Callidus Capital Corporation

Management's Discussion and Analysis

December 31, 2015

This Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with the audited annual consolidated financial statements ("**Financial Statements**") of Callidus Capital Corporation ("**Callidus**", the "**Corporation**" or the "**Company**" or "**we**") as at December 31, 2015 and 2014, and for the years ended December 31, 2015 and 2014, and the related notes attached thereto, which were prepared in accordance with International Financial Reporting Standards ("**IFRS**") and the final prospectus filed with the various securities regulatory authorities through Canada on April 15, 2014, in connection with the Company's initial public offering that closed April 23, 2014 (the "**Offering**"). The Offering and the effect of the related transactions, including the impact of derecognition is accounted for in the Financial Statements. 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 March 29, 2016 and is current to that date unless otherwise stated. All amounts herein are expressed in Canadian dollars unless otherwise indicated.

Statement Regarding Forward-Looking Statements and use of Non-IFRS Measures

This MD&A contains forward-looking information within the meaning of Canadian securities laws and applicable regulations. Statements that are not reported financial results or other historical information are forward-looking information within the meaning of applicable Canadian securities laws (collectively, "**forward-looking statements**"). Sentences and phrases containing or modified by words such as "anticipate", "plan", "continue", "estimate", "intend", "expect", "may", "will", "project", "predict", "potential", "targets", "projects", "is designed to", "strategy", "should", "believe", "contemplate" and similar expressions, and the negative of such expressions, are not historical facts and are intended to identify forward-looking statements. Forward-looking statements are based on information available at the time and/or management's expectations with respect to future events that involve a number of risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. The factors described under the heading "Risk Factors", as well as any other cautionary language in this MD&A, provide examples of risks, uncertainties and events that may cause Callidus' actual results to differ materially from the expectations it describes in its forward-looking statements.

In making the forward-looking statements in this MD&A, the Corporation has made assumptions regarding: general economic conditions, reliance on debt financing, funding pursuant to the Participation Agreement, interest rates, continued lack of ABL regulation, continued operation of key systems, debt service, the expectation that the number of industry competitors in Callidus' marketplace will continue to decline, bank lending to mid-market companies will continue to be constrained for at least several years, future capital needs, retention of key employees, adequate management of conflicts of interests, continued performance of the loan portfolio and collateral value of the assets of borrowers, limited loan pre-payment, effective use of leverage, and such other risks or factors described in this MD&A and from time to time in public disclosure documents of Callidus that are filed with securities regulatory authorities.

Forward-looking statements involve significant risks and uncertainties, and should not be read as guarantees of future events, performance or results, and will not necessarily be accurate indicators of whether such events, performance or results will be achieved. Forward-looking statements are based on information available at the time and/or management's expectations with respect to future events that involve a number of risks and uncertainties. Any forward-looking information concerning prospective results of operations, financial position, expectations of cash flows and future cash flows is based upon assumptions about future results, economic conditions and courses of action and is presented for the purpose of providing prospective investors with a more complete perspective on Callidus' present and planned future operations. Such information may not be appropriate for other purposes and actual results may differ materially from those anticipated in such forward-looking statements.

To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks within the meaning of Canadian securities laws, such information has been prepared by the Corporation to provide a reasonable estimate of the potential earnings of the current loan portfolio, subject to (among other things) the assumptions and risks discussed in this MD&A, and readers are cautioned that this information should not be relied upon for any other purpose. Future-oriented financial information and financial outlooks are, without limitation, based on the assumptions and subject to the risks set out herein.

The Corporation discloses a number of financial measures in this MD&A that are calculated and presented using methodologies other than in accordance with IFRS. The Corporation utilizes these measures in managing the business, including performance measurement and valuation purposes, and believes that providing these performance measures on a supplemental basis to its IFRS results is helpful to investors in assessing the overall performance of the business of the Corporation. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. The Corporation cautions readers that these non-IFRS financial measures may differ materially from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS financial measures to the most directly comparable financial measures calculated and presented in accordance with IFRS are included within this MD&A. See "Non-IFRS Measures".

Business Profile and Strategy

Callidus is a specialty asset-based lender, focused primarily on Canadian companies and select U.S. companies that are unable to obtain adequate financing from traditional lenders. Callidus provides flexible and innovative loan structuring, with limited or no covenants and an efficient credit approval process. The Corporation's loans are generally structured as demand, first lien (senior secured) facilities, on a fully collateralized basis.

Callidus addresses an important gap in the lending markets by providing financing to borrowers whose perceived credit risk is too high for the lending criteria of traditional lenders, and whose capital requirements are too small to access high-yield markets. Callidus also provides borrowers with access to capital to fund growth or acquisitions, without dilution to their equity ownership. Additionally, Callidus can assist borrowers through challenging periods by working with the operators and drawing on the extensive experience of the Corporation's management team. Callidus seeks to work with borrowers that are likely to improve their financial stability and gain the ability to repay the funding Callidus has advanced through loan commitments from traditional lenders or otherwise.

The Corporation believes that its expertise in assessing the quality of each prospective borrower, and its ability to complete timely detailed due diligence, enables Callidus to identify opportunities for significant returns in situations where risks can be assessed and managed. As part of its strategy to manage the perceived risk of these borrowers and each loan, Callidus takes an active approach to lending as it carefully assesses and lends against collateral, typically accounts receivable, inventory, machinery and equipment, real estate and other term assets, and monitors this collateral on an ongoing basis. In addition, the Corporation seeks to provide lending in industries where management has expertise. Callidus has consistently generated significant returns while effectively and prudently managing its risk exposure.

2015 Strategies and Achievements

The Company employed the following strategies to grow its loan portfolio:

Goal	2015 Achievements
Organic growth in Canada	• Originated 7 new loans in Canada representing $412 million in commitments. • Increased gross loans receivable in Canada by $183 million or 35% from the prior year. • Increased the amount of the revolving credit facility by US$100 million to US$300 million. • Increased the amount of the revolving unsecured subordinated bridge facility from Catalyst Funds by US$50 million to US$250 million. This facility continues to provide a portion of the growth capital necessary to fund growth in the loan portfolio both in Canada and the U.S.

Expansion of loan product	• Closed 3 Callidus Lite loans representing $302 million in commitments. In addition to these 3 loans, $50 million of the existing portfolio qualified for Callidus Lite and another $219 million of the existing portfolio was being considered for Callidus Lite as a retention product for borrowers with improving credit quality.
Expansion in the U.S.	• Originated 4 new loans in the U.S. representing $82 million in commitments. • Increased the gross loans receivable in the U.S. by $208 million or 69% from the prior year.

Current Status of the Business
As at March 29, 2016, Callidus managed $1,143 million of gross loans receivable before derecognition. Management estimates net income of approximately $101 million before derecognition, had the gross loans receivable of approximately $1,143 million been outstanding for a full year using a gross yield of approximately 18.9% and leverage of 50.9%. The pipeline of potential new loans stands at approximately $700 million. See "Forward-Looking Statements" and "Risk Factors".

Description of Non-IFRS Measures
The Corporation's Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). Management uses both IFRS and non-IFRS measures to monitor and assess the operating performance of the Corporation's operations. Throughout this MD&A, management uses the following terms and ratios which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other organizations:

Gross yield is defined as total revenues before derecognition divided by the average loan portfolio outstanding after adjusting for loans classified as assets acquired from loans. While gross yield is sensitive to non-recurring fees earned (for example, as a result of early repayment), the Corporation has included this information as it believes the information to be instructive and enable readers to see, at a glance, trends in the yield of the loan portfolio.

