



Callidus Capital Corporation

Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

April 2, 2018

Management’s Responsibility for the Financial Statements

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

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

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

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

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

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

April 2, 2018

“Newton Glassman”
Chairman and CEO

“Dan Nohdomi”
CFO



KPMG LLP
Chartered Professional Accountants
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Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Callidus Capital Corporation

We have audited the accompanying consolidated financial statements of Callidus Capital Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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



*Callidus Capital Corporation
Independent Auditors' Report
Page 2*

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Callidus Capital Corporation as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 2, 2018
Toronto, Canada

CALLIDUS CAPITAL CORPORATION

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

	December 31, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$ 59,577	\$ 47,824
Accounts receivable	29,123	5,059
Inventory (note 5)	37,197	1,917
Income taxes recoverable	14,239	18,621
Derivative assets (note 21)	9,958	8,722
Loans receivable - not covered by guarantee (note 6 and 7)	212,258	801,759
Loans receivable - covered by guarantee (note 6 and 7)	11,120	15,432
Derivative assets associated with loans (note 6)	-	3,136
Deferred tax asset (note 17)	1,734	7,025
Guarantee asset (note 15)	8,429	30,667
Other assets (note 8, includes \$7,199 of assets held for sale)	34,691	31,083
Property, plant and equipment (note 9, includes \$13,391 of assets held for sale)	85,772	34,618
Intangibles (note 10)	104,708	-
Goodwill (note 11)	127,814	22,951
	\$ 736,620	\$ 1,028,814
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities (notes 12 and 15)	\$ 114,091	\$ 26,200
Income taxes payable	14	-
Borrower deposits	81	129
Deferred facility fees	677	3,312
Derivative liabilities (note 21)	3,549	-
Revolving credit facility (note 14)	-	91,715
Senior debt (note 13)	49,418	49,404
Collateralized loan obligation (note 13)	76,416	88,142
Subordinated bridge facility, due to Catalyst (note 13)	315,406	332,668
	559,652	591,570
Shareholders' equity:		
Share capital (note 16)	463,234	435,413
Contributed surplus (note 22)	7,760	6,424
Retained earnings	(293,418)	(3,930)
Accumulated other comprehensive loss	(608)	(663)
	176,968	437,244
Contingencies (note 19)	-	-
	\$ 736,620	\$ 1,028,814

See accompanying notes to consolidated financial statements.

Certain comparative figures have been reclassified to conform with current period presentation (note 2a).

Approved on behalf of the Board:

“Newton Glassman”
Chairman and CEO

“Tibor Donath”
Director

CALLIDUS CAPITAL CORPORATION

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

(Note 25)	For the Year Ended December 31	
	2017	2016
Interest, fee and other revenue:		
Interest	\$ 84,536	\$172,688
Fees and other	7,984	15,438
	92,520	188,126
Interest expense and participation fees:		
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:		
Revenues from injection molding business	71,517	-
Revenues from forestry products business	16,346	-
Revenues from aluminum castings business	14,688	15,457
Revenues from gaming business	16,682	-
Revenues from drilling services business	3,145	1,679
	122,378	17,136
Total revenues	165,810	160,065
Cost of sales from injection molding business	(70,894)	-
Cost of sales from forestry products business	(15,117)	-
Cost of sales from aluminum castings business	(17,859)	(18,385)
Cost of sales from gaming business	(4,412)	-
Cost of sales from drilling services business	(1,842)	(735)
Total cost of sales	(110,124)	(19,120)
Other expenses:		
Provision for loan losses (note 7)	(217,382)	(134,314)
Recovery under the Catalyst guarantee (note 15)	23,933	32,022
(Loss) gain on derivative assets associated with loans	(3,136)	3,136
Impairment of goodwill and other assets (notes 11 and 23)	(13,924)	(14,899)
Foreign exchange loss	(2,662)	(777)
Catalyst's share of overhead expenses (note 25)	5,894	11,324
Depreciation	(6,283)	-
Salaries and wages	(25,117)	(13,832)
Stock options expense (note 22)	(1,336)	(2,221)
General and administrative	(31,510)	(9,769)
	(271,523)	(129,330)
(Loss) income before income taxes	(215,837)	11,615
Income taxes (expense) recovery (note 17):		
Current	2,642	(3,584)
Deferred	(5,291)	(6,878)
	(2,649)	(10,462)
Net (loss) income	\$(218,486)	\$ 1,153
(Loss) earnings per common share (dollars)		
Basic (note 26)	\$ (4.32)	\$ 0.02
Diluted (note 26)	\$ (4.32)	\$ 0.02
Consolidated Statement of Comprehensive (Loss) Income		
Net (loss) income	\$(218,486)	\$ 1,153
Other comprehensive (loss) income net of tax:		
Items that may be reclassified to profit and loss:		
Foreign currency translation on foreign operations	55	(2,534)
Comprehensive (loss) income	\$(218,431)	\$ (1,381)

See accompanying notes to consolidated financial statements.

