Callidus Capital Corporation

Management's Discussion and Analysis

December 31, 2017

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, 2017 and 2016, and for the years ended December 31, 2017 and 2016, and the related notes attached thereto, which were prepared in accordance with International Financial Reporting Standards ("**IFRS**") and the annual information form dated April 2, 2018 filed with the various securities regulatory authorities through Canada. 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 April 2, 2018 and is current to that date unless otherwise stated. All amounts herein are expressed in Canadian dollars unless otherwise indicated.

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

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

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

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

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

The Corporation discloses a number of financial measures in this MD&A that are calculated and presented using methodologies other than in accordance with IFRS. The Corporation utilizes these measures in managing the business, including performance measurement and for valuation purposes, and believes that providing these performance measures on a supplemental basis to its IFRS results is helpful to investors in assessing the overall performance of the business of the Corporation. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. The Corporation cautions readers that these non-

IFRS financial measures may differ materially from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS financial measures to the most directly comparable financial measures calculated and presented in accordance with IFRS are included within this MD&A. See "Non-IFRS Measures".

Business Profile and Strategy

Callidus is a specialty asset-based lender, focused primarily on Canadian companies and U.S. companies that are unable to obtain adequate financing from traditional lenders. Callidus provides flexible and innovative loan structuring, with limited or no covenants and an efficient credit approval process. The Corporation's loans are generally initially structured as demand, first lien (senior secured) facilities, on a fully collateralized basis with targeted gross yields of approximately 13% to 17% currently. Callidus typically offers loans ranging in size from $15 million to $150 million, but may also accommodate larger commitments where exposure to identifiable asset groups can be compartmentalized. The largest loan commitment provided by the Corporation to date is approximately $270 million.

Callidus addresses an important gap in the lending markets by providing financing to borrowers whose perceived credit risk is too high for the lending criteria of traditional lenders, and whose capital requirements are too small to access high-yield markets. Callidus also provides borrowers with access to capital to fund growth or acquisitions. Additionally, Callidus can assist borrowers through challenging periods by working with the operators and drawing on the extensive experience of the Corporation's management team. Callidus seeks to work with borrowers that are likely to improve their financial stability and gain the ability to repay the funding Callidus has advanced through loan commitments from traditional lenders or otherwise.

The Corporation believes that its expertise in assessing the quality of each prospective borrower and its ability to complete timely detailed due diligence enable Callidus to identify opportunities for significant returns in situations where risks can be assessed and managed. As part of its strategy to manage the perceived risk of these borrowers and each loan, Callidus takes an active approach to lending as it carefully assesses and lends against collateral, typically accounts receivable, inventory, machinery and equipment, real estate, other term assets and enterprise values, and monitors this collateral on an ongoing basis. From time to time, in order to protect its collateral position, the Corporation will become the owner of businesses, acquired through a restructuring, at which point, the businesses will be consolidated and accounted for on this basis, until rehabilitated, marketed, and ultimately sold. While the business has evolved, management believes that the Corporation's fundamental strategy and business model, that of being a specialty asset-based lender, has not changed. Management believes that the proportion of businesses consolidated in the overall portfolio will decrease over time as: (i) loan growth restarts and (ii) businesses are sold.

Corporate Plan to Restore and Build Shareholder Value

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

Current Status of the Business

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

This pipeline, measured on a gross basis is currently approximately $2.2 billion. If presented on a basis consistent with past reporting parameters, the pipeline measure at December 31, 2017 was $1.35 billion, and currently stands at $1.4 billion with two signed back term sheets totaling US$150 million. The Corporation closed and funded two new loans during the year. The Corporation continues to maintain a cautious approach in reviewing potential prospects as it has observed a rising number of deals being signed by competitors as credit dollars continue to pour back into the market.

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

Description of Non-IFRS Measures

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

Gross loans receivable is defined as the sum of (i) the aggregate amount of loans receivable on the relevant date, (ii) the loan loss allowance on such date, (iii) the book value of businesses acquired as they appear on the balance sheet, and (iv) discounts on loan acquisitions. The following is a reconciliation, before and after derecognition, of gross loans receivable to net loans receivable in the statements of financial position and a summary of gross loans receivable as at December 31, 2017 and December 31, 2016.

($ 000s)	**After Derecognition December 31, 2017**	**Before Derecognition December 31, 2017**	After Derecognition December 31, 2016	Before Derecognition December 31, 2016
Loan facilities	**$ 1,096,888**	**$1,146,510**	$ 1,176,642	$ 1,421,771
Gross loans receivable	**1,022,193**	**1,046,983**	1,100,304	1,313,994
Less: Discounted facilities	**(7,575)**	**(7,575)**	(7,575)	(7,575)
Less: Allowance for loan losses	**(358,217)**	**(359,079)**	(164,973)	(166,732)
Less: Impairment on goodwill and businesses acquired(1)	**(57,421)**	**(57,421)**	(19,359)	(19,359)
Less: Businesses acquired(1)	**(375,602)**	**(375,602)**	(91,206)	(91,206)
Net loans receivable	**$ 223,378**	**$ 247,306**	$ 817,191	$ 1,029,122

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

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

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

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

Allowance for loan losses/goodwill impairment ratio is defined as the sum of the allowance for loan losses and accumulated impairment on goodwill divided by gross loans receivable before derecognition.

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

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

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

Leverage ratio is defined as total debt (net of unrestricted cash and cash equivalents) divided by gross loans receivable before derecognition. Total debt consists of the senior debt, revolving credit facilities, collateralized loan obligation and subordinated bridge facility.

Yield enhancement is defined as a component of a lending arrangement that Callidus negotiates in addition to the original loan agreement including additional fees, profit participation arrangements and equity and equity like instruments. Should a value be determined for the enhancement and depending on its contractual nature, the related amount may be recognized in the statements of comprehensive income as a part of interest income, fee income or gain/loss on derivative assets associated with loans, may be recognized as an available-for-sale equity interest with value changes recorded in other comprehensive income/loss ("recognized yield enhancements"), or, may be unrecognized, which includes yield enhancements related to controlling interests ("unrecognized non-IFRS yield enhancements"), depending on the appropriate accounting treatment under IFRS.

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, 2017 and December 31, 2016 and as at December 31, 2017 has been derived from the Company's audited annual financial statements as at December 31, 2017 and December 31, 2016 prepared in accordance with IFRS, as well as the Company's financial records. The following information should be read in conjunction with those statements and related notes.

($ 000s unless otherwise indicated)			**Year Ended December 31 2017**	2016
Average loan portfolio outstanding (1)			**$1,081,937**	$ 1,218,691
Gross yield (1)(2)			**13.9%**	19.5%
Income Statement Data (After Derecognition Unless Indicated)				
Total interest revenue			**$ 92,520**	$ 188,126
Operating expenses of the corporate lending business (3)			**(25,723)**	(18,510)
Provision for loan losses			**(217,382)**	(134,314)
Recognized yield enhancements (4)			**6,700**	14,400
Recovery (expense) under the Catalyst guarantee			**23,933**	32,022
Net interest margin (1)			**4.0%**	11.7%
Allowance for loan losses/goodwill impairment ratio (1)			**39.8%**	14.2%
Operating expense ratio (1)			**2.4%**	1.5%
Net (loss) income			**$ (218,486)**	$ 1,153
ROE (1)			**-86.3%**	0.2%
Balance Sheet & Other Data:			Change from 2016	
($ 000s unless otherwise indicated)	**December 31, 2017**	December 31, 2016	$	%
Total assets	**$ 736,620**	$ 1,028,814	(292,194)	-28%
Gross loans receivable (before derecognition) (1)	**1,046,983**	1,313,994	(267,011)	-20%
Net loans receivable	**223,378**	817,191	(593,813)	-73%
Revolving credit facility, senior debt and collateralized loan obligation	**125,834**	229,261	(103,427)	-45%
Subordinated bridge facility, due to Catalyst	**315,406**	332,668	(17,262)	-5%
Leverage ratio (1)	**37.3%**	40.4%		

(1) Refer to "Description of Non-IFRS Measures".
(2) Callidus Lite was not a significant portion of the portfolio in the current year.
(3) Consists of salaries and wages, stock options expense, general and administrative expenses, net of Catalyst's share of these operating expenses (2017 - $1.5 million; 2016 - $7.2 million).
(4) Recognized yield enhancements are recorded in the statements of income in total revenues (2017 - $9.8 million) and in loss on derivative assets associated with loans (2017 - loss of $3.1 million). Unrecognized yield enhancements are non-IFRS measures and are further summarized in "Yield-Enhancement Agreements".
(5) Certain comparative figures have been reclassified to conform with current period presentation.