Gross loans receivable is defined as the sum of (i) the aggregate amount of loans receivable on the relevant date, (ii) the loan loss allowance on such date, (iii) the book value of assets acquired from loans as they appear on the balance sheet, and (iv) discounts on loan acquisitions. The following is a reconciliation of gross loans receivable to the Statement of Financial Position and a summary of gross loans receivable as at December 31, 2015 and December 31, 2014 and updated amounts as at March 29, 2016.

($ 000s)	After Derecognition March 29, 2016	After Derecognition December 31, 2015	Before Derecognition March 29, 2016	Before Derecognition December 31, 2015	December 31, 2014
Loan facilities	**$ 1,215,387**	**$ 1,352,653**	**$ 1,508,032**	**$1,645,298**	$1,028,989
Gross loans receivable	**1,027,506**	**1,103,766**	**1,143,149**	**1,220,715**	830,505
Less: Discounted facilities	**(9,793)**	**(9,793)**	**(9,793)**	**(9,793)**	(9,793)
Less: Provision for loan losses	**(43,307)**	**(43,307)**	**(44,613)**	**(44,613)**	(29,139)
Less: Provision for assets acquired from loans	**-**	**(13,169)**	**-**	**(13,169)**	-
Less: Assets acquired from loans	**(35,580)**	**(102,367)**	**(35,580)**	**(102,367)**	-
Net loans receivable	**$ 938,826**	**$ 935,130**	**$ 1,053,163**	**$1,050,773**	$ 791,573

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

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

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

Provision for loan losses/assets acquired from loans ratio is defined as provision for loan losses and assets acquired from loans divided by gross loans receivable.

Operating expense ratio is defined as operating expenses (consisting of salaries and wages, stock options expense, general and administrative expenses, net of Catalyst's share of overhead expenses) divided by average loan portfolio outstanding.

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

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

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 years ended December 31, 2015 and December 31, 2014 and as at December 31, 2015 has been derived from the Company's Financial Statements as at December 31, 2015 that were prepared in accordance with IAS 34. The following information should be read in conjunction with those statements and related notes.

($ 000s)	**2015**	2014
Average loan portfolio outstanding (1)	**$ 1,021,553**	$ 545,749
Gross yield (1)	**18.9%**	20.3%
Gross yield on core product	**19.3%**	20.5%
Gross yield on Callidus Lite	**14.2%**	12.3%
Income Statement Data (After Derecognition):		
Total revenue	**$ 171,306**	$ 99,046
Operating expenses (2)	**(20,593)**	(12,651)
Provision for loan losses	**(35,653)**	(18,963)
Recovery under the Catalyst guarantee	**11,807**	22,606
Net interest income	**132,433**	70,625
Net interest margin (1)	**13.0%**	12.9%
Provision for loan losses/assets acquired from loans ratio (1)	**4.7%**	3.5%
Operating expense ratio (1)	**2.0%**	2.3%
Net income	**$ 61,952**	$ 41,759
ROE (1)	**12.9%**	10.6%

Balance Sheet & Other Data:

($ 000s)	**December 31, 2015**	December 31, 2014	Change from 2014 $	Change from 2014 %
Total assets	**$ 1,121,798**	$ 883,434	$ 238,364	27%
Gross loans receivable (1)	**1,103,766**	830,505	273,261	33%
Assets acquired from loans	**102,367**	-	102,367	n/a
Revolving credit facility and senior debt	**293,989**	260,063	33,926	13%
Subordinated bridge facility, due to Catalyst	**291,479**	116,010	175,469	151%
Leverage ratio (1)	**50.9%**	38.1%		

(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 overhead expenses.

Highlights

- As at December 31, 2015, gross loans receivable before derecognition was $1,221 million, an increase of $390 million or 47% from December 31, 2014. The increase was due to funding of new loans that closed in the current year as well as funding of existing loans. At December 31, 2015, there were 39 loans and the average loan amount funded was approximately $31 million. This compares with 32 loans and an average loan amount funded of $26 million at December 31, 2014. The gross loans receivable before derecognition has more than doubled since the IPO.

- Gross yield for the current year was 18.9%, a decrease of 1.4% from last year due primarily to lower interest yield. Interest yield was 16.0% for the current year, a decrease of 2.5% from last year due primarily to a greater proportion of Callidus Lite loans in the portfolio in the current year.

- Provision for loan losses/assets acquired from loans of $38.7 million recorded in the statement of income and comprehensive income. Included in this amount is an unusual provision of $22.7 million in the fourth quarter of 2015 as a result of an isolated atypical event experienced by a borrower, Gray Aqua Group Ltd. ("Gray Aqua"). Before this specific provision, the provision for loan losses/assets acquired from loans was $16.0 million, which amounts to an annualized rate of approximately 1.3% on a gross loans receivable balance of $1,221 million.

- For the current year, the average loan portfolio outstanding was $1,022 million, an increase of $476 million or 87% from last year.
- In the current year, the Company substantially realized on two of its watch-list loans in line with its $11.3 million provision. These watch-list loans had a $10.9 million guarantee from The Catalyst Funds which was paid in the current year.
- Before the unusual specific provision discussed above, results for 2015 were net income of $78.6 million, an increase of 88% over 2014; EPS (diluted) of $1.54, an increase of 50%; and ROE of 16.2%, an improvement from 10.6% in 2014.

Results of Operations

Net Income

Condensed Consolidated Statement of Income

($ 000s except per share information)	**2015**	2014
Interest	**$ 158,356**	$ 90,442
Fees and other	**12,950**	8,604
Total revenue	**171,306**	99,046
Salaries and wages	**(9,716)**	(7,376)
Stock options expense	**(4,452)**	(2,479)
Provision for loan losses	**(35,653)**	(18,963)
Recovery under the Catalyst guarantee	**11,807**	22,606
Income from assets acquired from loans	**590**	-
General and administrative	**(8,064)**	(5,040)
Catalyst's share of overhead expenses	**1,639**	2,244
	(43,849)	(9,008)
Interest expense and participation fees to:		
Catalyst Fund Limited Partnerships	**(20,109)**	(18,052)
Senior debt and revolving credit facilities	**(18,764)**	(10,369)
Foreign exchange loss	**(1,692)**	(1,165)
	(40,565)	(29,586)
Income before income taxes	**86,892**	60,452
Income taxes expense	**(24,940)**	(18,693)
Net income	**$ 61,952**	$ 41,759
Earnings per common share (dollars)		
Basic	**$ 1.23**	$ 1.04
Diluted	**$ 1.22**	$ 1.03

2015 vs. 2014

For the current year, interest income increased $68 million or 75% from last year, as a result of (i) a $476 million or 87% increase in the average loan portfolio outstanding to $1,022 million year-over-year, which was partially offset by (ii) a decrease of 2.5% in the interest yield to 16.0% year-over-year due primarily to a greater proportion of Callidus Lite loans in the portfolio in the current year.

For the current year, fee income was $13.0 million, a $4.3 million increase from last year as a result of growth in the loan portfolio.

Provision for Loan Losses

($ 000s)	**2015**	2014
Specific individual loan loss provisions	**$ 38,215**	$ 12,601
Collective allowances	**(2,562)**	6,362
Total	**$ 35,653**	$ 18,963

The Corporation conducts a detailed assessment of the loan portfolio to assess whether there is objective evidence of impairment at the (i) individual loan and (ii) collective portfolio levels. As a result of the Corporation's high degree of interaction with each borrower through regular reporting requirements, which include submission of daily sales and cash receipts information, weekly borrowing base calculations and quarterly field examinations, management believes that it is able to assess for impairment on a timely basis and put in place the appropriate measures to mitigate and limit loan losses.

The provision for loan losses for the year was $35.7 million. Included in this amount is an unusual provision of $22.7 million in the fourth quarter of 2015 as a result of an isolated atypical event experienced by a borrower, Gray Aqua. Before this specific provision, the provision for loan losses was $13.0 million for the year.