Certain comparative figures have been reclassified to conform with current period presentation (note 2a).

CALLIDUS CAPITAL CORPORATION

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

	Share Capital Amount	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2016	\$ 416,750	\$ 8,843	\$ 64,007	\$ 1,871	\$ 491,471
Net income	-	-	1,153	-	1,153
Dividends	-	-	(46,462)	-	(46,462)
Shares issued	43,949	(4,640)	-	-	39,309
Shares cancelled	(25,286)	-	(22,628)	-	(47,914)
Stock options expense (note 22)	-	2,221	-	-	2,221
Other comprehensive loss	-	-	-	(2,534)	(2,534)
Balance, December 31, 2016	\$ 435,413	\$ 6,424	\$ (3,930)	\$ (663)	\$ 437,244
Balance, January 1, 2017	\$ 435,413	\$ 6,424	\$ (3,930)	\$ (663)	\$ 437,244
Net loss	-	-	(218,486)	-	(218,486)
Dividends	-	-	(60,822)	-	(60,822)
Shares issued	50,172	-	-	-	50,172
Shares cancelled	(22,351)	-	(10,180)	-	(32,531)
Stock options expense (note 22)	-	1,336	-	-	1,336
Other comprehensive loss	-	-	-	55	55
Balance, December 31, 2017	\$ 463,234	\$ 7,760	\$(293,418)	\$ (608)	\$ 176,968

See accompanying notes to consolidated financial statements.

CALLIDUS CAPITAL CORPORATION

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

	For the Year Ended December 31	
	2017	2016
Cash provided by (used in):		
Operating activities:		
(Loss) income for the period	\$ (218,486)	\$ 1,153
Items not involving cash:		
Stock options expense	1,336	2,221
Provision for loan losses	217,382	134,314
Depreciation and amortization	12,210	-
Impairment of goodwill and other assets	13,924	14,899
Change in non-cash operating items:		
Change in loans receivable, net of repayments	73,276	(13,147)
Accounts receivable	7,844	(2,632)
Inventory	(2,359)	(888)
Derivative assets and liabilities	2,313	(7,412)
Derivative assets associated with loans	3,136	(3,136)
Income taxes recoverable	4,382	(12,553)
Deferred taxes	5,291	6,878
Intangibles	(5,055)	-
Guarantee asset	22,238	4,088
Other assets	4,731	76
Accounts payable and accrued liabilities	38,558	9,149
Deferred facility fees	(2,635)	(6,784)
Income taxes payable	14	(15,413)
Borrower deposits	(48)	(13)
Other	1,090	(2,415)
	179,142	108,385
Investing activities:		
Fixed asset acquisitions	(3,663)	(3,446)
	(3,663)	(3,446)
Financing activities:		
Net (repayment) draw on collateralized loan obligation	(11,726)	88,142
Dividends	(10,506)	(13,103)
Net draw (repayment) on revolving credit facility	(91,715)	(156,995)
Change in senior debt	14	4,125
Issuance of share capital	-	2,231
Repurchase of share capital	(32,531)	(47,914)
Net (repayment) draw on subordinated bridge facility	(17,262)	41,189
	(163,726)	(82,325)
Increase in cash and cash equivalents	11,753	22,614
Cash and cash equivalents, beginning of period	47,824	25,210
Cash and cash equivalents, end of period	\$ 59,577	\$ 47,824
Cash and cash equivalents is composed of the following:		
Cash	\$ 56,028	\$ 47,824
Restricted cash	3,549	-
	\$ 59,577	\$ 47,824
Cash interest received	\$ 87,833	\$ 124,462
Cash interest paid	22,692	40,245
Cash income taxes (received) paid	(4,478)	29,065

See accompanying notes to consolidated financial statements.

Certain comparative figures have been reclassified to conform with current period presentation (note 2a).

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

1. REPORTING ENTITY:

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

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

2. BASIS OF PRESENTATION:

(a) Statement of Compliance:

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

The consolidated financial statements have been approved for issue by the Board of Directors on April 2, 2018.