Highlights

- As at December 31, 2017, gross loans receivable before derecognition was $1,047 million, a decrease of $267 million or 20% from December 31, 2016. The decrease was primarily due to the full repayment of 7 loans totaling $380 million partially offset by the funding of existing loans and the origination of two new loans in the current year. At December 31, 2017, there were 19 gross loans receivable and the average loan amount funded was approximately $55 million. This compares with 24 gross loans receivable and an average gross loans receivable amount funded of $55 million at December 31, 2016. Net loans receivable decreased from year-end due to these repayments as well as the consolidation of Bluberi Gaming Technologies Inc. in the first quarter of 2017, Otto Industries North America Inc. in the second quarter of 2017 and C&C Resources Inc. in the fourth quarter of 2017, as these loans were removed from loans receivable and the companies were consolidated in the financial statements.
- Gross yield for the year was 13.9%, a decrease of 5.6% from the same period last year due primarily to (i) the elimination, for accounting purposes, of interest revenue on the consolidation of Bluberi Gaming Technologies Inc. commencing February 2017, Otto Industries North America Inc. commencing June 2017 and C&C Resources Inc. commencing November 2017, after acquiring the companies and (ii) lower interest rates charged on certain loans.
- For the current year, a total of $9.8 million (2016 - $11.3 million) of additional fees have been recognized in interest and fees and other in the statements of comprehensive income related to yield enhancements. Yield enhancements are expected to continue to be earned as part of the loan restructuring process and to generate repeated incremental income for the overall portfolio. Under IFRS, the value of yield enhancements related to controlling interests ($75.0 million as at December 31, 2017) is not recognized as a gain until disposition of the consolidated entities. These yield enhancements are further summarized in "Yield-Enhancement Agreements".
- Provision for loan losses of $217.4 million (2016 - $134.3 million) was recorded in the statements of income for the current year. During Q4-2017, the Company recorded a provision for loan loss of $131.9 million on one specific loan concentrated in the energy sector. As at December 31, 2017, the loan has a gross loans receivable amount of $216.9 million. The Company believes that as a result of the culmination in Q4-2017 of certain events, including (i) sanctions imposed by the U.S. and Canadian governments prohibiting certain types of business activity in the South American country where the borrower has significant commercial interests; (ii) a default on sovereign bonds and subsequent sovereign rating downgrade of the country where the borrower has significant commercial interests; and (iii) the nation's military assuming management control of the borrower's main customer (a state-owned oil and gas company), it was appropriate for the Company to record a provision for loan loss on this specific loan. The recoverable amount for this loan was determined using a discounted cash flow analysis. The significant valuation assumptions used to determine the recoverable amount include a 50% probability on the execution of a significant contract, a 17.5% probability on successful acquisition of continued business at the end of the contract period, a discount rate of 21.9% on the significant contract, terminal growth rate of 2.75% and terminal year of 2022 for cash flows projected for 2018 – 2022, average annual EBITDA of $87.5 million. The discount rate represents the market-based weighted-average cost of capital adjusted for risks specific to the operating region and the terminal growth rate represents an estimate of long term nominal GDP growth. Significant risk factors that could cause actual results to differ materially from the estimates used in the valuation include: (1) the borrower's ability to execute the project contract; (2) the borrower's ability to secure continued business at the end of the contract period; (3) the borrower's ability to achieve forecasted EBITDA targets; (4) unexpected changes in working capital requirements; (5) political risk associated with the country of operations; (6) competitor risk; (7) borrower's ability to obtain sufficient and appropriate insurance and (8) execution risk. The value of the contract varies significantly depending on whether the project proceeds. Assuming valuation parameters remain unchanged, should the project proceed and the borrower successfully secure follow-on business at the end of the contract, the increase in the value would result in the gross loans receivable being fully repaid resulting in a non-cash $131.9 million recovery as a reversal of this quarter's related loan loss provision. However, should the contract not proceed, the gross loans receivable outstanding to the borrower could be impaired by a further $64 million as at December 31, 2017.
- During the current year, the Company recognized a recovery in the statements of comprehensive income of $23.9 million under the Catalyst guarantee due to the recognition of specific loan loss provisions in the year.
- For the current year, the average loan portfolio outstanding was $1,082 million, a decrease of $137 million or 11% from last year.
- The leverage ratio decreased from 40.4% at December 31, 2016 to 37.3% at December 31, 2017.
- For the current year, the Company recorded a net loss of $218.5 million (2016 - net income of $1.2 million)

primarily as a result of higher provisions and impairments and lower interest revenues.

- In January 2017, the Company extended the revolving period of its revolving credit facility by six months to July 2017 and amended the amount to US$275 million with an expandable feature to increase it to US$325 million subject to lender approval. All other terms remain substantially unchanged. The revolving credit facility was terminated on July 17, 2017 as there was $nil outstanding at the end of the revolving period and beginning of the amortization period.
- In March 2017, the Company extended the maturity of its senior debt from March 31, 2017 to the earlier of September 30, 2017 and the date when a privatization transaction closes. In September 2017, the Company extended the maturity of its senior debt from September 30, 2017 to the earlier of March 31, 2018 and the date when a privatization transaction closes. In March 2018, the Company extended the maturity of its senior debt from March 31, 2018 to the earlier of March 31, 2019 and the date on which a privatization transaction closes. All other terms remain substantially unchanged.
- In March 2017, the Company extended the maturity of its subordinated bridge facility from April 30, 2017 to October 31, 2017. In October 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility to the earlier of (i) April 30, 2018 and (ii) the day following the repayment of its senior debt in full. In March 2018, the Company extended the maturity date of its revolving unsecured subordinated bridge facility to the earlier of (i) April 30, 2019 and (ii) the day following the repayment of its senior debt in full, but no earlier than January 1, 2019. All other terms remain substantially unchanged other than approximately $15.5 million of scheduled amortization over the year and potential cash sweeps.
- In November 2017, the Company gained control of one of its borrowers (C&C Wood Products Inc., a forestry products company). The business acquired was initially recognized at the carrying value of the loan immediately prior to acquiring control, which was an amount of $104 million, reflecting the fair value of the consideration transferred. The major class of assets acquired included forestry licenses of $70 million, property, plant and equipment of $13 million, accounts receivables of $11 million, inventory of $16 million, prepaids and other assets of $7 million, cash of $8 million and the assumption of accounts payable and accrued liabilities of $16 million and a term loan of $4 million. No other material liabilities were assumed in the acquisition. The amounts of revenue and net loss of the business acquired since the acquisition date recorded in the statements of comprehensive income were $16.3 million and $1.2 million, respectively. Please refer to previous management's discussion and analyses for discussion of the other two acquisitions that occurred in 2017.

Results of Operations
Net Income
Condensed Consolidated Statement of Income

($ 000s except per share information)	Year Ended December 31 **2017**	2016
Interest	**$ 84,536**	$ 172,688
Fees and other	**7,984**	15,438
	92,520	188,126
Catalyst Fund Limited Partnerships	**(30,655)**	(28,757)
Senior debt and revolving credit facilities	**(18,433)**	(16,440)
	(49,088)	(45,197)
Net interest income	**43,432**	142,929
Non-interest revenue and expenses:		
Revenues from injection molding business	**71,517**	-
Cost of sales from injection molding business	**(70,894)**	-
Revenues from forestry products business	**16,346**	-
Cost of sales from forestry products business	**(15,117)**	-
Revenues from aluminum castings business	**14,688**	15,457
Cost of sales from aluminum castings business	**(17,859)**	(18,385)
Revenues from gaming business	**16,682**	-
Cost of sales from gaming business	**(4,412)**	-
Revenues from drilling services business	**3,145**	1,679
Cost of sales from drilling services business	**(1,842)**	(735)
	12,254	(1,984)
Provision for loan losses	**(217,382)**	(134,314)
Recovery (expense) under the Catalyst guarantee	**23,933**	32,022
Loss on derivative assets associated with loans	**(3,136)**	3,136
Impairment of goodwill and other assets	**(13,924)**	(14,899)
Foreign exchange (loss) income	**(2,662)**	(777)
Depreciation	**(6,283)**	-
Salaries and wages	**(25,117)**	(13,832)
Stock options expense	**(1,336)**	(2,221)
General and administrative	**(31,510)**	(9,769)
Catalyst's share of overhead expenses	**5,894**	11,324
(Loss) income before income taxes	**(215,837)**	11,615
Income taxes (expense) recovery	**(2,649)**	(10,462)
Net (loss) income	**$ (218,486)**	$ 1,153
Earnings per common share (dollars):		
Basic	**$ (4.32)**	$ 0.02
Diluted	**$ (4.32)**	$ 0.02

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

CORPORATE LENDING BUSINESS

The corporate lending business consists of specialty asset-based loans, focused primarily on Canadian companies and U.S. companies that are unable to obtain adequate financing from traditional lenders. Callidus provides flexible and innovative loan structuring, with limited or no covenants and an efficient credit approval process. The Corporation's loans are initially generally structured as demand, first lien (senior secured) facilities, on a fully collateralized basis which includes accounts receivable, inventory, fixed assets, intangibles and enterprise value.

Q4-2017 vs. Q4-2016

For the current quarter, interest income decreased $28 million or 63% from the same quarter last year, as a result of lower net loans receivables and lower interest yield.

For the current quarter, fee income was $0.5 million, a $4.1 million decrease from the same quarter last year as a result of the recognition of higher fees in the same quarter last year.

YTD 2017 vs. YTD 2016
For the current year, interest income decreased $88 million or 51% from last year, as a result of lower net loans receivables and a higher participation in the average loan portfolio by Catalyst Fund V in the current year.

For the current year, fee income was $8.0 million, a $7.5 million decrease from the same period last year as a result lower fees in the current year and a higher participation in the average loan portfolio by Catalyst Fund V in the current year.