The assessment of impairment and determination of the loan loss provision requires judgment and consequently, there is measurement uncertainty and actual results may differ from estimates. Management considers the provision for loan losses to be adequate.

Selected Quarterly Information

($ 000s)	**Q4-2015**	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014	Q2-2014	Q1-2014
Average loan portfolio outstanding [1]	**$ 1,192,994**	$ 1,101,675	$ 928,172	$ 864,324	$ 718,562	$ 608,925	$ 501,849	$ 405,251
Gross yield [1]	**19.1%**	19.7%	18.8%	17.9%	18.6%	20.0%	20.8%	20.4%
Total revenue	**$ 48,467**	$ 48,419	$ 39,329	$ 35,091	$ 29,194	$ 26,182	$ 22,974	$ 20,696
Operating expenses [2]	**(5,877)**	(4,688)	(5,142)	(4,886)	(4,102)	(2,776)	(3,024)	(2,754)
Provision for loan losses	**(25,396)**	(7,457)	(3,215)	415	(11,638)	(2,934)	(2,291)	(2,095)
Recovery under the Catalyst guarantee	**6,055**	3,328	3,018	(594)	22,606	-	-	-
Net interest income	**36,734**	37,747	30,827	27,125	24,816	23,453	16,418	5,623
Net interest margin [1]	**12.2%**	13.6%	13.5%	12.7%	13.8%	15.3%	13.3%	note 3
Provision for loan losses/assets acquired from loans ratio [1]	**4.7%**	2.6%	3.1%	3.2%	3.5%	2.7%	2.3%	2.9%
Operating expense ratio [1]	**0.5%**	0.4%	0.6%	0.6%	0.6%	0.5%	0.6%	0.7%
Net income	**$ 7,648**	$ 19,925	$ 18,390	$ 15,989	$ 21,019	$ 13,246	$ 7,646	$ (152)
ROE [1]	**6.2%**	16.1%	15.2%	13.6%	19.5%	13.6%	8.1%	note 3
Leverage ratio [1]	**50.9%**	52.8%	49.0%	40.3%	38.1%	24.6%	13.3%	note 3

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

Q4-2015 vs. Q3-2015

- For the current quarter, the average loan portfolio outstanding was $1,193 million, an increase of $91 million or 8% from the prior quarter due primarily to funding of existing loans and the addition of one new loan partially offset by the repayments of two loans.
- Gross yield for the quarter was 19.1%, a decrease of 0.6% from the prior quarter due primarily to the recognition of a non-recurring fee and of an early prepayment fee totalling $1.6 million in the prior quarter.
- Provision for loan losses for the quarter increased $17.9 million from the prior quarter. The increase in the provision in the current quarter was primarily due to an unusual provision of $22.7 million as a result of an isolated atypical event experienced by a borrower, Gray Aqua. Before this specific provision, the provision for loan losses was $2.7 million for the current quarter.
- Net interest margin for the quarter was 12.2%, compared to 13.6% in the prior quarter primarily due to lower gross yields and higher interest expenses.

Q4-2015 vs. Q4-2014

- For the current quarter, the average loan portfolio outstanding was $1,193 million, an increase of $474 million or 66% from the same quarter last year due primarily to funding of existing loans as well as funding of new loans that closed in the current year.
- Gross yield for the quarter was 19.1%, an increase of 0.5% from the same quarter last year due primarily to higher rates charged on certain loans.
- Provision for loan losses for the quarter increased $13.8 million from the same quarter last year. The increase in the provision in the current quarter was primarily due to an unusual provision of $22.7 million in the fourth quarter of 2015 as a result of an isolated atypical event experienced by a borrower, Gray Aqua.
- Net interest margin for the quarter was 12.2%, compared to 13.8% in the same quarter last year primarily due to higher interest expenses.

The tables below provide a summary of the impact of derecognition on the Company's fourth quarter consolidated statement of income.

Statement of Income	Consolidated	Effect of Derecognition	**Q4-2015 After Derecognition**
Interest	$ 48,823	$ (3,212)	**$ 45,611**
Fees and other	3,275	(419)	**2,856**
	52,098	(3,631)	**48,467**
Catalyst Fund Limited Partnerships	(7,363)	531	**(6,832)**
Senior debt and revolving credit facilities	(5,283)	381	**(4,902)**
	(12,646)	912	**(11,734)**
Net interest income	39,452	(2,719)	**36,733**
Provision for loan losses	(26,702)	1,306	**(25,396)**
Recovery under the Catalyst guarantee	6,795	(740)	**6,055**
Foreign exchange loss	(1,398)	101	**(1,297)**
Income from assets acquired from loans	590	-	**590**
Catalyst's share of overhead expenses	-	928	**928**
	(20,715)	1,595	**(19,120)**
Salaries and wages	(2,979)	-	**(2,979)**
Stock options expense	(1,114)	-	**(1,114)**
General and administrative	(2,712)	-	**(2,712)**
	(6,805)	-	**(6,805)**
Income before income taxes	11,932	(1,124)	**10,808**
Current income taxes (expense) recovery	(8,927)	-	**(8,927)**
Deferred income taxes (expense) recovery	5,766	-	**5,766**
	(3,161)	-	**(3,161)**
Net income	$ 8,771	$ (1,124)	**$ 7,647**
Earnings per common share (dollars)			
Basic			**$ 0.15**
Diluted			**$ 0.15**

Catalyst Guarantee

In connection with the repayment of the Catalyst debenture at the time of the Offering, the Catalyst Funds agreed to guarantee any losses incurred by the Company on 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 are renewed by the Company at their next scheduled credit review.

In December 2014, the Company acquired all of the Funds' participation interest in the loan portfolio at par plus accrued interest and fees. The participation agreement also provided that in the event that the Company purchased Catalyst Fund IV's participation interest, 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 Company normally requires that its borrowers agree to a cash sweep arrangement so that their cash will be subject to the Company's control. The Company and Catalyst have agreed that the Company will operate the cash sweep so that the first application of a borrower's cash will be to currently due accrued and unpaid interest and fees and secondly to principal and any other amounts due. These cash sweep arrangements are intended to minimize losses in relation to interest and fees.

As of December 31, 2015, the amount of accrued and unpaid interest and fees included in the gross loans receivable balance that is not covered by the Catalyst guarantee was $44.7 million.

At December 31, 2015 (Before Derecognition)	($ 000s)	%
Guarantee Coverage of Gross Loans Receivable		
Portion of gross loans receivable covered by a guarantee:		
Watch-list loans	**$ 225,397**	**18%**
Non-watch-list loans	**101,632**	**8%**
Portion of gross loans receivable not covered by a guarantee:		
Watch-list loans	**232,974**	**19%**
Non-watchlist loans	**660,712**	**55%**
Total gross loans receivable	**$ 1,220,715**	**100%**
Guarantee Coverage of Provisions		
Provision for loan losses/assets acquired from loans covered by a guarantee:		
Watch-list loans	**$ 22,181**	**38%**
Non-watch-list loans	**-**	**0%**
Provision for loan losses/assets acquired from loans not covered by a guarantee:		
Watch-list loans	**31,801**	**55%**
Non-watchlist loans	**3,800**	**7%**
Total provision for loan losses/assets acquired from loans	**$ 57,782**	**100%**

For the current year, the Company recognized a recovery of $11.8 million related to the Catalyst guarantee due to the recognition of specific loan loss provisions in the current year. For the current year, the Company recognized a recovery of $11.3 million on a loan classified as assets held for sale. This amount is included in the loss from assets held for sale in the Consolidated Statement of Comprehensive Income.

In the current year, the Company substantially realized on two of its watch-list loans in line with its $11.3 million provision. These watch-list loans had a $10.9 million guarantee from The Catalyst Funds which was paid in the current year.