Due to the increase in businesses acquired in the current period and the resulting changes to current period presentation, certain comparative figures related to businesses acquired have been reclassified to conform to the current period's presentation of the financial statements. There was no impact to comprehensive (loss) income for the comparative periods. Total assets was also not impacted, other than by a non-material amount of \$1,599 relating to a reclassification of accounts payable.

(b) Basis of Measurement:

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

(c) Functional and Presentation Currency:

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

(d) Use of Estimates and Judgments:

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

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

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the allowance for loan losses, recognition and measurement of separated embedded derivatives including options (classified on the balance sheet as derivative assets associated with loans), derecognition, goodwill and other non-financial assets impairment and the Company's assessment of consolidation under IFRS 10, *Consolidated Financial Statements*, of certain loans in its loan portfolio.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

3. SIGNIFICANT ACCOUNTING POLICIES:

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

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

(a) Cash and Cash Equivalents:

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

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

(b) Accounts Receivable:

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any allowance for uncollectability.

(c) Inventory and Cost of Sales:

Inventories of finished goods, raw materials and operating and maintenance supplies are valued at the lower of cost and net realizable value, with cost determined on a weighted-average cost basis. The cost of finished goods and work-in-process inventories includes direct material, direct labour and an allocation of overhead.

(d) Loans Receivable:

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

Loans receivable are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest rate method. The loans receivable balances include accrued interest and fees and are net of provisions for credit losses.

Separable embedded derivatives, such as equity options or warrants, that are a component of a loan receivable agreement, are separately accounted for as a derivative and are presented in the consolidated statements of financial position as derivative assets associated with loans. Changes in the fair value of such embedded derivatives are presented as gain on derivative assets associated with loans in the consolidated statements of income.

(e) Property, Plant and Equipment:

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to forty years. Leasehold improvements and capital leases are depreciated over the lesser of the useful lives of the assets or the term of the lease. Construction in progress is stated at cost and not depreciated. Upon completion, the property is placed in service and depreciated. Expenditures which significantly extend the useful life of an asset are capitalized. Maintenance and repairs are charged to expense as incurred.

Property, plant and equipment is tested for impairment only when there is an indication of impairment. Impairment testing is a one-step approach for both testing and measurement, with the carrying value of the asset or group of assets compared directly to the higher of fair value less costs of disposal and value

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)
Years Ended December 31, 2017 and 2016

in use. Fair value is measured at the sale price of the asset or group of assets in an arm's length transaction. Value in use is based on the expected cash flows of the asset or group of assets, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The projection of future cash flows takes into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail. Where an impairment loss exists, it is recorded in income. If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying value that would have remained had no impairment loss been recognized previously. IFRS requires such reversals to be recognized in income if certain criteria are met.

(f) **Intangible Assets:**

Intangible assets consist primarily of forestry licenses, gaming technology and customer relationships. Forestry licenses are amortized on a straight-line basis over a period not exceeding 20 years. Gaming technology is amortized on a straight-line basis over a period not exceeding 7 years. Customer relationships are amortized on a straight-line basis over a period not exceeding 13 years. Intangible assets are recorded at cost less accumulated amortization. Amortization methods, useful lives and residual values are assessed at least annually. If the Company identifies events or changes in circumstances which may indicate that their carrying amount may not be recoverable, the intangible assets would be reviewed for impairment.

(g) **Goodwill:**

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill represents the inherent operating value within the businesses acquired. When a business is acquired through a loan, the carrying value of the loan reflects the recoverable cash flows from the underlying business, and thus any excess of loan carrying value over the value of the underlying business is written-off prior to the acquisition date. Goodwill is allocated to the cash-generating unit to which it relates. The Company identifies cash-generating units as identifiable groups of assets that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of a cash-generating unit, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a cash-generating unit are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the cash-generating unit. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. On disposal of a subsidiary, any attributable amount of goodwill is included in determination of the gain or loss on disposal.

(h) **Impairment:**

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

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)
Years Ended December 31, 2017 and 2016

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

The Company considers evidence of impairment for loans at both a specific and collective level. Loans are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. The collective allowance is calculated by using the probability of default (“PD”), loss given default (“LGD”), and exposure at default factors, which are determined with reference to (1) historical default experience, (2) 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.

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

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

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

Interest on the impaired assets continues to be recognized. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss, limited to the original amortized cost had the loan not been impaired.