ACQUISITIONS
Callidus is a specialty asset-based lender that addresses an important gap in the lending markets by providing financing to borrowers whose perceived credit risk is too high for the lending criteria of traditional lenders, and whose capital requirements are too small to access high-yield markets. Callidus also provides borrowers with access to capital to fund growth or acquisitions. Additionally, Callidus can assist borrowers through challenging periods by working with the operators and drawing on the extensive experience of the Corporation's management team. From time to time, in order to protect its collateral position, the Corporation will become the owner of businesses, acquired through a restructuring, at which point, the businesses will be consolidated and accounted for on this basis, until rehabilitated, marketed, and ultimately sold. Callidus views such acquisitions as being incidental and ancillary to its lending business. Where Callidus acquires ownership of a business, it is not its intention to retain ownership indefinitely. Rather, Callidus will seek to maximize its recovery from that business and sell it when management believes it is timely and appropriate.

What follows is information regarding businesses currently owned by Callidus.

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

The primary risk that the business faces is access to a specific grade of resin that is used in the production of waste containers as well as pricing risk for that resin. Hurricane Harvey damaged a number of refineries producing such resin which created a shortage throughout the North American market and affected the pricing of the resin that was available in the market. Failure to procure sufficient resin at acceptable prices could curtail production and impact the business' ability to fulfill customer orders. The supply and pricing issues impacted profitability in Q4-2017; however, the issues were resolved during Q4-2017 and supply has been secured for 2018. Longer term, as a result of significant recent investment in ethylene capacity in the U.S., resin supply and pricing risk is expected to subside.

During the quarter, an injection molding press was damaged by a fire and another experienced extended downtime due to a mechanical failure. Additionally, the company upgraded their ERP system which caused temporary disruption to the business but is now functioning as expected. These events adversely impacted Q4-2017 revenues and continued into Q1-2018. Subsequent to year end the company has remedied the mechanical failure and partially settled with the insurer, received the replacement cost of the damaged press and continues to work with the insurer on the business interruption claim.

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

Q4-2017 vs. Q4-2016
Otto's revenues for the current quarter were $24.6 million and cost of sales were $26.5 million. Results for the quarter were negatively impacted by the press fire and extended downtime due to a mechanical failure. Comparatives for the same quarter last year are not applicable as the acquisition occurred in the current year.

YTD 2017 vs. YTD 2016
Otto's revenues for the current year were $71.5 million and cost of sales were $70.9 million. Comparatives for last year are not applicable as the acquisition occurred in the current year.

FORESTRY PRODUCTS BUSINESS
The Forestry Products business consists of the Company's acquisition of C&C Resources Inc. ("**C&C**") in November 2017. Operating across three provinces, C&C has the capacity to produce more than 330 million board feet of various solid wood products. The solid wood product line ranges from commodity dimension lumber to high valued interior and exterior products. Additional products include bagged shavings, wood chips, medium density fibreboard furnish, and industrial wood pellets. Customers include original local market buyers, regional and national distributors, wholesalers, and big box North American home improvement centers. International customers include buyers of both high value lumber and construction grade material. C&C converts close to one million cubic meters of logs annually and employ roughly 400 people in positions ranging from woodlands to lumber sales. C&C's wood fibre supply is primarily obtained from logging of C&C's forest tenures (1.1 million cubic meters of annual allowable cut) and supplemented by market purchases of logs.

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

In 2017, approximately 70% of C&C's sales volumes were to the US. On April 24, 2017 the US Department of Commerce announced preliminary countervailing duties of 19.88% which were effective until August 2017. Additionally, on June 24, 2017 the US Department of Commerce announced preliminary anti-dumping duties of 6.87%. Effective December 28, 2017 the combined countervailing and anti-dumping duty is 20.23%. The Federal Government of Canada has initiated legal action under NAFTA and WTO.

Q4-2017 vs. Q4-2016
C&C's revenues for the current period were $16.3 million and cost of sales were $15.1 million. As part of business combination accounting, the normal profit margin was negatively affected by our fair value adjustment to acquired inventory. Comparatives for the same quarter last year are not applicable as the acquisition occurred in the current year (beginning November 1, 2017).

YTD 2017 vs. YTD 2016
C&C's revenues for the current year were $16.3 million and cost of sales were $15.1 million. Comparatives for last year are not applicable as the acquisition occurred in the current year (beginning November 1, 2017).

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

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

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

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

Wabash's business is highly dependent upon motor vehicle demand, the success of its customers and its ability to source raw materials on pricing and other terms that allow it to be competitive in the market.

Q4-2017 vs. Q4-2016
Wabash's revenues for the current quarter were $1.9 million which were a decrease compared to $3.1 million in the same quarter last year due to a reduction in volume from a major customer. Wabash's cost of sales were $2.8 million compared $3.8 million in the same quarter last year due to reduced production volume and cost-cutting initiatives. Net margins for the current quarter decreased over the same quarter last year due primarily to a decrease in the plant's utilization rate.

YTD 2017 vs. YTD 2016
Wabash's revenues for the current year were $14.7 million compared to $15.5 million in the same period last year due primarily to a reduction in volume from a major customer. Wabash's cost of sales were $17.9 million compared $18.4 million last year due primarily to reduced production volume. Net margins for the current year-to-date period decreased over the same period last year due primarily to a decrease in the plant's utilization rate.

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

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

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

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

Subsequent to year end, the Quebec court dealing with the insolvency of Bluberi and related companies, issued an order authorising a litigation funding arrangement from a third party professional funder and the commencement of an action against the Company. The action would seek compensatory, moral and punitive damages in connection with the Company's enforcement of its loan and security therefor which gave rise to the Company's acquisition of Bluberi. So far as the Company is aware, no such action has been commenced and there is no bona fide basis for such an action. The Company intends to seek leave to appeal the Quebec court's order permitting the action and will defend any action that is ultimately brought against it.

Q4-2017 vs. Q4-2016
Bluberi's revenues for the current quarter were $3.9 million and cost of sales were $0.9 million. Comparatives for the same quarter last year are not applicable as the acquisition occurred in the current year.

YTD 2017 vs. YTD 2016
Bluberi's revenues for the current year were $16.7 million and cost of sales were $4.4 million. Comparatives for last year are not applicable as the acquisition occurred in the current year.

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

Altair is subject to many of the same risks as affect the oil and gas industry. The primary risk that the business currently faces is the extent to which the oil and gas industry will rebound and, if it does, how long that will take. Although drilling activity continues to pick up in western Canada, it remains depressed from the levels seen in the past. Due to reduced exploration activities connected to the oil and gas and mining sectors, Altair's coring division has seen limited work. However, this line of business is expected to pick up in 2018 and beyond based on a slow and gradual recovery of the sectors.

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

Q4-2017 vs. Q4-2016
Altair's revenues for the current quarter were $1.1 million compared to $0.9 million in the same quarter last year. Altair's cost of sales were $0.6 million compared $0.4 million in the same quarter last year.

YTD 2017 vs. YTD 2016
Altair's revenues for the current year were $3.1 million compared to $1.7 million last year. Altair's cost of sales were $1.8 million compared $0.7 million last year. The variance in both comparatives is due to the acquisition of Altair in May 2016 and increased revenue in 2017.

Provision for Loan Losses

	Year Ended December 31	
($ 000s)	**2017**	2016
Specific individual loan loss provisions	**$ 219,967**	$ 134,706
Collective allowances	**(2,585)**	(392)
Total	**$ 217,382**	$ 134,314

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 $217.4 million. The majority of this provision related to the primary factors as outlined in the Highlights section.

For the current year, the total interest revenue earned on loans with no specific impairment was $33.8 million. For the current year, the total interest revenue earned on loans with an impairment but for which interest is currently being collected was $55.8 million. For the current year, the total interest revenue earned on loans with an impairment but for which interest is currently not being collected was $3.0 million.

For the current year, the total provision for loan losses and impairment of goodwill and other assets recognized on loans with no specific impairment was a recovery of $2.8 million as a result of a reversal in the collective allowance reflecting a decrease in non-impaired exposures. For the current year, the total provision for loan losses and impairment of goodwill and other assets recognized on loans with an impairment but for which interest is currently being collected was $211.4 million. For the current year, the total provision for loan losses and impairment of goodwill and other assets recognized on loans with an impairment but for which interest is currently not being collected was $8.7 million.