Approximately $225 million or 18% of the gross loans receivable at December 31, 2015 is covered until those loans are fully realized.

Operating and Other Expenses

($ 000s)	**2015**	2014
Salaries and wages	**$ 9,716**	$ 7,376
Stock options expense	**4,452**	2,479
General and administrative	**8,064**	5,040
Foreign exchange loss	**1,692**	1,165
Catalyst's share of overhead expenses	**(1,639)**	(2,244)
Total	**$ 22,285**	$ 13,816

Salaries and Wages and Stock Options Expense

Salaries and wages for the year increased $2.3 million from last year, primarily as a result of a number of net new hires in anticipation of and to accommodate growth in the loan portfolio. Stock options expense increased $2.0 million from last year. IFRS requires recognizing option expense under the graded vesting approach, which gives rise to an accelerated compensation expense.

Foreign Exchange Gain/Loss

Certain of the Corporation's 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.

Refer to note 15 in the Financial Statements for further information.

Income Taxes

The Corporation recognized a $14 million deferred tax asset as at December 31, 2015 (December 31, 2014 – deferred tax asset of $7 million).

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

Financial Position

Condensed Consolidated Statements of Financial Position

			Change from 2014	
($ 000s)	**December 31, 2015**	December 31, 2014	$	%
Cash and cash equivalents	**$ 25,210**	$ 59,636	$ (34,426)	-58%
Deferred tax asset	**13,903**	7,498	6,405	85%
Assets acquired from loans	**102,367**	-	102,367	n/a
Loans receivable	**935,130**	791,573	143,557	18%
Guarantee asset	**34,755**	22,606	12,149	54%
Other assets	**10,433**	2,121	8,312	392%
Total	**$1,121,798**	$ 883,434	$ 238,364	27%
Accounts payable and accrued liabilities	**$ 19,208**	$ 12,915	$ 6,293	49%
Income taxes payable	**15,413**	19,961	(4,548)	-23%
Deferred facility fees and other	**10,238**	6,655	3,583	54%
Revolving credit facility and senior debt	**293,989**	260,063	33,926	13%
Subordinated bridge facility, due to Catalyst	**291,479**	116,010	175,469	151%
Shareholders' equity	**491,471**	467,830	23,641	5%
Total	**$1,121,798**	$ 883,434	$ 238,364	27%

Total assets at December 31, 2015 were $1,122 million, an increase of $238 million, or 27%, from December 31, 2014. The increase in total assets was attributable primarily to an increase in loans receivable, a portion of which was reclassified to assets acquired from loans. In January 2015, one of the Company's borrowers emerged from formal restructuring proceedings in Canada and the U.S. as a going concern. As a result and under the terms of its secured creditor agreement, the Company gained control of the business of the borrower and has presented the net assets and liabilities of the business as assets acquired from loans. In November 2015, one of the Company's borrowers emerged from formal restructuring proceedings in the U.S. as a going concern. As a result and under the terms of its secured creditor agreement, the Company gained control of the operating assets of the borrower and has presented the net assets and liabilities of these operating assets as businesses acquired.

Current Loan Portfolio (Before Derecognition)

	Number of Loans		($ 000s)	
Gross Loans Receivable Continuity	**2015**	2014	**2015**	2014
Balance, beginning of period	**32**	19	**$ 830,505**	$ 381,302
Originations	**11**	17	**255,298**	361,085
Full repayments	**(4)**	(4)	**(57,792)**	(37,138)
Net funding	**-**	-	**192,704**	125,256
Balance, end of period	**39**	32	**$ 1,220,715**	$ 830,505

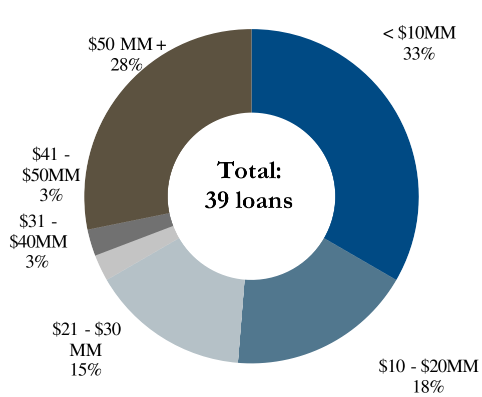
As of December 31, 2015, the loan portfolio consisted of 39 loans with an aggregate gross loans receivable amount outstanding of $1,221 million. This compares with 32 loans and $831 million outstanding as of December 31, 2014. As of December 31, 2015, the largest loan facility was $275 million (of which 28% was drawn) and the smallest loan facility was $1 million.

As of December 31, 2015, the loan portfolio was distributed 58% in Canada and 42% in the U.S. by dollar amount funded.

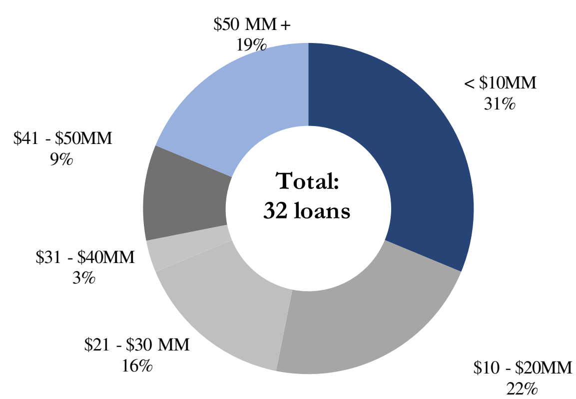
As at December 31, 2015, the estimated collateral value coverage across aggregate net loans receivable was approximately 172% with a range between 100% and 525% on an individual loan basis. Furthermore, the aggregate watchlist loans had an estimated aggregate collateral value coverage of 104% and non-watchlist loans had an estimated collateral value coverage of 209%. It should be noted that there is no cross-collateralization of the asset coverage as between borrowers.

Loan Portfolio by Amount Funded

December 31, 2015



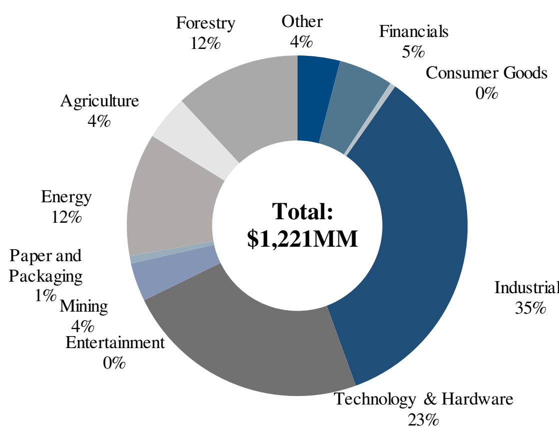
December 31, 2014



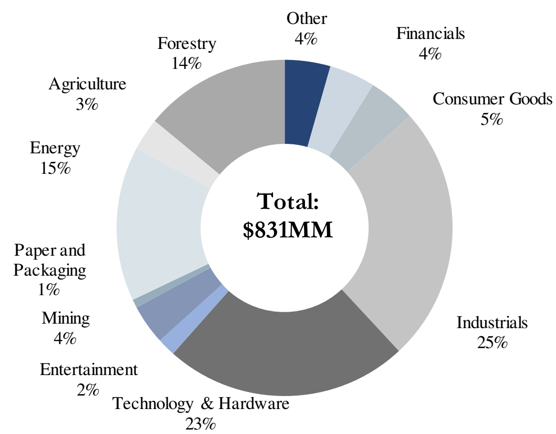
The average amount funded per loan increased to $31 million as at December 31, 2015 from $26 million as at December 31, 2014. The distribution of loans greater than $20 million decreased from 47% at December 31, 2014 to 41% at December 31, 2015 and the distribution of loans exceeding $50 million decreased from 19% at December 31, 2014 to 18% at December 31, 2015.