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

(i) **Catalyst Guarantee:**

The Company recognizes a guarantee asset on its consolidated statements of financial position in relation to specific loans subject to the Catalyst guarantee, and records a recovery of its provision for specific loan losses or impairment on the consolidated statements of income at the same time as the related provision for credit loss or impairment, as applicable, is recorded.

(j) **Borrower Deposits:**

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

(k) **Foreign Currency Transactions:**

Monetary assets and liabilities of foreign operations having a functional currency other than the Canadian Dollar are translated at the rate of exchange prevailing at the reporting date, and revenues and expenses at average rates during the period. Unrealized gains and losses arising upon translation of foreign operations are credited or charged to the foreign currency translation gains/losses in the consolidated statements of comprehensive income. On disposal or partial disposal of a foreign

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

operation, resulting in a loss of control, an appropriate portion of the translation differences previously recognized in other comprehensive income is recognized in the consolidated statements of income.

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

(l) **Financial Assets and Financial Liabilities:**

(i) *Recognition:*

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

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

(ii) *Classification:*

Financial Assets:

The Company classifies its financial assets into one of the following categories:

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

At December 31, 2017 and 2016, all financial assets except for derivative instruments have been categorized as loans and receivables.

Financial Liabilities:

The Company classifies its financial liabilities as measured at amortized cost or fair value through profit or loss. At December 31, 2017 and 2016, the Company had no liabilities at fair value through profit and loss.

(iii) *Derecognition:*

Financial Assets:

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

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

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

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

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

Financial Liabilities:

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

(iv) *Offsetting:*

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company currently has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously. No such instruments subject to offsetting were outstanding at the financial statement date.

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

(v) *Amortized Cost Measurement:*

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

(vi) *Fair Value Measurement:*

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)
Years Ended December 31, 2017 and 2016

recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

(m) **Derivatives Held for Risk Management Purposes:**

Derivatives held for risk management purposes are measured at fair value in the consolidated statements of financial position.

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

(n) **Income Taxes:**

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

(i) *Current Tax:*

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

(ii) *Deferred Tax:*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

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

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

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

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

(iii) *Tax Exposures:*

In determining the amount of current and deferred tax, the Company considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(o) **Consolidation:**

The Company consolidates any entity over which it has control. Control is established when the Company has the power over the entity, exposure or rights to variable returns from its involvement, and the ability to exercise power to affect the amount of returns. The Company assesses if it has control over individual borrowers at each reporting date. All intercompany transactions and balances are eliminated upon consolidation. Intercompany transactions and balances with subsidiaries include interest expense and monitoring fees.

(p) **Interest:**

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest income includes interest earned on loans receivable. Interest income is calculated on the daily balance and charged monthly. Fees that are not an integral part of the effective interest rate are recognized into income as they are earned per the contractual terms of the loans.

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

Unused line fees are recognized in the consolidated statements of income using daily calculations based on the unused portion of the credit facility and are payable by the borrower monthly.

Discounts on acquired loans are recognized as payments are received.

As at December 31, 2017, there were \$677 (2016 – \$3,312) in deferred facility fees that will be recognized in income in fiscal 2018 and 2019.

As at December 31, 2017, there were \$7,575 (2016 - \$7,575) in discounts on acquired loans that will be recognized if the related loans are fully repaid or realized.

(q) **Non-Interest Revenues:**

(i) *Injection Molding Business:*

Revenues for product sales are recognized when products are shipped to customers, all significant obligations of the Company have been satisfied and collection of the sales consideration is reasonably assured. Revenues for service contracts are recognized ratably over the service period. Revenue is recorded net of discounts and returns.

(ii) *Forestry Products Business:*

Revenues for product sales are recognized when products are shipped to customers, all significant obligations of the Company have been satisfied and collection of the sales consideration is reasonably assured. Revenue is recorded net of discounts and returns.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

(iii) *Aluminum Castings Business:*

Revenues for product sales are recognized when products are shipped to customers, all significant obligations of the Company have been satisfied and collection of the sales consideration is reasonably assured. Revenue is measured at the fair value of the consideration received, excluding discounts, returns, sales taxes and duties.

(iv) *Gaming Business:*

Revenues for the sale of gaming machines are recognized when gaming machines are shipped. Revenues for the installation of gaming machines are recognized when the installation is completed. Revenue for profit sharing arrangements are recognized when it can be measured reliably over the term of the arrangement.

(v) *Drilling Services Business:*

Revenues for contract drilling are recognized when drilling has occurred and collectability is reasonably assured. Revenues for other services and product sales are recognized when the services or products have been delivered and collectability is reasonably assured.