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

Selected Quarterly Information

($ 000s unless otherwise indicated)	**Q4-2017**	Q3-2017	Q2-2017	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016
Average loan portfolio outstanding (1)	**$ 1,055,468**	$ 1,024,383	$ 1,029,803	$ 1,218,125	$ 1,282,593	$ 1,217,965	$ 1,147,323	$ 1,226,881
Gross yield (1)	**10.8%**	10.7%	11.2%	20.2%	20.1%	19.0%	20.0%	19.4%
Total interest revenue	**$ 16,778**	$ 17,951	$ 21,376	$ 36,415	$ 48,486	$ 44,169	$ 45,931	$ 49,540
Operating expenses of the corporate lending business(1)(2)	**(6,380)**	(6,128)	(6,395)	(6,820)	(3,849)	(4,051)	(5,363)	(5,247)
Provision for loan losses	**(153,236)**	(9,731)	(35,039)	(19,376)	(86,329)	(25,781)	(14,354)	(7,850)
Recognized yield enhancements (3)	**900**	900	-	5,800	(23,800)	2,800	35,300	-
Recovery (expense) under the Catalyst guarantee	**8,429**	7,033	6,867	1,604	18,138	6,382	8,531	(1,029)
Net interest income	**5,047**	6,568	8,773	23,044	35,910	33,633	35,682	37,704
Net interest margin (1)	**1.9%**	2.5%	3.5%	7.7%	11.1%	11.0%	12.5%	12.5%
Allowance for loan losses/goodwill impairment ratio (1)	**39.8%**	24.9%	23.7%	20.1%	14.2%	6.9%	6.0%	4.5%
Operating expense ratio (1)	**0.6%**	0.6%	0.6%	0.6%	0.3%	0.3%	0.5%	0.4%
Net (loss) income	**$ (171,599)**	$ (17,569)	$ (25,801)	$ (3,518)	$ (58,542)	$ 5,162	$ 37,461	$ 17,072
ROE (1)	**-255.1%**	-18.7%	-25.3%	-3.3%	-49.5%	4.1%	29.2%	13.9%
Leverage ratio (1)	**37.3%**	37.1%	37.1%	39.9%	40.4%	40.3%	38.5%	38.9%

(1) Refer to "Description of Non-IFRS Measures".
(2) Consists of salaries and wages, stock options expense, general and administrative expenses, net of Catalyst's share of these operating expenses. These expenses represent the portion related to the corporate lending business only as detailed under "Operating and Other Expenses".
(3) Recognized yield enhancements are recorded in the statements of income before derecognition in total revenues (2017 - $9.8 million) and in loss on derivative assets associated with loans (2017 - loss of $3.1 million). Unrecognized non-IFRS yield enhancements are further summarized in "Yield-Enhancement Agreements".

Q4-2017 vs. Q3-2017

- For the current quarter, the average loan portfolio outstanding was $1,055 million, an increase of $31 million or 3% from the prior quarter due primarily to additional funding during the current quarter.
- Gross yield for the quarter was 10.8%, an increase of 0.1% from the prior quarter.
- Provision for loan losses for the quarter increased $143.5 million from the prior quarter.
- During the current quarter, the Company recognized a recovery of $8.4 million under the Catalyst guarantee due to the recognition of specific loan loss provisions in the current quarter.

Q4-2017 vs. Q4-2016

- For the current quarter, the average loan portfolio outstanding was $1,055 million, a decrease of $228 million from the same quarter last year due primarily to the repayment of 7 loans during the current year partially offset by the origination of 2 new loans and additional funding of existing loans.
- Gross yield for the quarter was 10.8%, a decrease of 9.3% from the same quarter last year due primarily to the impact of acquired business revenues, lower interest rates charged on certain loans and lower additional fees in the current quarter.
- Provision for loan losses for the quarter increased $66.9 million from the same quarter last year.
- During the current quarter, the Company recognized a recovery of $8.4 million under the Catalyst guarantee due to the recognition of specific loan loss provisions in the current quarter.

Catalyst Guarantee

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

In December 2014, the Company acquired all of the Catalyst Funds' participation interest, outstanding at the time, in the loan portfolio at par plus accrued interest and fees. The participation agreement also provided that in the event that the Company purchased Catalyst Fund Limited Partnership IV's participation interest, Catalyst Fund IV agreed to provide a guarantee that covered Catalyst's percentage ownership interest in the relevant loans at the time of the acquisition. The guarantee covers losses of principal until fully realized on watch-list loans at the time of acquisition and losses of principal on all other loans until such loans are renewed at the next scheduled review. Neither guarantee generally applies to accrued and unpaid interest. The scheduled credit reviews have taken place for all such loans.

The Company normally requires that its borrowers agree to a cash sweep arrangement so that their cash will be subject to the Company's control. The Company and Catalyst have agreed that the Company will operate the cash sweep so that the first application of a borrower's cash will be to currently due accrued and unpaid interest and fees and second to principal and any other amounts due. These cash sweep arrangements are intended to minimize losses in relation to interest and fees.

As of December 31, 2017, the amount of accrued interest and fees included in the gross loans receivable balance that is not covered by the Catalyst guarantee was $48.5 million (December 31, 2016 - $106.3 million).

At December 31, 2017 (Before Derecognition)	($ 000s)	%
Guarantee Coverage of Gross Loans Receivable		
Portion of gross loans receivable covered by a guarantee:		
Watch-list loans	$ **112,301**	**11%**
Non-watch-list loans	**4,728**	**0%**
Portion of gross loans receivable not covered by a guarantee:		
Watch-list loans	**774,754**	**74%**
Non-watch-list loans	**155,200**	**15%**
Total gross loans receivable	$ **1,046,983**	**100%**
Guarantee Coverage of Allowance		
Allowance for loan losses/goodwill impairment covered by a guarantee:		
Watch-list loans	$ **40,723**	**10%**
Non-watch-list loans	**-**	**0%**
Allowance for loan losses/goodwill impairment not covered by a guarantee:		
Watch-list loans	**375,577**	**90%**
Non-watch-list loans	**200**	**0%**
Total allowance for loan losses/goodwill impairment	$ **416,500**	**100%**

For the current year, the Company recognized a recovery of $23.9 million under the Catalyst guarantee due to the recognition of specific loan loss provisions.

Approximately $112 million or 11% of the gross loans receivable at December 31, 2017 is covered by the guarantee until those loans are fully realized.

Operating and Other Expenses[1]

	Three Months Ended December 31					
			2017			2016
($ 000s)	**Corporate Lending Business**	**All Other**	**Total (As Reported)**	Corporate Lending Business	All Other	Total (As Reported)
Salaries and wages	**$ 2,146**	**$ 4,372**	**$ 6,518**	$ 2,070	$ 1,119	$ 3,189
Stock options expense	**443**	**-**	**443**	438	-	438
General and administrative	**3,934**	**9,287**	**13,221**	2,089	410	2,499
Foreign exchange loss (gain)	**86**	**246**	**332**	2,520	(410)	2,110
Catalyst's share of these operating expenses	**(143)**	**-**	**(143)**	(1,158)	-	(1,158)
Total	**$ 6,466**	**$ 13,905**	**$ 20,371**	$ 5,959	$ 1,119	$ 7,078

	Year Ended December 31					
			2017			2016
($ 000s)	**Corporate Lending Business**	**All Other**	**Total (As Reported)**	Corporate Lending Business	All Other	Total (As Reported)
Salaries and wages	**$ 13,793**	**$ 11,324**	**$ 25,117**	$ 11,089	$ 2,743	$ 13,832
Stock options expense	**1,336**	**-**	**1,336**	2,221	-	2,221
General and administrative	**11,898**	**19,612**	**31,510**	8,192	1,577	9,769
Foreign exchange loss (gain)	**2,087**	**575**	**2,662**	1,187	(410)	777
Catalyst's share of these operating expenses	**(1,542)**	**-**	**(1,542)**	(7,182)	-	(7,182)
Total	**$ 27,572**	**$ 31,511**	**$ 59,083**	$ 15,507	$ 3,910	$ 19,417

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

Salaries and Wages and Stock Options Expense
Salaries and wages for the corporate lending business for the current quarter remained consistent with the same quarter last year. Salaries and wages for the corporate lending business for the current year increased $2.7 million from the same period last year primarily as a result of additional amounts paid to key management personnel. Stock options expense for the quarter and year decreased from last year due to a lower Black-Scholes valuation on newly granted options.

Growth in salaries and wages of the other businesses represents acquisitions in those businesses.

Foreign Exchange Gain/Loss
Certain of the Corporation's assets, including cash and loans receivable, and liabilities, including amounts outstanding under the revolving credit facility and subordinated bridge facility, are denominated in U.S. dollars, and accordingly, the Corporation is exposed to foreign exchange risk. To mitigate the foreign exchange risk, the Corporation enters into foreign exchange forward contracts in an amount offsetting the net balance sheet exposure at a cost dependent on the forward premium at the transaction date.

Income Taxes
The Corporation recognized a net $2 million deferred tax asset as at December 31, 2017 (December 31, 2016 – 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 fact that deferred tax assets on certain deductible temporary differences and unused tax losses have not been recognized as it is not probable that realization of these assets will occur.