Gross Loans Receivable by Borrower Sector

December 31, 2015



December 31, 2014



The Corporation's loans are diversified across a variety of industries, with the industrials industry and the technology and hardware industry comprising the largest segments. The largest loan in the "technology and hardware" industry is to a company whose loan is secured primarily by accounts receivable and inventory. Callidus will often target sectors that are experiencing a downturn as such borrowers may be under financial pressure and may be unable to access capital from traditional lenders.

In connection with managing and monitoring its loan portfolio, Callidus establishes what it calls a "**watch-list**", borrowers with a deteriorating financial condition or that otherwise meet certain credit and/or operational criteria warranting closer monitoring and supervision. Callidus takes a proactive approach to ensuring compliance with loan terms and obligations, in turn while allowing the Company to thereafter better manage the risk of default and/or loss for watch-list accounts. As of December 31, 2015, there were 16 loans that were on the Company's watch-list and these loans represented 38% of gross loans receivable. As of December 31, 2015, of these 16 loans, a total specific loan loss and asset acquired from loans provision of $54.0 million had been taken, and a corresponding $22.2 million asset related to the Catalyst guarantee was recorded. As at December 31, 2015, the collective allowance was $3.8 million. The collective allowance has decreased by $2.6 million during the current year as the growth in loan receivables has been offset by improving credit quality in the collective pool.

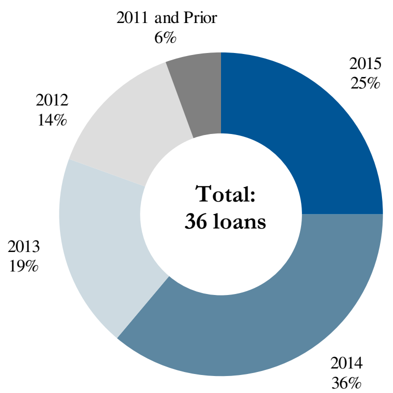
It is not uncommon for Callidus to deal with borrowers undertaking some form of financial restructuring given the nature of its business. As the Company operates primarily in the distressed lending sector, a formal or informal restructuring process offers an efficient tool to protect the collateral, often at higher yields than what would otherwise be available. Callidus uses a variety of techniques to mitigate potentially challenging situations, ranging from a cooperatively managed out of court liquidation to a full court process in order to minimize any risk of loss. The Company's association with Catalyst, the performance leader in the Canadian distressed private equity sector and one of the best in the world, provides immense value. As of December 31, 2015, there were 8 of 39 loans that were going through a formal restructuring process representing 21% of gross loans receivable. As of December 31, 2015, for these 8 loans, a total loan loss provision of $32.7 million had been taken (part of the $54.0 million loan loss provision referred to above) and a corresponding $5.4 million asset (part of the $22.2 million asset referred to above) related to the Catalyst guarantee was recorded.

Since 2006, Callidus has advanced 101 loans representing total credit facilities of $2.2 billion of which 65 loans have been fully repaid or realized. Of the 65 loans, 4 resulted in an aggregate loss of $17 million. In addition, of the 65 loans, 5 went through a form of restructuring and were fully repaid. The balance of the 56 loans were fully repaid in the normal course. As at March 29, 2016, 36 loans are outstanding representing total credit facilities of approximately $1.5 billion. As at March 29, 2016, 8 loans are going through a form of restructuring.

As of December 31, 2015, the portfolio included 3 companies directly or indirectly involved in the oil and gas industry, representing 11% of gross loans receivable. As of December 31, 2015, for these loans, a total loan loss provision of $1.1 million had been taken (part of the $54.0 million loan loss provision referred to above) and a corresponding $1.1 million asset (part of the $22.2 million asset referred to above) related to the Catalyst guarantee was recorded.

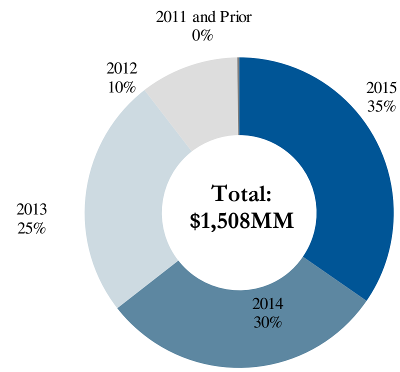
Number of Existing Loans by Year of Origination

March 29, 2016



Total Existing Credit Facilities by Year of Origination

March 29, 2016



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

As we manage our risk and look to increase our yield on certain loans, we are in the process of finalizing agreements which will provide upside potential with no fundamental change in risk to Callidus by, for example, providing us with options to be granted equity interests or equity-linked interests in certain borrowers under certain defined circumstances. We are currently in the process of finalizing a number of such arrangements and expect these agreements to be finalized in the second quarter and disclosed therewith. Specifically, we intend to create a table showing the nature of each such arrangement and the potential value/incremental yield represented by such in the aggregate. To the extent our equity or equity-linked interests may exert control we will consolidate or the underlying entity and disclose its ongoing fair value in addition to that which was to be received on the loan-only prior to such arrangement. Where our equity interest doesn't result in control or significant influence, we will fair value the equity option and record it in our financial statements.

Impaired Loans Receivable

Callidus engages in a high degree of monitoring of the collateral securing the loan portfolio and regular interaction with its borrowers. The Corporation's experienced team of finance professionals actively monitors each loan on a daily, weekly or monthly basis, as appropriate depending on the risks. Callidus' extensive system of collateral monitoring and management contact mitigates risk by acting as an early warning system of potential credit issues. However, there are instances where loans may not perform as originally underwritten. Management assesses each loan to determine whether an indication of impairment exists. In determining collateral values, the Company engages a variety of independent third parties such as appraisal firms, lawyers and other valuation specialists in addition to quarterly field examinations that are performed.

The loan loss provision is calculated as the difference between (i) the carrying value of the loan and (ii) the present value of estimated net proceeds on disposal using the interest rate of the loan as the discount rate. The extent of estimates and judgment applied in determining a loan's impaired value leads to significant measurement uncertainty, and the ultimate value realized from such security may be materially different than that estimated by management. Additionally, monetizing certain impaired loans or their underlying security may not occur on a timely basis, given the nature of the security or its location.

The Company also considers evidence of impairment for loans at the collective level. The collective allowance is calculated by using the probability of default ("PD"), loss given default ("LGD"), and exposure at default factors, which are determined with reference to (1) historical default experience, (2) the Company'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 qualitative component is also applied to account for external factors not captured in the historical results. As the Company grows, we continue to refine our methodology for the collective allowance.

Off Balance Sheet Arrangements

The Corporation has no off balance sheet arrangements, except for undrawn loan commitments of $24 million based on borrowing base availability.

Changes to Underwriting Process

As a result of the disappointing and unexpected $22.7 million provision in the fourth quarter related to the anticipated loss on Gray Aqua, and as part of its continuous improvement plan, the Company has implemented several enhancements to its underwriting process to improve credit quality and augment gross yield and overall return:

1. We have implemented a policy whereby Callidus will receive increased compensation, which may include equity linked compensation, for waivers, extensions, amendments, etc. to more appropriately compensate the Company in these circumstances and to eliminate an incentive for borrowers to seek and exploit a free option at the expense of Callidus shareholders. As a result of this change we expect gross yield, ROE, and returns will improve further, especially in situations where Callidus is essentially replacing a portion of what was equity.
2. We have now put in place controls such that we will not make loans based on collateral that has either a long or uncertain period before liquidity, or that is based on commodity prices that cannot be hedged, or on commodity-like or commodity-linked risk.
3. We have strengthened the detail and timeliness of underwriting reporting, and the Credit Committee's requirement for supporting data.
4. We have renewed the organization's focus primarily on working capital financing as opposed to term financing, with term financing to be the smaller percentage of total financing.
5. We have instituted enhanced measures for compliance monitoring and the detection of improprieties.
6. We have reduced employee compensation for those involved in transactions that result in a provision or loan loss where proper procedures were not respected, including the Gray Aqua loan and its $22.7 million provision in the fourth quarter. Members of the Credit Committee have provided hundreds of thousands of dollars in personal indemnities and contributions in connection with these expected loan losses, notwithstanding that the compensation for two of the three Credit Committee members is $1 per year.