(r) **Stock-based Compensation:**

(i) *Stock Option Plan:*

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

(ii) *Deferred Share Unit ("DSU") Plan:*

The Company has a DSU plan for directors. The obligation that results from the award of a DSU is recognized in income upon the grant of the unit and the corresponding amount is included in other liabilities in the consolidated statements of income for the period in which the changes occur.

(s) **Loan Commitments and Financial Guarantees:**

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

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

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

4. FUTURE ACCOUNTING DEVELOPMENTS:

(a) **Financial Instruments (IFRS 9):**

IFRS 9 addresses classification and measurement of financial assets and liabilities, including impairment of financial assets, and hedge accounting. Under this standard, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The accounting model for financial liabilities is largely unchanged from IAS 39 except for the presentation of the impact of own credit risk on financial liabilities designated at fair value through profit or loss account. The new impairment model is an expected loss model as compared to an incurred loss model in IAS 39. IFRS 9 includes a new hedge accounting model that aligns hedge accounting more closely with risk management and expands the scope of items and risks eligible for hedge accounting. The Company does not currently apply designated hedge accounting.

Expected credit losses will be measured at each reporting date according to a three-stage impairment model: stage 1 where a loss allowance is recognized equal to the credit losses expected to result from defaults occurring in the next 12 months for those loans that have not experienced a significant increase in credit risk since initial recognition; stage 2 where a loss allowance is recognized equal to the credit losses expected over the remaining life of the loan for those loans that have experienced a significant increase in credit risk since initial recognition; and stage 3 where a loss allowance equal to full lifetime expected credit losses is recognized as these loans are considered to be credit-impaired.

Migration between stage 1 and stage 2 is based on whether a loan's credit risk as at the reporting date has increased significantly relative to the date it was initially recognized. This assessment is a new concept under IFRS 9 and will require judgment. The measurement of expected credit losses for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will also require judgment.

The definition of default used in the measurement of expected credit losses and the assessment for movement between stages is expected to be consistent with the definition of default used for internal credit risk management purposes. The Company's definition of default includes instruments that are more than 90 days past due.

The Company has performed assessments of the classification of its loan portfolio and determined that, as at December 31, 2017, 77% contain features that will likely be classified as fair value through profit or loss. Additionally, loans that are currently impaired are stage 3 assets to the extent they meet the criteria for amortized cost and require an allowance for lifetime expected losses. The allowance for these stage 3 loans are expected to be similar to the Company's current specific loan loss allowances adjusted for forward-looking information. For the remainder of the portfolio, the implementation of the Company's expected credit loss models is not expected to have a material impact on the Company's financial position. The Company continues to finalize its contractual cash flow characteristics assessments and to complete the development and validation of its loan-by-loan impairment models for the calculation of expected credit losses.

IFRS 9 is mandatorily effective for the Company for its annual period beginning on January 1, 2018. The Company has commenced updating accounting policy manuals, internal control documents, implementing changes to business and financial reporting processes, and enhancing

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)
Years Ended December 31, 2017 and 2016

the Company's existing governance process to support the high quality implementation of the Standard in 2018.

(b) **Revenue from Contracts with Customers (IFRS 15):**

The IASB issued IFRS 15, *Revenue from Contracts with Customers*, which is effective for fiscal years beginning on January 1, 2018 and is available for early adoption. IFRS 15 will replace IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*.

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

The Company is in the process of evaluating the impact of IFRS 15 on the Company's financial statements, including assessing each individual revenue stream and reviewing revenue contracts to determine the required changes from the Company's existing revenue recognition policies.

5. INVENTORY

	December 31, 2017	December 31, 2016
Raw materials	\$ 15,702	\$ 1,067
Work-in-process	5,726	252
Finished goods	14,424	598
Operating and maintenance supplies	1,345	-
	\$ 37,197	\$ 1,917

Growth in inventory in the current year is due to business combinations (see note 23).

6. LOANS RECEIVABLE AND ASSOCIATED DERIVATIVE ASSETS:

Loans and advances to customers are measured at amortized cost, which is net of allowance for loan losses. Derivative assets associated with loans are measured at fair value.