Condensed Consolidated Statements of Financial Position

			Change from 2016	
($ 000s)	**December 31, 2017**	December 31, 2016	$	%
Cash and cash equivalents	**$ 59,577**	$ 47,824	$ 11,753	25%
Accounts receivable	**29,123**	5,059	24,064	476%
Inventory	**37,197**	1,917	35,280	1840%
Net income taxes receivable	**14,225**	18,621	(4,396)	-24%
Loans receivable	**223,378**	817,191	(593,813)	-73%
Derivative assets associated with loans	**-**	3,136	(3,136)	n/a
Deferred tax asset	**1,734**	7,025	(5,291)	-75%
Guarantee asset	**8,429**	30,667	(22,238)	-73%
Other assets	**44,649**	39,805	4,844	12%
Property, plant and equipment	**85,772**	34,618	51,154	148%
Goodwill and other intangibles	**232,522**	22,951	209,571	913%
Total	**$ 736,606**	$1,028,814	$(292,208)	-28%
Accounts payable and accrued liabilities	**$ 114,091**	$ 26,200	$ 87,891	335%
Deferred facility fees and other	**4,307**	3,441	866	25%
Revolving credit facility, senior debt and collateralized loan obligation	**125,834**	229,261	(103,427)	-45%
Subordinated bridge facility, due to Catalyst	**315,406**	332,668	(17,262)	-5%
Shareholders' equity	**176,968**	437,244	(260,276)	-60%
Total	**$ 736,606**	$1,028,814	$(292,208)	-28%

Current Loan Portfolio (Before Derecognition)

	Number of Loans		**($ 000s)**	
Gross Loans Receivable Continuity	**Year Ended December 31, 2017**	Year Ended December 31, 2016	**Year Ended December 31, 2017**	Year Ended December 31, 2016
Balance, beginning of period	**24**	39	**$ 1,313,993**	$ 1,220,715
Originations	**2**	-	**29,190**	-
Full repayments or write-offs	**(7)**	(15)	**(379,594)**	(243,671)
Net funding	**-**	-	**83,394**	336,949
Balance, end of period	**19**	24	**$ 1,046,983**	$ 1,313,993

As of December 31, 2017, the gross loan portfolio consisted of 19 loans with an aggregate gross loans receivable amount outstanding of $1,047 million or $223 million of net loans receivable after derecognition. This compares with 24 loans and $1,314 million outstanding or $817 million after derecognition as of December 31, 2016. As of December 31, 2017, the largest gross loan outstanding was $217 million and the smallest gross loan outstanding was $2 million.

As of December 31, 2017, the gross loans receivable portfolio was distributed 40% in Canada and 60% in the U.S. by dollar amount funded (December 31, 2016 - 59% in Canada and 41% in the U.S.).

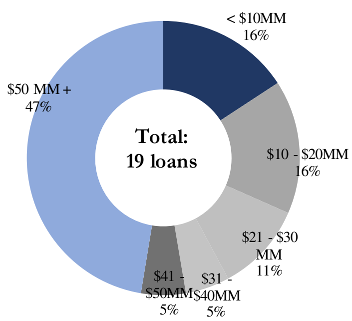
As at December 31, 2017, the estimated collateral value coverage across aggregate net loans receivable was approximately 120% with a range between 100% and 208% on an individual loan basis. Furthermore, the aggregate watchlist loans had an estimated aggregate collateral value coverage of 106% and non-watchlist loans had an estimated collateral value coverage of 162%. It should be noted that there is no cross-collateralization of the asset coverage as between borrowers. The composition of the collateral coverage is as follows:

	December 31, 2017	December 31, 2016
Accounts receivable and tax credits	**5%**	12%
Inventory	**3%**	6%
Machinery and equipment	**9%**	11%
Real estate	**9%**	5%
Vessel under construction	**0%**	22%
Present value of future cashflows	**4%**	10%
Tenure land value	**0%**	7%
Other	**4%**	7%
Enterprise value for loans	**16%**	32%
Enterprise value for operating subsidiaries	**70%**	4%
Total	**120%**	116%

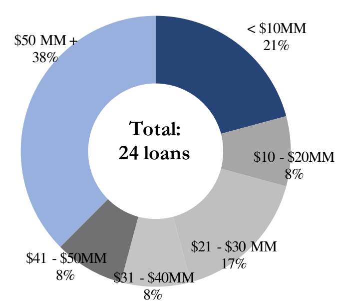
In instances where enterprise valuation is used in determining collateral values, significant estimations and critical judgments are used including assumptions over and not limited to future cash flows, interest rates, execution risk and company-specific risks. Inherently, there are risks and uncertainties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

Loan Portfolio by Amount Funded

December 31, 2017



December 31, 2016

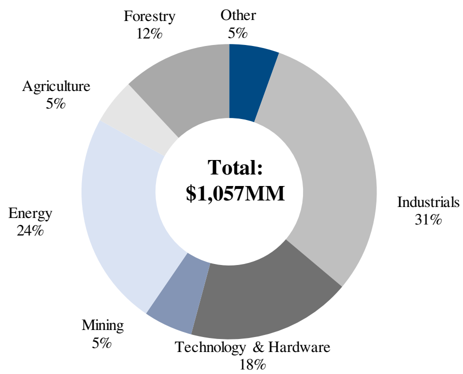


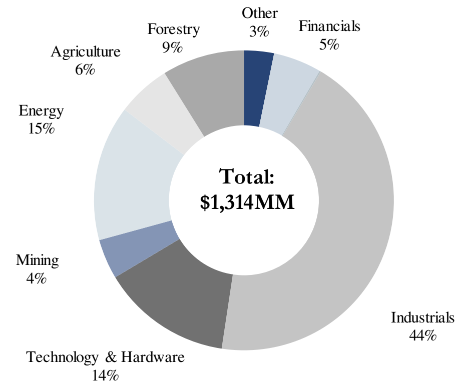
The average amount funded per gross loan receivable remained flat at $55 million as at December 31, 2017 from $55 million as at December 31, 2016. The number of loans greater than $20 million decreased from 72% at December 31, 2016 to 68% at December 31, 2017 and the numbers of loans exceeding $50 million increased from 36% at December 31, 2016 to 47% at December 31, 2017.

As at December 31, 2017, the Company had one loan that individually exceeded $100 million in gross loans receivables. The loan had a gross loans receivable and net loans receivable of $216.9 million and $85.0 million, respectively, as at December 31, 2017. This particular loan was concentrated in the energy sector and the significant risk factors that impact its operations included the ability of the borrower to maintain and execute a project contract, the ability of the borrower to achieve forecasted EBITDA targets, unexpected changes in working capital requirements, political risk associated with certain countries of operations, competitor risk and execution risk. Timing on the realization of these loans is uncertain and is assessed continuously on a case by case basis, taking into account performance of the investment and the macro-economic conditions impacting the sector of the investment. See further discussion of this loan receivable in the Highlights section.

Gross Loans Receivable Before Derecognition by Borrower Sector

December 31, 2017	December 31, 2016





The Corporation's investments are diversified across a variety of industries, with the industrials and energy industries comprising the largest segments. Callidus will often target sectors that are experiencing a downturn as such borrowers may be under financial pressure and may be unable to access capital from traditional lenders.

In connection with managing and monitoring its loan portfolio, Callidus establishes what it calls a "**watch-list**", a list of borrowers with deteriorating financial condition or that otherwise meet certain credit and/or operational criteria warranting closer monitoring and supervision. Callidus takes a proactive approach to ensuring compliance with loan terms and obligations, which allow the Company to better manage the risk of default and/or loss for watch-list accounts. As of December 31, 2017, there were 15 gross loans on the Company's watch-list and these loans represented 85% of gross loans receivable. As of December 31, 2017, of these 15 gross loans, a total specific loan loss allowance and accumulated goodwill impairment of $416.3 million had been taken, and a corresponding $8.4 million asset (net of advances) related to the Catalyst guarantee was recorded. As at December 31, 2017, the collective allowance was $0.2 million.

It is not uncommon for Callidus to deal with borrowers undertaking some form of financial restructuring given the nature of its business. As the Company operates primarily in the distressed lending sector, a formal or informal restructuring process maybe an efficient tool to protect the collateral, often at higher yields than what would otherwise be available. Callidus uses a variety of techniques to mitigate potentially challenging situations, ranging from a cooperatively managed out of court liquidation to a full court process in order to minimize risk of loss. In instances where Callidus obtains financial or non-financial assets by taking possession of collateral we hold as security and these assets are not readily convertible into cash, our policy for disposing of such assets is determined on a case by case basis after considering various factors including the types of available collateral, the economic cycle of the borrower and the amount of time and cost required to convert the collateral into cash. There is significant risk in disposing of assets not readily convertible into cash, in particular, where the Company controls the assets. These include performance of the investment and the macro-economic conditions impacting the sector of the investment.

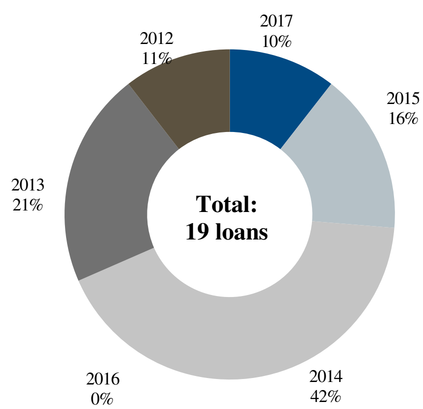
The Company's association with Catalyst, the performance leader in the Canadian distressed private equity sector and arguably one of the best in the world, provides immense value. As of December 31, 2017, 5 of 19 gross loans were going through a formal restructuring process representing 18% of gross loans receivable. As of December 31, 2017, for these 5 loans, a total loan loss allowance of $130.8 million before derecognition had been taken (part of the total $359.1 million loan loss allowance before derecognition as of December 31, 2017) and a corresponding nil asset (part of the total $8.4 million asset as of December 31, 2017) related to the guarantee was recorded.