Liquidity and Capital Resources

The Corporation's primary sources of short-term liquidity are cash and cash equivalents and undrawn credit facilities. As at December 31, 2015, proforma for the asset held for sale transaction subsequent to year-end and for the substantial issuer bid, total liquidity was $240 million (December 31, 2014 - $180 million), consisting of $25 million of cash and cash equivalents (December 31, 2014 - $60 million), and $164 million (December 31, 2014 - $120 million) in undrawn credit facilities subject to borrowing base availability. Assuming a participation rate for Catalyst Fund V of 75%, a leverage ratio of 50% and continued usual increases in our senior debt facilities, total liquidity as at December 31, 2015 would be able to support approximately $1 billion of new loans.

The Company continues to explore financing sources including but not limited to both the private and public capital markets to ensure adequate and diversified funding sources. These sources include seeking increased availability from Callidus' existing lenders and from Catalyst Funds.

In December 2014, the Company obtained a US$200 million unsecured subordinated bridge facility extended by Catalyst. In September 2015, the Company increased the amount of its revolving unsecured subordinated bridge facility from Catalyst by US$50 million to US$250 million. All other terms remain substantially unchanged.

In January 2015, the Company increased the amount of its Revolving Credit Facility by US$62.5 million to US$262.5 million in the aggregate. In April 2015, the Company increased the amount of the Revolving Credit Facility by US$37.5 million to US$300 million in the aggregate. Availability under our Revolving Credit Facility increases as new loans are funded and subsequently added to the borrowing base, subject to lender approval.

In April 2015, Catalyst announced the first closing of its most recent fund, Catalyst Fund Limited Partnership V ("**Catalyst Fund V**"), with US$650 million of capital commitments. As of December 31, 2015, Catalyst Fund V has reached its "hard cap" of US$1.5 billion of which $300 million could be used to acquire loan participation interests.

In addition, the Company has engaged a credit rating agency as the Company looks to add new sources of funding to support future growth.

Total credit facilities issued by the Corporation and available to borrowers at December 31, 2015 were $1,645 million (December 31, 2014 - $1,029 million).

The Corporation's primary liquidity needs include: funding of new and existing loans, debt service and principal repayment obligations, payments related to financial instruments, specifically foreign currency contracts, and ongoing operating costs. The Corporation's contractual obligations are summarized in the "Summary of Contractual Obligations" section.

As discussed further in "Exposures to Selected Financial Instruments", the Corporation enters into financial instruments, specifically foreign currency contracts that require it to make payments based on the value of the contracts, either as collateral or to settle the contracts. The Corporation monitors potential liquidity requirements to ensure that they can be readily funded by its sources of short-term liquidity.

The Corporation considers its current and contemplated sources of liquidity sufficient to meet requirements for the purposes of short-term and long-term operations and growth.

Financing Strategy

One of the primary objectives of Callidus' financing strategy is to achieve an efficient cost of capital on a risk-adjusted basis for its shareholders. A key element to Callidus' capital strategy going forward is to limit borrowings to levels that would be considered high investment-grade (based on discussions with rating agencies if necessary), which management believes is between 50% and 60% of the loan portfolio. This provides the Corporation with the flexibility required to fund ongoing operations, limit financial covenants and performance requirements and reduce risk of early payment requirements under the Credit Facilities.

To date, the Corporation has advanced its financing strategy on a measured and deliberate basis. As the business has grown, the Corporation has added additional external financing sources. Callidus continues to explore financing sources including both the private and public capital markets to ensure adequate and diversified funding sources.

Capitalization

Since the Corporation was purchased by the Catalyst Funds in 2007, the Catalyst Funds had been the principal sources of liquidity and capital resources. The Catalyst Capital Group Inc. ("**CCGI**") provided funding through the Catalyst Funds by way of a participating secured debenture dated as of July 1, 2012, issued by Callidus in favour of Catalyst Fund III and Catalyst Fund IV (the "**Participating Debenture**"). The Participating Debenture was secured by a subordinated security interest in the Corporation's assets. In addition, Callidus was party to a credit agreement, which provided for a $50 million senior secured non-revolving term loan, a $40 million revolving facility and a $7.5 million facility for the establishment of foreign exchange forward contracts.

In connection with the Offering that closed on April 23, 2014, the outstanding principal balances of the Participating Debenture and $40 million revolving facility were fully repaid.

In December 2014, the Company obtained a US$200 million revolving unsecured subordinated bridge facility from Catalyst. The facility carries an interest rate of 8% per annum plus an annual fee equal to 1.5% of the maximum amount available under the facility and a standby fee equal to 1% per annum of undrawn amounts. The facility matures on April 24, 2017 and is pre-payable by the Company at any time without penalty. In September 2015, the Company increased the amount of its revolving unsecured subordinated bridge facility from Catalyst by US$50 million to US$250 million. All other terms remain substantially unchanged.

Financial Covenants, Restrictions and Events of Default

The US$300 million revolving credit facility contains certain requirements and restrictions, such as excess concentration limits, collateral quality tests, and other such requirements and restrictions as are customary with similar financings, with which the Corporation must comply in order to maintain access to the credit facilities and avoid default. The revolving credit facility is subject to a borrowing base calculation dependent upon the aggregate principal amount owing in respect of the loans in the loan portfolio. As at December 31, 2015, $300 million was outstanding under the revolving facility and $115 million remained available subject to borrowing base availability.

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

Cash Flow Summary

($ 000s)	**2015**	2014
Operating activities	**$(207,820)**	$(382,543)
Financing activities	**173,394**	404,165
(Decrease) increase in cash and cash equivalents	**$ (34,426)**	$ 21,622

Operating Activities
Cash flow from operating activities consists of net income, plus non-cash items such as amortization of transaction fees, employee stock option expense and provision for credit losses and includes funding/repayment of loans.

Cash flow from operating activities represented an outflow of $208 million in the current year. The movement in cash flow from operating activities was attributable primarily to amounts advanced as part of ongoing lending activities, representing an outflow of $179 million in the current year.

Financing Activities
During the current year, financing activities generated $173 million of cash inflow, attributable to the draws made on the Catalyst subordinated bridge facility and on the Company's revolving credit facility. This compares to $404 million in the same period last year, which was attributable to cash proceeds on the public offering and drawings under the revolving credit facility partially offset by net repayments under the Participating Debenture.

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

For the Years Ended December 31 ($ 000s)	2016	2017	2018	2019	2020 & Thereafter	**Total**
Accounts payable and accrued liabilities	$ 19,208	$ -	$ -	$ -	$ -	**$ 19,208**
Income and other taxes payable	15,413	-	-	-	-	**15,413**
Borrower deposits	142	-	-	-	-	**142**
Revolving credit facilities	-	-	-	248,710	-	**248,710**
Subordinated bridge facility	-	291,479	-	-	-	**291,479**
Senior debt	-	45,279	-	-	-	**45,279**
Total	$ 34,763	$ 336,758	$ -	$ 248,710	$ -	**$ 620,231**

Related Party Transactions
CCGI and funds managed by them (collectively "**Catalyst**") own approximately 62.4% of the issued and outstanding shares of the Company.