Total loans receivables and the associated derivative assets are as follows:

	December 31, 2017	December 31, 2016
Loans receivable - not covered by guarantee	\$ 212,258	\$ 801,759
Loans receivable - covered by guarantee	11,120	15,432
Derivative assets associated with loans	-	3,136
	\$ 223,378	\$ 820,327

The contractual maturity of loans receivables is as follows:

Contractual Maturity	December 31, 2017	December 31, 2016
0 - 3 months	\$ 188,154	\$ 421,997
4 - 6 months	-	40,834
7 - 12 months	-	171,129
13 months or more	35,224	183,231
	\$ 223,378	\$ 817,191

The loans receivable earn interest at fixed rates. For the current year, the loan portfolio generated a blended gross yield, including all interest and fees of approximately 14% (2016 – 20%). The loans are generally

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)
Years Ended December 31, 2017 and 2016

senior secured credit facilities with revolving and non-revolving facilities secured by a first charge on substantially all of the borrowers' assets.

For the current year, the total interest, fee and other revenue earned on loans with no impairment was \$33.8 million (2016 - \$113.6 million). For the current year, the total interest, fee and other revenue earned on loans with an impairment but for which interest is currently being collected was \$55.8 million (2016 - \$65.9 million). For the current year, the total interest, fee and other revenue earned on loans with an impairment but for which interest is currently not being collected was \$3.0 million (2016 - \$8.5 million). The proportionate cash flows of two loans originated during the year and amounting to approximately \$29 million were transferred (derecognized) during the year in connection with the Catalyst participation interest (see note 15(b)). There was no gain or loss related to the transfers.

Given the nature of the business, loans may be renewed past their original contractual maturity. The historical average time for a loan to be repaid/realized has been approximately 1.7 years. Of our loans receivables, 77% are expected to be realized beyond 12 months.

As at December 31, 2017, the Company had one loan that individually exceeded \$100 million in gross loans receivables. This 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 is concentrated in the energy sector and the significant risk factors that impact its operations include the ability of the borrower to maintain and execute a project contract, the ability of the borrower to achieve forecasted EBITDA targets, unexpected changes in working capital requirements, political risk associated with certain countries of operations, competitor risk and execution risk. Timing on the realization of this loan is uncertain and is assessed continuously, taking into account performance of the investment and the macro-economic conditions impacting the sector of the investment.

7. LOAN LOSS ALLOWANCE:

As at December 31, 2017, the Company has an allowance for loan losses of \$358,217 (December 31, 2016 - \$164,973), which is offset against loans receivable on the consolidated statements of financial position.

	December 31, 2017	December 31, 2016
Allowance for loan losses		
Balance, beginning of period	\$ 164,973	\$ 43,307
Changes for the period:		
Specific loan loss provisions	219,967	134,706
Collective allowances	(2,585)	(392)
Provision related to businesses acquired	(24,138)	(4,458)
Write-offs for the period:	-	(8,190)
Balance, end of period	\$ 358,217	\$ 164,973

The specific loan loss provisions of \$219,967 (December 31, 2016 - \$134,706) related to a pool of loans with gross loans receivables of \$581,875 (December 31, 2016 - \$416,049).

The following table represents specific individual loan loss allowances before derecognition (see note 25) by country and industry:

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

Individually Impaired by Geographical Region and Industry	December 31, 2017	December 31, 2016
Canada		
Agriculture	\$ 43,382	\$ 42,310
Energy	-	-
Forestry	-	10,000
Industrials	27,229	4,123
Mining	22,240	16,598
	92,851	73,031
United States		
Industrials	49,449	41,817
Mining	29,630	29,813
Energy	131,924	-
Technology & Hardware	38,342	17,471
Other	16,684	-
	266,029	89,101
Total	\$ 358,880	\$ 162,132

8. OTHER ASSETS:

	December 31, 2017	December 31, 2016
Other receivables	\$ 12,052	\$ 15,585
Assets held for sale	7,199	7,024
Mortgage receivable	4,500	4,500
Employee receivables	1,011	770
Prepaid assets	5,507	-
Leasehold improvements	1,605	1,661
Other	2,817	1,543
	\$ 34,691	\$ 31,083

The other receivables consists of contractual receivables under legal proceedings.

The assets held for sale consists of machinery and equipment.