Since 2006, Callidus has advanced 103 loans representing total credit facilities of $2.2 billion of which 84 loans have been fully repaid or realized. Of the 84 loans, 8 resulted in an aggregate loss of $37 million. In addition, of the 84 loans, 6 went through a form of restructuring and were fully repaid. The balance of the 70 loans were fully repaid in the normal course. As at April 2, 2018, 19 loans are outstanding representing total credit facilities of approximately $1.0 billion. As at April 2, 2018, 5 loans are going through a form of restructuring.

As of December 31, 2017, the portfolio included 2 companies involved in the oil and gas industry, representing 23% of gross loans receivable. As of December 31, 2017, for these loans, a total loan loss allowance of $145.1 million had been recognized and a corresponding $1.7 million asset (net of advances) related to the Catalyst guarantee was recorded.

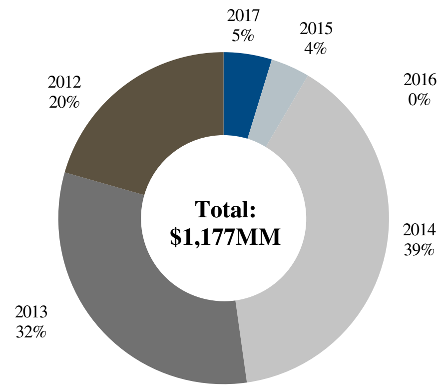
Number of Existing Loans by Year of Origination

April 2, 2018



Total Existing Credit Facilities by Year of Origination

March 28, 2018



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

Yield-Enhancement Agreements

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

The following table summarizes the yield enhancements as of December 31, 2017:

Yield Enhancement	Method of Accounting	Value Recognized in 2017 Statement of Income (in $ millions) (1)	Unrecognized Value at December 31, 2017 (in $ millions) (2)
Fee charged to 8 borrowers	Fee recognized over estimated contract life.	$ 9.7	$ -
Profit participation above certain threshold and royalty stream on 3 borrowers	Interest yield adjustment over life of the loan.	0.1	-
Options to purchase equity interests in 2 borrowers	Separated embedded derivative - fair value movement recorded through statement of income.	(3.1)	-
Equity interests in 1 borrower	Equity interest - fair value movement recorded through statement of other comprehensive income.	-	-
Current controlling interest in 5 entities	Consolidation - fair value disclosure only. Recognize into income upon disposition.	-	75.0
Total		**$ 6.7**	**$ 75.0**

(1) Value recognized in the financial statements before derecognition per quarter was as follows: Q4-2017 - nil; Q3-2017 - $0.9 million; Q2-2017 - $nil; Q1-2017 - $5.8 million; Q4-2016 - ($23.8) million; Q3-2016 - $2.8 million; Q2-2016 - $35.3 million. It should also be noted

that the recognized yield enhancement on options to purchase equity interests in 3 borrowers does not relate to the same entities as the unrecognized non-IFRS yield enhancement on the current controlling interest in 4 borrowers.

(2) The unrecognized value of the yield enhancements is a non-IFRS measure. The current estimated value is attributed to a borrower and the value ascribed is considered a forward-looking statement. The following table outlines certain significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

Forward-looking Statement	Fair value of controlling interest in a subsidiary expected to be recognized into income upon disposition is estimated at $75.0 million as at December 31, 2017.
Assumptions	The valuation technique used a discounted cash flow with the following significant unobservable inputs and estimates: (1) Risk adjusted discount rate: 24.1% (avg. of two rates: 16.4% (core operations) and 31.7% (growth operations)) (2) Long term growth rate: 2.5% (3) Annual average EBITDA: $59.1 million (4) Bluberi obtains required licenses and successfully enters key North American markets where it does not have operations.
Risk Factors	Significant risk factors that could cause actual results to differ materially from the estimates used in the valuation include: (1) Bluberi's ability to achieve the forecasted EBITDA targets; (2) competitor risk and unexpected changes in working capital requirements; (3) the possibility that Bluberi may not receive the regulatory approval required to sell games into key, new North American markets; (4) delays in the creation of a regulatory framework in a key targeted South American country. A 10% decrease or increase in the cashflows would result in a yield enhancement range between $54.4 million to $93.7 million.
Significant Future Events/Milestone Assumptions to Support the Top End of the Valuations	(1) Bluberi is able to achieve forecasted results; (2) regulatory approval is obtained in key new markets; (3) Bluberi is able to successfully procure contract manufacturing to meet demand; (4) working capital to meet demand is funded by Callidus (or other 3rd party); (5) the slot machines to be deployed meet the standards of the growing customer base; (6) a targeted South American country legislates and creates a regulatory framework for the gaming industry by 2019 and Bluberi is able to achieve forecasted results in the region.
Updates for the Current Year	(1) Callidus obtained control of the underlying borrower; (2) negotiations on the royalty agreement between Bluberi and a gaming company were completed; (3) successfully developed and launched a new gaming cabinet; (4) materially increased game library; and (5) completed reorganization of corporate structure to streamline the licensing process.

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 lawyers, appraisal firms, enterprise valuation experts and other valuation specialists, in addition to performing quarterly field examinations where applicable. In instances where enterprise valuation is used in determining collateral values, significant estimations and critical judgments are used including assumptions about future cash flows, interest rates, execution risk and company-specific risks. Inherently, there are risks and uncertainties relating to the valuation of these forms of collateral that may result in significant variation from period to period. Such risks and uncertainties include unforeseen economic and technological changes in a particular industry, inability to meet future cash flows targets and changes in commodity prices.

The loan loss allowance is calculated as the difference between (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.

Off Balance Sheet Arrangements

The Corporation has no off balance sheet arrangements, except for undrawn loan commitments to the Corporation's borrowers, of $14 million based on borrowing base availability (December 31, 2016 - $1 million).

Liquidity and Capital Resources

The Corporation's primary sources of short-term liquidity are cash and cash equivalents and undrawn credit facilities. Assuming a participation rate for Catalyst Fund Limited Partnership V ("**Catalyst Fund V**") of approximately 75%, total liquidity as at December 31, 2017 would be able to support approximately $300 million of new loans. In addition, as business acquisitions are rehabilitated, we will pursue opportunities to monetize these investments where and when we believe, capital may be deployed in opportunities that generate superior returns. Timing of these divestitures is uncertain and will be assessed on a case by case basis, taking into account performance of the investment and the macro-economic conditions impacting the sector of the investment.

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

In December 2014, the Company obtained a US$200 million unsecured subordinated bridge facility extended by Catalyst. In September 2015, the Company increased the amount of its revolving unsecured subordinated bridge facility from Catalyst by US$50 million to US$250 million. In March 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility from April 30, 2017 to October 31, 2017. In October 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility to the earlier of (i) April 30, 2018 and (ii) the day following the repayment of its senior debt in full. In March 2018, the Company extended the maturity date of its revolving unsecured subordinated bridge facility to the earlier of (i) April 30, 2019 and (ii) the day following the repayment of its senior debt in full, but no earlier than January 1, 2019. All other terms remain substantially unchanged.

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

In March 2016, Callidus' Board of Directors (the "**Board**") authorized a substantial issuer bid to purchase for cancellation up to 3,571,428 common shares at a purchase price of $14 per common share (the "**Purchase Price")** for an aggregate purchase price not to exceed $50 million (the "**Offer**"). In April 2016, an issuer bid circular and related documents (the "**Issuer Bid Circular**") in connection with the Offer were mailed to shareholders. In June 2016, the Board authorized increasing the purchase price under the Offer from $14.00 per share to $15.50 per share. In July 2016, the Board authorized an increase to the purchase price under the Offer from $15.50 per share to $16.10 per share. In August 2016, the Board authorized an increase to the purchase price under the Offer from $16.10 per share to $16.50 per share. Under the revised Offer, the aggregate maximum purchase price payable by Callidus is $58.9 million. In October 2016, the Company announced that it was increasing the number of shares eligible under its substantial issuer bid by 1,500,000 shares, or approximately an additional 3% of the shares outstanding as at October 27, 2016. Under the revised Offer, Callidus offered to purchase for cancellation up to 5,071,428 of its outstanding common shares at $16.50 per share, from its shareholders. In December 2016, the Company announced final take-up of the revised Offer. Following the final take-up, a total of 2.8 million shares had been purchased and cancelled under the revised Offer at $16.50 per share or $47.0 million ($24.4 million through share capital and $22.6 million through retained earnings).

Total credit facilities issued by the Corporation and available to borrowers, including consolidated businesses acquired, at December 31, 2017 were $1,147 million (December 31, 2016 - $1,422 million) subject to borrowing base availability and acceptance by the Corporation.

The Corporation's primary liquidity needs include: funding of new and existing loans, debt service and principal repayment obligations, capital market programs such as substantial issuer bids, normal course issuer bids, dividends, payments related to financial instruments, specifically foreign currency contracts, and ongoing operating costs. The Corporation's contractual obligations are summarized in the "Contractual Obligations" section.

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

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

Financing Strategy

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

To date, the Corporation has advanced its financing strategy on a measured and deliberate basis. As the business has matured, the Corporation has added additional external financing sources. Callidus continues to explore financing sources to ensure adequate and diversified funding sources. The Corporation also relies on significant financing from the Catalyst Funds.

