable at December 31, 2014 was adjusted to include the January 1, 2015 second anniversary vesting date.

During the year, the Company granted deferred share units that must be settled for cash and are classified as liabilities. Liability-classified awards are remeasured to fair value at each reporting date while they remain outstanding and $38 has been recorded in the consolidated statement of financial position at December 31, 2014.

18. ASSETS HELD FOR SALE:

During 2011, the Company received 100% of the common shares of a borrower, as part of an acquisition of a portfolio of loans from a competitor, which included a loan valued at $12.6 million. The asset held for sale was a corporation which distributes athletic equipment. It maintained current operations. This entity was being held for sale on the consolidated statements of financial position. The asset held for sale was recorded at the lower of carrying value or fair value less cost to sell. The assets of the borrower were sold to a third-party in September 2014 for an amount equivalent to the carrying value in exchange for a loan featuring contingent consideration based on future performance of the assets. No gain or loss was recorded on the disposition of the assets.

. CAPITAL:

The Company is required to maintain minimum excess working capital as prescribed by the OSC. At December 31, 2014 and December 31, 2013, the Company was in compliance with the OSC's requirement to maintain minimum capital of $100.

(Expressed in thousands of Canadian dollars)

20. TRANSFERS OF FINANCIAL ASSETS:

As described in note 10, in connection with the Offering, the Company, CCGI, and certain funds managed by CCGI entered into a participation agreement. In December the Company repurchased the Funds' participation interest and recognized all assets and liabilities previously derecognized during the quarters. The Statement of Comprehensive Income continues to be presented on a derecognized basis between the date of sale and repurchase, as the Funds continued to be entitled to their proportionate share of revenue and expenses from the loan pool between those dates. The tables below provide a summary of the impact of derecognition on the Company's financial statements.

Statement of Financial Position

As at December 31, 2014	Before Derecognition	Effect of Derecognition	**After Derecognition**
Cash and cash equivalents	$ 59,636	$ -	**$ 59,636**
Income taxes receivable	-	-	**-**
Derivative assets	466	-	**466**
Assets held for sale	-	-	**-**
Loans receivable	791,573	-	**791,573**
Deferred tax asset	7,498	-	**7,498**
Guarantee asset	22,606	-	**22,606**
Other assets	1,655	-	**1,655**
	$ 883,434	$ -	**$ 883,434**
Accounts payable and accrued liabilities[1]	$ 5,437	$ 7,478	**$ 12,915**
Income and other taxes payable	19,961	-	**19,961**
Borrower deposits	169	-	**169**
Deferred facility fees	6,486	-	**6,486**
Derivative liabilities	-	-	**-**
Due to Catalyst Fund Limited Partnerships	-	-	**-**
Revolving credit facilities	210,409	-	**210,409**
Subordinated bridge facility, due to Catalyst	116,010	-	**116,010**
Senior debt	49,654	-	**49,654**
	408,126	7,478	**415,604**
Share capital	428,291	-	**428,291**
Contributed surplus	7,631	-	**7,631**
Accumulated deficit	39,386	(7,478)	**31,908**
	475,308	(7,478)	**467,830**
	$ 883,434	$ -	**$ 883,434**

[1] Payable recognized pertains to the accrued pool income owed to the Funds as a result of the participation interest that had not yet been paid as of December 31, 2014.

Statement of Comprehensive Income

	Consolidated	Effect of Derecognition	**2014 After Derecognition**
Interest	$ 101,081	$ (10,639)	**$ 90,442**
Fees and other	9,645	(1,041)	**8,604**
	110,726	(11,680)	**99,046**
Catalyst Fund Limited Partnerships	(18,576)	524	**(18,052)**
Senior debt and revolving credit facilities	(11,679)	1,310	**(10,369)**
	(30,255)	1,834	**(28,421)**
Net interest income	80,471	(9,846)	**70,625**
Provision for loan losses	(18,963)	-	**(18,963)**
Recovery under the Catalyst guarantee	22,606	-	**22,606**
Foreign exchange loss	(1,289)	124	**(1,165)**
Catalyst's share of overhead expenses	-	2,244	**2,244**
	2,354	2,368	**4,722**
Salaries and wages	(7,376)	-	**(7,376)**
Stock options expense	(2,479)	-	**(2,479)**
General and administrative	(5,040)	-	**(5,040)**
	(14,895)	-	**(14,895)**
Income (loss) before income taxes	67,930	(7,478)	**60,452**
Current income taxes (expense) recovery	(19,896)	-	**(19,896)**
Deferred income taxes (expense) recovery	1,203	-	**1,203**
	(18,693)	-	**(18,693)**
Income and comprehensive income	$ 49,237	$ (7,478)	**$ 41,759**

21. EARNINGS PER SHARE:

	2014	2013
Basic earnings per common share:		
Net income (loss)	**$ 41,759**	$ (5,714)
Average number of common shares outstanding ('000s)	**40,032**	20,522
Basic earnings per common share	**$ 1.04**	$ (0.28)
Diluted earnings per common share:		
Net income (loss)	**$ 41,759**	$ (5,714)
Average number of common shares outstanding ('000s)	**40,032**	20,522
Adjustments to average shares due to:		
Share-based payment options and others	**635**	490
Average number of common shares outstanding ('000s)	**40,667**	21,012
Diluted earnings per common share	**$ 1.03**	$ (0.27)

22. SUBSEQUENT EVENTS

(a) In January 2015, the Company increased the amount of its existing New Revolving Credit Facility by US$62.5 million to US$262.5 million in the aggregate and has extended its term to January 15, 2019.

(b) In January 2015, one of the Company's borrowers emerged from formal restructuring proceedings in Canada and the U.S. as a going concern. As a result, the Company, as a secured creditor, will own the business of the borrower subsequent to year-end and will be intended to be classified as an Asset Held for Sale. As at December 31, 2014, the carrying value of the loan, net of a provision, was $60,184.