9. PROPERTY, PLANT AND EQUIPMENT:

	Land	Building	Machinery and Equipment	Other	Total
January 1, 2016	\$ 353	\$ 5,108	\$ 13,422	\$ 20	\$ 18,903
Additions (through non-cash exchange)	7,174	-	5,997	-	13,171
Additions (other)	2,095	418	568	364	3,445
Depreciation	-	(246)	(518)	-	(764)
Dispositions	-	-	-	-	-
Foreign currency translation	287	(150)	(255)	(19)	(137)
December 31, 2016	\$ 9,909	\$ 5,130	\$ 19,214	\$ 365	\$ 34,618

	Land	Building	Machinery and Equipment	Other	Total
January 1, 2017	\$ 9,909	\$ 5,130	\$ 19,214	\$ 365	\$ 34,618
Additions (through non-cash exchange)	2,602	13,288	42,586	1,000	59,476
Additions (other)	24	889	4,778	1,562	7,253
Depreciation	-	(430)	(2,891)	(295)	(3,616)
Dispositions	(247)	(591)	(2,718)	(32)	(3,588)
Impairment	-	-	(1,441)	-	(1,441)
Foreign currency translation	(737)	(587)	(5,565)	(41)	(6,930)
December 31, 2017	\$ 11,551	\$ 17,699	\$ 53,963	\$ 2,559	\$ 85,772

Note: \$13,391 of property, plant and equipment relates to assets held for sale.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

10. INTANGIBLES:

	December 31, 2017	December 31, 2016
Gaming technology	\$ 18,210	\$ -
Customer relationships	10,394	-
Forestry licenses	69,417	-
Other patents, trademarks and development costs	6,687	-
	\$ 104,708	\$ -

11. GOODWILL:

	Total
January 1, 2016	\$ 13,660
Acquisitions through business combinations	17,280
Disposals	-
Impairments	(7,276)
Foreign currency translation and other ⁽¹⁾	(713)
December 31, 2016	\$ 22,951
	Total
January 1, 2017	\$ 22,951
Acquisitions through business combinations	115,947
Disposals	-
Impairments	(9,460)
Foreign currency translation and other ⁽¹⁾	(1,624)
December 31, 2017	\$ 127,814

⁽¹⁾ Includes adjustments to goodwill for final purchase price allocation.

Goodwill is allocated to the following operating businesses:

	December 31, 2017	December 31, 2016
Injection molding business	\$ 28,173	\$ -
Forestry products business	-	-
Aluminum castings business	5,982	14,120
Gaming business	86,771	-
Drilling services business	6,888	8,831
	\$ 127,814	\$ 22,951

Injection Molding Business

Goodwill in the injection molding business is tested for impairment using a value-in-use discounted cash flow analysis to determine the recoverable amount. The recoverable amount for the year ended 2017 was determined to be in excess of its carrying value. The valuation assumptions used to determine the recoverable amount are a discount rate of 20.6%, terminal growth rate of 2.5% and terminal year of 2021 for cash flows projected for 2018 – 2021. 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.

Aluminum Castings Business

Goodwill in the aluminum castings business is tested for impairment using a value-in-use discounted cash flow analysis to determine the recoverable amount. The recoverable amount for the year ended 2017 was determined to be lower than its carrying value resulting in an impairment of \$7.1 million for the year. The valuation assumptions used to determine the recoverable amount are a discount rate of 17.8% (2016 - 16%), terminal growth rate of 2.5% (2016 – 2.5%) and terminal year of 2022 for cash flows projected for 2018 – 2022. The discount rate represents the market-based weighted-average cost of capital adjusted for risks

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

specific to the operating region and the terminal growth rate represents an estimate of long term nominal GDP growth.

Gaming Business

Goodwill in the gaming business is tested for impairment using a value-in-use discounted cash flow analysis to determine the recoverable amount. The recoverable amount for the year ended 2017 was determined to be in excess of its carrying value. The valuation assumptions used to determine the recoverable amount are a discount rate of 16.4% for core operations and 31.2% for non-core operations, terminal growth rate of 2.5% and terminal year of 2021 for cash flows projected for 2018 – 2021. The discount rate represents the market-based weighted-average cost of capital adjusted for risks specific to the gaming business' operations and the terminal growth rate represents an estimate of long term nominal GDP growth.

Drilling Services Business

Goodwill in the drilling services business is tested for impairment using a value-in-use discounted cash flow analysis to determine the recoverable amount. The recoverable amount for the year ended 2017 was determined to be lower than its carrying value resulting in an impairment of \$2.4 million for the year. The valuation assumptions used to determine the recoverable amount are a discount rate of 20.1% (2016 – 17.6%), terminal growth rate of 2.5% (2016 - 2.5%) and terminal year of 2020 for cash flows projected for 2018 – 2020. 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.