Capitalization

In December 2014, the Company obtained a US$200 million revolving unsecured subordinated bridge facility from Catalyst. The facility carries an interest rate of 8% per annum plus an annual fee equal to 1.5% of the maximum amount available under the facility and a standby fee equal to 1% per annum of undrawn amounts. In September 2015, the Company increased the amount of its revolving unsecured subordinated bridge facility from Catalyst by US$50 million to US$250 million. In March 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility from April 30, 2017 to October 31, 2017. In October 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility to the earlier of (i) April 30, 2018 and (ii) the day following the repayment of its senior debt in full. In March 2018, the Company extended the maturity date of its revolving unsecured subordinated bridge facility to the earlier of (i) April 30, 2019 and (ii) the day following the repayment of its senior debt in full, but no earlier than January 1, 2019. All other terms remain substantially unchanged.

In December 2016, the Company closed a US$125 million collateralized loan obligation transaction secured by a portion of the loan portfolio pledged to a special purpose financing vehicle wholly-owned by Callidus. The special purpose vehicle issued four investment grade debt tranches ranging from AAA (sf) to BBB (sf), representing approximately 60% of the initial issue size. The collateralized loan obligation finances a portion of the loan portfolio pledged to a special purpose financing vehicle wholly-owned by Callidus. The obligation matures December 7, 2021 and carries an all-in blended interest rate of approximately 4.90%. Callidus has re-started the process of growth of its loan portfolio and will utilize the facility as the primary source of funding for incremental growth. The Corporation remains committed to doubling the loan portfolio over the next two to three years. Callidus expects the securitization program to represent a growing proportion of the capital structure as it funds the incremental growth in the loan portfolio and further reduces the Corporation's cost of capital. Over time, as the securitization program expands, Callidus will review and optimize the size of its other facilities to achieve a suitable capital structure to support the doubling of its loan book.

Financial Covenants, Restrictions and Events of Default

The revolving credit facility contains certain requirements and restrictions, such as excess concentration limits, collateral quality tests, and other such requirements and restrictions as are customary with similar financings, with which the Corporation must comply in order to maintain access to the credit facilities and avoid default. The revolving credit facility was subject to a borrowing base calculation dependent upon the aggregate principal amount owing in respect of the loans in the loan portfolio. The revolving credit facility was terminated on July 17, 2017 subsequent to the end of the revolving period.

The Corporation was in compliance with its financial covenants, following receipt of certain waivers as requested, at December 31, 2017 and December 31, 2016.

Cash Flow Summary

	Year Ended December 31	
($ 000s)	**2017**	2016
Operating activities	**$ 179,142**	$ 108,385
Investing activities	**(3,663)**	(3,446)
Financing activities	**(163,726)**	(82,325)
Increase in cash and cash equivalents	**$ 11,753**	$ 22,614

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

Cash flow from operating activities represented an inflow of $179 million in the current year primarily as a result of the repayment of 7 loans and collecting on the Catalyst guarantee. This compares to a cash inflow of $108 million last year, which was primarily attributable to the repayment of loans.

Investing Activities
During the current year, investing activities represented $4 million of cash outflow as a result of capital expenditures which is consistent with last year.

Financing Activities
During the current year, financing activities represented $164 million of cash outflow, attributable to repayments made on the Company's revolving credit facility and share purchases under the Company's normal course issuer bid. This compares to $82 million of cash outflow last year, which was attributable to repayments on the Company's revolving credit facility and share purchases under the Company's normal course issuer bid.

Contractual Obligations
The following table summarizes Callidus' contractual obligations at December 31, 2017 and payments due for each of the next five years and thereafter:

For the Years Ended December 31 ($ 000s)	2018	2019	2020	2021	2022 & Thereafter	**Total**
Accounts payable and accrued liabilities	$ 60,129	$ 53,962	$ -	$ -	$ -	**$ 114,091**
Borrower deposits	81	-	-	-	-	**81**
Revolving credit facilities	-	-	-	-	-	**-**
Subordinated bridge facility due to Catalyst	-	315,406	-	-	-	**315,406**
Senior debt and collateralized loan obligation	-	49,418	-	-	76,416	**125,834**
Total	$ 60,210	$ 418,786	$ -	$ -	$ 76,416	**$ 555,412**

Related Party Transactions
The Catalyst Capital Group Inc. ("**CCGI**") and funds managed by it (collectively "**Catalyst**") own approximately 71% of the issued and outstanding shares of the Company as at December 31, 2017.

In December 2014, the Company obtained a US$200 million revolving unsecured subordinated bridge facility from Catalyst. The facility carries an interest rate of 8% per annum plus an annual fee equal to 1.5% of the maximum amount available under the facility and a standby fee equal to 1% per annum of undrawn amounts. In September 2015, the Company increased the amount of its revolving unsecured subordinated bridge facility from Catalyst by US$50 million to US$250 million. In March 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility from April 30, 2017 to October 31, 2017. In October 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility to the earlier of (i) April 30, 2018 and (ii) the day following the repayment of its senior debt in full. In March 2018, the Company extended the maturity date of its revolving unsecured subordinated bridge facility to the earlier of (i) April 30, 2019 and (ii) the day following the repayment of its senior debt in full, but no earlier than January 1, 2019. All other terms remain substantially unchanged.

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

In accordance with the terms of the participation agreement, entered into in connection with Callidus' initial public offering, Catalyst Fund V participates in the funding of new loans originated by Callidus. This provides Callidus with access to additional funds to fund the expansion of its loan portfolio. As at December 31, 2017, approximately $24 million of loans were derecognized (December 31, 2016 - $212 million).

During the prior 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. During the current year, 3.9 million shares were granted to those who elected to participate in the DRIP. The Funds elected to participate in the DRIP in respect of 100% of their shareholdings of the Company and, therefore, received 3.3 million shares.

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

In March 2016, as approved by the independent members of the Board, the Company required payment by the Catalyst Funds of a guarantee with respect to the Company's assets held for sale in an amount equal to the total outstanding plus accrued and unpaid interest of $101.3 million. The Funds acquired the loan in question for an amount equal to the guarantee. 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, 2017, the Corporation had outstanding obligations to sell an aggregate US $181 million at an average rate of CAD1.2872 per USD maturing January 19, 2018 through foreign exchange forward contracts. The Corporation also had a call option to buy an aggregate US $70 million at a strike price of CAD1.339 per USD maturing December 7, 2021 and a mirror position consisting of a put option to sell an aggregate US $70 million at a strike price of CAD1.339 per USD maturing December 7, 2021. All foreign currency gains or losses to December 31, 2017 have been recognized as other income in net income (loss) for the period and the fair value of these instruments at December 31, 2017 was a net asset of $6.4 million (December 31, 2016 – a net asset of $8.7 million) which is recognized on the consolidated statements of financial position. A net gain of $17.4 million was recognized on contracts which were settled in the current year (2016 – a net gain of $7.1 million), which was included as part of foreign exchange gain/loss for the year.

Critical Accounting Estimates

The Corporation's accounting policies are integral to understanding and interpreting 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 when, if at all, to consolidate the results of certain of its borrowers and income taxes.

Allowance for Loan Losses
Collectability is regularly evaluated by assessing the realizable values of the assets securing the loans and viability of the underlying business. 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 7 to the Financial Statements.

Goodwill and Other Non-Financial Assets Impairment
Judgment is applied to determine whether indicators of impairment exist when assessing the carrying values of the Company's goodwill and non-financial assets, including indications that the performance of assets may be worse than expected and identifying significant adverse effects in the businesses' environments. Additionally, where an indication of impairment is determined to be present, judgment is applied to estimate a cash-generating unit's future revenues, costs and cash flows, determine discount, growth and capitalization rates, and develop valuation techniques to determine fair value, when applicable (see note 11 to the Financial Statements).

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

When the Corporation concludes that consolidation is required, the Corporation views the loan as businesses acquired through loans as the intention is not to operate the acquired entity on an ongoing basis. In 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 presented the net assets and liabilities of the business as assets held for sale. In November 2015, one of the Company's borrowers (Wabash Castings Inc., a manufacturer of aluminum castings) emerged from formal restructuring proceedings in the U.S. as a going concern. In March 2016, the Company required payment by the Catalyst Funds of a guarantee with respect to the Company's assets held for sale. The Funds acquired the loan in question and became the owners of the business. In May 2016, one of the Company's borrowers (Altair Water and Drilling Inc., a water and oil drilling services company) emerged from formal restructuring proceedings in Canada as a going concern. In February 2017, one of the Company's borrowers (Bluberi Gaming Technologies Inc., a digital slot gaming company) emerged from formal restructuring proceedings in Canada as a going concern. In June 2017, the Company gained 100% control of one of its borrowers (Otto

Industries North America Inc., an injection molding company). In November 2017, the Company gained control of one of its borrowers (C&C Wood Products Inc., a forestry products company). In all instances, as a result and under the terms of its secured creditor agreements (where applicable), the Company gained 100% control of the borrowers and has consolidated the assets, liabilities and operations of these businesses.