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

In December 2014, the Company obtained a US$200 million revolving unsecured subordinated bridge facility from Catalyst. The facility carries an interest rate of 8% per annum plus an annual fee equal to 1.5% of the maximum amount available under the facility and a standby fee equal to 1% per annum of undrawn amounts. The facility matures on April 24, 2017 and is pre-payable by the Company at any time without penalty. In September 2015, the Company increased the amount of its revolving unsecured subordinated bridge facility from Catalyst by US$50 million to US$250 million. All other terms remain substantially unchanged.

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

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

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

In accordance with the terms of the participation agreement, entered into in connection with Callidus' initial public offering, Catalyst Fund V began to participate in the funding of new loans originated by Callidus. This provides Callidus with access to additional funds to fund the expansion of our loan portfolio. As at December 31, 2015, approximately $116 million of loans were derecognized.

During the current year, 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. In the current year, 473,773 shares were granted to those who elected to participate in the DRIP. Catalyst elected to participate in the DRIP on 100% of their shareholdings of the Company and, therefore, received 469,529 shares in consideration of the dividend.

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 2017.

In March 2016, the Company required payment by the Catalyst Funds of a guarantee with respect to one of the Company's loan assets in an amount equal to the total outstanding principal plus accrued and unpaid interest of $101.3 million. The Catalyst Funds acquired the loan in question for an amount equal to the guarantee and are now the owners of the business and are actively restructuring it. The Company primarily used the proceeds from the guarantees to repay a portion of the balance outstanding under the subordinated bridge facility.

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 December 31, 2015, the Corporation had outstanding obligations to sell an aggregate US $135 million at an average rate of CAD1.3926 per USD maturing January 21, 2016 through foreign exchange forward contracts. All foreign currency gains or losses to December 31, 2015 have been recognized as other income in net income (loss) for the period and the fair value of these instruments at December 31, 2015 was a net asset of $1.3 million (December 31, 2014 – a net asset of $0.5 million) which is recognized on the Consolidated Statements of Financial Position. A net loss of $42.9 million was recognized on contracts which were settled in the current year (2014 – a net loss of $10.6 million), which was included as part of other income in net income for the year.

Critical Accounting Estimates

The Corporation's accounting policies are integral to understanding and interpreting the financial results reported. Note 3 to the Financial Statements summarizes the significant accounting policies used in preparing the Financial Statements. Certain of these policies require management to make estimates and subjective judgments that are difficult, complex, and often relate to matters that are inherently uncertain. The policies discussed below are considered to be particularly important to the presentation of the Corporation's financial position and results of operations, because changes in the judgments and estimates could have a material impact on the Financial Statements. These estimates are adjusted in the normal course of business to reflect changing underlying circumstances. Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements include the allowance for loan losses, the Corporation's assessment of consolidation of certain of its borrowers and income taxes.

Allowance for Loan Losses
Collectability is regularly evaluated by assessing the realizable values of the assets securing the loans and viability of the underlying business. At each reporting date, the Corporation assesses whether there is objective evidence that loan receivables are impaired. A loan is impaired when objective evidence demonstrates that a loss event has occurred and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Corporation on terms that the Corporation would not consider otherwise; and
- indications that a borrower or issuer will enter bankruptcy.

The Corporation considers evidence of impairment for loans at both a specific loan and a collective level. All individually significant loans are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified, where the loans have similar risk characteristics. Impairment losses are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Management estimates allowances on a collective basis for exposures in loans not specifically assessed. This collective assessment is determined in respect of probable incurred losses that are inherent in the portfolio of performing loans but have not yet been specifically identified on an individual basis. Management establishes this allowance on a collective basis through an assessment of quantitative and qualitative factors. Using an internally developed model, management arrives at an initial quantitative estimate of the collective allowance for the performing portfolio based on numerous factors, including historical average default probabilities, loss given default rates and exposure at default factors. Information on the Corporation's loan losses can be found in note 6 to the Financial Statements.

Consolidation
The Corporation consolidates any entities which it controls. Control is established when the Corporation has the power over the entity, exposure or rights to variable returns from its involvement, and the ability to exercise power to affect the amount of returns. The Corporation assesses individual loans for control at each reporting date. Under IFRS, there is significant judgment required in the assessment of control of an underlying borrower.

When the Corporation concludes that consolidation is required, the Corporation classifies the loan as assets acquired from loans as the intention is not to operate the acquired entity on an ongoing basis. In January 2015, one of the Company's borrowers emerged from formal restructuring proceedings in Canada and the U.S. as a going concern. As a result and under the terms of its secured creditor agreement, the Company gained control of the business of the borrower and has presented the net assets and liabilities of the business as assets held for sale. In November 2015, one of the Company's borrowers emerged from formal restructuring proceedings in the U.S. as a going concern. As a result and under the terms of its secured creditor agreement, the Company gained control of the operating assets of the borrower and has presented the net assets and liabilities of these operating assets as businesses acquired. These loans were classified as assets acquired from loans in the Statement of Financial Position and were recorded at the lower of (i) carrying value and (ii) fair value less cost to sell.

Income Taxes
The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Corporation's consolidated statements of comprehensive income. In determining the provision for income taxes, the Corporation interprets tax legislation and makes assumptions about the expected timing of the reversal of the deferred tax asset. If the Corporation's interpretations differ from those of the tax authorities or if the timing of

reversals is not as expected, the Corporation's provision for income taxes could increase or decrease in future periods. The amount of any such increase or decrease cannot be reasonably estimated. Information on the Corporation's income taxes can be found in note 11 to the Financial Statements.

Standards Issued But Not Effective
The Corporation actively monitors developments and changes in standards from the International Accounting Standards Board ("**IASB**"). The IASB issued a number of new or revised standards. The Company is currently assessing the impact the adoption of these standards will have on its consolidated financial statements. Refer to note 4 to the Financial Statements.

Risk Factors
Callidus operates in a dynamic environment that involves various risks, many of which are beyond Callidus' control and which could have an effect on Callidus' business, revenues, operating results and financial condition. See ''Risk Factors''.

Disclosure of Outstanding Share Data
As at December 31, 2015, there were 49,354,355 common shares outstanding and 2,594,676 options outstanding, each option being exercisable into common shares on a 1:1 basis.

In May 2015, the Company announced that the Toronto Stock Exchange ("**TSX**"), had accepted the Corporation's notice of intention to undertake a normal course issuer bid. Under the terms of the normal course issuer bid, Callidus may acquire up to 2,561,396 of its common shares, representing 5% of the 51,227,920 common shares comprising Callidus' total issued and outstanding common shares as of May 11, 2015. For the current year ending December 31, 2015, 2,561,396 shares were acquired into treasury and cancelled to complete the normal course issuer bid.

RISK FACTORS

An investment in the Common Shares is highly speculative. An investment is suitable only for those investors who are able to risk a loss of their entire investment. Investors should consult with their own professional advisors to assess the legal, financial and other aspects of an investment in the Common Shares. In addition to the other information contained in this MD&A, prospective investors should carefully consider the following risk factors.

*The risks and uncertainties described herein are not the only risks and uncertainties that Callidus faces. Additional risks and uncertainties of which Callidus is not currently aware or that Callidus currently believes to be immaterial may also materially adversely affect Callidus' business, assets, liabilities, financial condition, results of operations, prospects, cash flows and the value or future trading price of the Common Shares (one or more of the foregoing, a "**Material Adverse Effect**"). The occurrence of any of the possible events and risks described below and elsewhere in this MD&A could have a Material Adverse Effect and prospective investors could lose all or part of their investment in the Common Shares.*

This MD&A also contains forward-looking statements that involve risks and uncertainties. Callidus' actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described below and elsewhere in this MD&A. See "Cautionary Note Regarding Forward-Looking Statements".