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

Income Taxes
The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Corporation's consolidated statements of comprehensive income. In determining the provision for income taxes, the Corporation interprets tax legislation and makes assumptions about the expected timing of the reversal of the deferred tax asset. If the Corporation's interpretations differ from those of the tax authorities or if the timing of reversals is not as expected, the Corporation's provision for income taxes could increase or decrease in future periods. The amount of any such increase or decrease cannot be reasonably estimated. Information on the Corporation's income taxes can be found in note 17 to the Financial Statements.

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

Disclosure of Outstanding Share Data
As at December 31, 2017, there were 51,391,617 common shares outstanding and 3,421,117 options outstanding, each option being exercisable into common shares on a 1:1 basis.

RISK FACTORS

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

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

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

Financial Risk Management

A discussion of risk factors and risk management policies and procedures relating to foreign currency risk, interest rate risk, liquidity risk, and credit risk follows below.

Foreign Currency Risk

The results of operations and cash flows of Callidus may be affected by changes in the Canadian dollar exchange rate relative to the currencies of other countries. Currently, Callidus' loan portfolio contains exposure to loans denominated in U.S. dollars. A change in the value of the U.S. dollar relative to the Canadian dollar may have a negative effect on the financial performance of Callidus. Callidus currently employs economic hedging techniques to minimize currency exchange rate risks. Callidus is unable to offer any assurance that its hedging strategies will successfully reduce the risk they were designed to mitigate. Callidus' use of hedging transactions exposes it to risks associated with such transactions. Hedging against a change in the values of its portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. Moreover, it may not be possible to hedge against an exchange rate fluctuation that is so generally anticipated that Callidus is not able to enter into a hedging transaction at an acceptable price.

Callidus makes use of certain derivative instruments, including forward contracts, swaps and options to facilitate its currency economic hedging activities. The use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in the underlying securities and other traditional investments. Callidus' use of derivative instruments involves certain inherent risks, including:

- the risk of default on amounts owing to Callidus by the counterparties with which Callidus has entered into such transactions;
- the risk that Callidus has entered into a derivative position that cannot be closed out quickly, by either liquidating such derivative instrument or by establishing an offsetting position; and
- the risk that, in respect of certain derivative products, an adverse change in market prices for currencies or interest rate indices will result in Callidus incurring an unrealized mark-to-market loss in respect of such derivative products.

Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index.

Interest Rate Risk

The Company is exposed to interest rate risk as it earns interest on its loans receivable and pays interest on its collateralized loan obligation and on its senior debt.

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

Liquidity Risk

Liquidity risk is the risk that Callidus will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Callidus is dependent upon its ability to secure funding for its loans and to fund its existing obligations. While Callidus actively pursues new sources of funding, there can be no assurance that such additional financing will be obtained. In the past, Callidus has obtained the cash required for its operations through a combination of cash generated from operations, funding from the Catalyst Funds, debt and the Offering. Callidus intends to fund new loans using (i) debt capital and (ii) growth capital. Assuming a participation rate for Catalyst Fund V of approximately 75%, total liquidity as at December 31, 2017 would be able to support approximately $300 million of new loans.

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

In addition to the Bridge Facility, in March 2018, the Corporation entered into letter agreements (the "Catalyst Letter Agreements") with certain Catalyst Funds, in which the Catalyst Funds agreed, among other things, to provide additional financing to the Corporation to enhance its liquidity. The Catalyst Letter Agreements provide for additional financing to the Corporation of up to $15.5 million if required for the purposes of making scheduled amortization payments under the Term Loan and an amount of up to the face amount of loans subject to the Catalyst Guarantee that have been pledged to the lender under the Term Loan. These amounts would be advanced on the same terms as the Bridge Facility. Additionally, the Catalyst Funds agreed to advance to the Corporation up to US $150 million if required by the Corporation to fund potential further advances to a borrower. Those amounts would be advanced on the same terms as the loan from Callidus to the Borrower. No amounts have been advanced under these Catalyst Letter Agreements as of the date hereof.

The Catalyst Funds also agreed in the Catalyst Letter Agreements to advance to the Corporation an amount equal to the face value of the loans subject to the Catalyst Guarantee. Those amounts would be advanced on an interest free basis and would be repayable at the time the amounts owing under the Bridge Facility are repayable. As of the date hereof, approximately US $30 million has been advanced under this facility.

Credit Risk

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

Risks Relating to Callidus' Operations

Performance of the Loan Portfolio

Callidus maintains a gross loans receivable portfolio of $1,110 million before derecognition as at April 2, 2018 ($287 million of net loans receivable after derecognition). The past performance of Callidus has been based on a comparable loan portfolio of a smaller size. For example, as at December 31, 2011, the size of Callidus' loan portfolio was approximately $154 million. There can be no assurance that the same types of earnings can be made on the current loan portfolio or additional loans.

Performance of Businesses Acquired

As stated above, Callidus is a specialty asset-based lender, focused primarily on Canadian companies and U.S. companies that are unable to obtain adequate financing from traditional lenders. Also as stated above, from time to time in order to protect its collateral position, the Corporation will become the owner of businesses, acquired through a restructuring, at which point, the businesses will be consolidated and accounted for on this basis, until rehabilitated, marketed, and ultimately sold. The result of any such acquisition is that, until the relevant businesses are sold, Callidus becomes subject to various risks and uncertainties specific to such businesses. Such risks and uncertainties include unforeseen economic and technological changes in a particular industry, inability to meet future cash flow targets, inability to meet production targets, inability to attract and retain qualified and experienced staff, inability to obtain access to adequate working capital, unexpected changes in working capital requirements, political risk associated with certain countries of operations, competitor risk, execution risk and changes in commodity prices. Risks and uncertainties particular to the businesses currently held by Callidus also include the following:

Injection Molding Business

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

Forestry Products Business

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

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

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

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

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.

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

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

Changes in Market and General Economic Conditions
A weak economy could impact the quality of the loans available to Callidus. Adverse economic conditions also may decrease the estimated value of the collateral securing Callidus' loans. Further or prolonged economic slowdowns or recessions could lead to financial losses in the loan portfolio and a decrease in Callidus' net finance income, net income and book value. Any of these events, or any other events caused by turmoil in global financial markets, could have a material adverse effect on the Corporation.

Competitive Business Environment

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

Entering New Markets

The Corporation plans to expand Callidus Lite and to further expand in the U.S. asset-based lending industry. The U.S. is a different lending market with different competitive dynamics and therefore presents distinct and substantial risks. The Corporation faces competition from significantly larger lenders in the U.S. If the expansion of the Callidus Lite product or the growth in the U.S. does not develop as currently anticipated, or if Callidus is unable to penetrate the U.S. market successfully, such result could have a material adverse effect on the Corporation.

Litigation

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

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

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

Subsequent to year end, the Quebec court dealing with the insolvency of Bluberi and related companies, issued an order authorising a litigation funding arrangement from a third party professional funder and the commencement of an action against the Company. The action would seek compensatory, moral and punitive damages in connection with the Company's enforcement of its loan and security therefor which gave rise to the Company's acquisition of Bluberi. So far as the Company is aware, no such action has been commenced and there is no bona fide basis for such an action. The Company intends to seek leave to appeal the Quebec court's order permitting the action and will defend any action that is ultimately brought against it.

Operating Policies and Strategies

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

Lack of Regulation

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

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure Controls and Procedures

Callidus' disclosure controls and procedures as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109) are designed to provide reasonable assurance that information required to be disclosed in our filings under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. They are also designed to provide reasonable assurance that all information required to be disclosed in these filings is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as appropriate, to allow timely decisions regarding public disclosure. We regularly review our disclosure controls and procedures; however, they cannot provide an absolute level of assurance because of the inherent limitations in control systems to prevent or detect all misstatements due to error or fraud.

Our management, including the CEO and CFO, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2017. Based on this evaluation, the CEO and CFO have concluded that our disclosure controls and procedures were effective as of December 31, 2017.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in NI 52-109. Internal control over financial reporting means a process designed by or under the supervision of the CEO and CFO, and effected by our Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS, and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Callidus; (2) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of Callidus are being made only in accordance with authorizations of management and directors of Callidus; and (3) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Callidus assets that could have a material effect on the Financial Statements.

All internal control systems have inherent limitations and therefore our internal control over financial reporting can only provide reasonable assurance and may not prevent or detect misstatements due to error or fraud.

Our management, including the CEO and CFO, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017 using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework (2013). In connection with our assessment of internal control over financial reporting, we identified a material weakness in our internal control over financial reporting relating to the financial close process with respect to two of our newly acquired operating subsidiaries. This material weakness created a reasonable possibility that a material misstatement of the consolidated financial statements would not be prevented or detected on a timely basis. Specifically, the Company identified control deficiencies related to the review of financial information of the subsidiaries that was not sufficiently precise to identify errors in the reported amounts. The weakness arose at one subsidiary due to an enterprise system implementation during the year and the transition of a new finance team. At the other subsidiary, the issue arose as a result of a lack of formalized internal controls over the review of financial information. These control deficiencies resulted in material errors in the consolidated balances that were corrected before release of the Company's consolidated financial statements. As part of this finding, the Company is currently in the process of developing a remediation plan to address the control deficiencies.

Changes in Internal Control over Financial Reporting

There were no changes to internal control over financial reporting during the quarter ended December 31, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.