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

Foreign Currency Risk
The results of operations and cash flows of Callidus may be affected by changes in the Canadian dollar exchange rate relative to the currencies of other countries. Currently, Callidus' loan portfolio contains exposure to loans denominated in U.S. dollars. Accordingly, a decrease in the value of the U.S. dollar relative to the Canadian dollar may have a negative effect on the financial performance of Callidus. Callidus currently employs economic hedging techniques to minimize currency exchange rate risks. Callidus is unable to offer any assurance that its hedging strategies will successfully reduce the risk they were designed to mitigate. Callidus' use of hedging transactions exposes it to risks associated with such transactions. Hedging against a decline in the values of its portfolio positions

does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. Moreover, it may not be possible to hedge against an exchange rate fluctuation that is so generally anticipated that Callidus is not able to enter into a hedging transaction at an acceptable price.

Callidus makes use of certain derivative instruments, including forward contracts and swaps to facilitate its currency hedging activities. The use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in the underlying securities and other traditional investments. Callidus' use of derivative instruments involves certain inherent risks, including, but not limited to:

- the risk of default on amounts owing to Callidus by the counterparties with which Callidus has entered into such transactions;
- the risk that Callidus has entered into a derivative position that cannot be closed out quickly, by either liquidating such derivative instrument or by establishing an offsetting position; and
- the risk that, in respect of certain derivative products, an adverse change in market prices for currencies or interest 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 revolving credit facility and on its senior debt.

The Company's loans receivable primarily bear a fixed rate of interest as does the Company's senior debt and subordinated bridge facility. Any changes in interest rate indices 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 rate indices. The Company continues to monitor the interest rate gap.

Liquidity Risk
Liquidity risk is the risk that Callidus will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Callidus is dependent upon its ability to secure funding for its loans and to fund its existing obligations. While Callidus actively pursues new sources of funding, there can be no assurance that such additional financing will be obtained. In the past, Callidus has obtained the cash required for its operations through a combination of 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. As at December 31, 2015, proforma for the asset held for sale transaction subsequent to year-end and for the substantial issuer bid, Callidus had liquidity of $240 million (December 31, 2014 - $180 million). Assuming a participation rate for Catalyst Fund V of 75% and a leverage ratio of 50%, total liquidity as at December 31, 2015 would be able to support approximately $1 billion of new loans assuming continued usual increases in our senior debt facilities.

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

Credit Risk
Callidus' business depends on the creditworthiness of its borrowers and their ability to fulfill their obligations to Callidus. Although Callidus intends to originate loans only with borrowers which it believes to be creditworthy, there can be no assurance that borrowers will not default and that Callidus will not sustain a loss on its loans as a result. Callidus will also rely on representations made by borrowers in their loan documentation. However, there can be no assurance that such representations will be accurate or that Callidus will have any recourse against the borrower in the event a representation proves to be untrue. See also "Risk Factors – Risks Relating to Callidus' Operations – Fraud by a Borrower".

Risks Relating to Callidus' Operations

Performance of the Loan Portfolio

Callidus maintains a loan portfolio of $1,143 million before derecognition as at March 29, 2016. The past performance of Callidus has been based on a comparable loan portfolio of a smaller size. For example, as at December 31, 2011, the size of Callidus' loan portfolio was approximately $154 million. There can be no assurance that the same types of earnings can be made on the current loan portfolio or additional loans.

Reliance on Certain Individuals and the Management Services Agreement

The success of Callidus will depend in large part upon the skill and expertise of Messrs. Glassman, Reese and Riley and other Callidus professionals referred to under "Executive Officers and Directors". There is no assurance that all of Callidus' current management team, including Messrs. Glassman, Reese and Riley, will continue to be employed by or available to the Corporation. There can also be no assurance that Callidus' asset-based lending strategy will continue to be successful in the absence of any one or all of Messrs. Glassman, Reese or Riley, or that Callidus will be able to attract and retain suitable candidates to replace these individuals.

In addition, in the event that the Management Services Agreement is terminated, the Corporation will be required to establish replacement arrangements for certain of its management and related resources. There can be no assurance that replacement arrangements will be available on terms and conditions similar to or as favourable as those currently in place with CCGI, or at all. Further, any such arrangements will result in significantly increased fees, costs and expenses to the Corporation which, in turn, may have an adverse impact on the Corporation and its business, operations and financial condition. The failure of CCGI to perform its obligations pursuant to and in accordance with the Management Services Agreement or the termination of the Management Services Agreement could have a Material Adverse Effect on the Corporation.

Fraud by a Borrower

While Callidus makes every effort to verify the accuracy of information provided to it when making a decision on whether to underwrite a loan, and has implemented systems and controls to assist in protecting itself against fraud, a borrower may fraudulently misrepresent information relating its financial health, operations or compliance with the terms under which Callidus has advanced funds. In cases of fraud, it is difficult and often unlikely that Callidus will be able to collect amounts owing under loan or realize on collateral, which could have a Material Adverse Effect on the Corporation.

Changes in Market and General Economic Conditions

A weak economy could impact the quality of the loans available to Callidus. Adverse economic conditions also may decrease the estimated value of the collateral securing Callidus' loans. Further or prolonged economic slowdowns or recessions could lead to financial losses in the Loan Portfolio and a decrease in Callidus' net finance income, net income and book value. Any of these events, or any other events caused by turmoil in global financial markets, could have a Material Adverse Effect on the Corporation.

Competitive Business Environment

Callidus' ability to originate new asset-based loans could be significantly affected by the activities of other industry participants. New competitors may enter the Canadian asset-based loan market or current market participants may significantly increase their activities in this area. There can be no assurance that Callidus will be able to compete effectively with its current and future competitors in connection with the origination of new loans. If these or other competitors were to engage in aggressive pricing policies, Callidus may have difficulty originating new loans or could be forced to offer lower rates, both of which could have a Material Adverse Effect on the Corporation. Some of Callidus' competitors offer a broader range of financial and lending services than Callidus and can leverage their existing customer relationships to offer and sell services that compete directly with Callidus' services. Further, Callidus' competitors may have greater financial, technical, marketing, origination and other resources, and may have greater access to lower cost capital. As a result of competition, Callidus may not be able to attract new customers, retain existing customers, or sustain the rate of growth that Callidus has experienced to date. As a result, Callidus' ability to profitably expand its loan portfolio may decline. If Callidus' existing customers choose to use competing sources of credit to refinance their debt, Callidus' loan portfolio could be adversely affected.

Entering New Markets

The Corporation plans to expand "**Callidus Lite**" and to further expand in the U.S. ABL industry. The U.S. is a different lending market with different competitive dynamics and therefore presents distinct and substantial risks. The Corporation will face competition from significantly larger lenders in the U.S. If the expansion of the "Callidus

Lite" product or the growth in the U.S. does not develop as currently anticipated, or if Callidus is unable to penetrate them successfully, such result could have a Material Adverse Effect on the Corporation.

Litigation

From time to time in the ordinary course of its business, Callidus may become involved in various legal proceedings, including commercial, employment, class action and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause Callidus to incur significant expenses. Furthermore, the results of any such actions could have a Material Adverse Effect on the Corporation.

Operating Policies and Strategies

The Board of Callidus has the authority to modify or waive certain of the Corporation's operating policies and strategies without prior notice and without the approval of Callidus shareholders. Callidus cannot predict the effect that changes to its current operating policies and strategies would have on its business, operating results or share price. Changes to the Callidus' operating policies and strategies could have a Material Adverse Effect on the Corporation.

Lack of Regulation

Currently, there are no regulatory capital requirements on asset-based lenders that would impede their ability to extend credit, unlike the major commercial banks that are subject to the provisions of the *Bank Act* (Canada) and Basel III. Any changes to the regulation of the asset-based lending industry could have a Material Adverse Effect on the Corporation.