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

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	December 31, 2017	December 31, 2016
Trade payables	\$ 36,408	\$ 2,961
Due to related party (note 15)	53,962	14,550
Dividend payable	5,139	4,992
Siviculture accrual	4,324	-
Note payable	3,000	-
Other	11,258	3,697
	\$ 114,091	\$ 26,200

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

13. TERM DEBT:

	December 31, 2017	December 31, 2016
Senior debt	\$ 49,443	\$ 49,459
Less: associated transaction costs	(25)	(55)
	49,418	49,404
Collateralized loan obligation	76,416	88,142
Subordinated bridge facility, due to Catalyst	315,406	332,668
	\$ 441,240	\$ 470,214

The amounts due on the senior debt represent a senior secured non-revolving term loan for \$50 million. The loan was originally scheduled to mature on March 31, 2017, and bears a fixed rate of interest of 8.419% which was based on the Government of Canada bond rate at the time of issuance plus 5.75%. The loan has a first priority charge over a portion of the assets of the Company. In March 2017, the Company extended the maturity of its senior debt from March 31, 2017 to the earlier of September 30, 2017 and the date when a privatization transaction closes. In September 2017, the Company extended the maturity of its senior debt

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

from September 30, 2017 to the earlier of March 31, 2018 and the date when a privatization transaction closes. Subsequent to the period end, in March 2018, the Company extended the maturity of its senior debt from March 31, 2018 to the earlier of March 31, 2019 and the date in which a privatization transaction closes. All other terms remain substantially unchanged other than approximately \$15.5 million of scheduled amortization over the year and potential cash sweeps. The Company was in compliance with its financial covenants, following receipt of certain waivers requested by it, at December 31, 2017 and December 31, 2016.

The Company paid \$584 in transaction costs in 2011 and an additional \$169 in 2014 associated with the senior debt, which have been deferred and are being amortized into interest expense over the term of the loan using the effective interest rate method.

In December 2014, the Company obtained a US\$200 million revolving unsecured subordinated bridge facility from Catalyst. The facility carries an interest rate of 8% per annum plus an annual fee equal to 1.5% of the maximum amount available under the facility and a standby fee equal to 1% per annum of undrawn amounts. The facility originally matured on April 30, 2017 and can be repaid in full by the Company at any time without penalty. In September 2015, the Company increased the amount of its revolving unsecured subordinated bridge facility by US\$50 million to US\$250 million. In March 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility from April 30, 2017 to the earlier of (i) completion of the privatization process and (ii) October 31, 2017. In October 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility to the earlier of (i) April 30, 2018 and (ii) the day following the repayment of its senior debt in full. Subsequent to the period end, 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 Company was in compliance with its financial covenants, following receipt of certain waivers as requested, at December 31, 2017 and December 31, 2016.

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

14. REVOLVING CREDIT FACILITY:

The Company had a US\$337.5 million revolving credit facility (the “**revolving credit facility**”) to finance a portion of the loan portfolio pledged by a special purpose financing vehicle wholly-owned by Callidus. The revolving credit facility could have been drawn in either Canadian or U.S. dollars and provided for an aggregate of US\$281.25 million of Class A loans and US\$56.25 million of Class B loans. The Class A loans and the Class B loans (together the “**Loans**”) were subject to borrowing base availability dependent on certain eligible loans receivable balances approved by the lender.

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

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

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)
Years Ended December 31, 2017 and 2016

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

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

15. RELATED PARTY TRANSACTIONS:

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

(a) Relationships:

The Catalyst Capital Group Inc. (“CCGI”) and funds managed by it (collectively “Catalyst”) own approximately 71.1% of the issued and outstanding shares of the Company as at December 31, 2017 (December 31, 2016 – 66.7%). Catalyst also provides term debt to the Company.

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

(b) Catalyst Participation Interest:

In connection with the initial public offering of the Company’s shares in 2014 (the “Offering”), and repayment of the Catalyst debenture at that time, Catalyst Fund Limited Partnership IV (“Catalyst Fund IV”) obtained an approximate 18% undivided interest at the time of the Offering in the loan portfolio of the Company. The participation agreement provided that the Company was not entitled to the risks or rewards related to Catalyst Fund IV’s participation interest in the loan portfolio. Consequently, the portion of the loans corresponding to Catalyst Fund IV’s participation interest was derecognized from the financial statements during fiscal 2014.

The participation agreement also provided that in the event that Catalyst Fund IV wished to sell its participation interest in the loan portfolio, the Company had the option to acquire all or part of Fund IV’s participation interest in the loan portfolio at par plus accrued interest and fees.

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

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

(c) The Catalyst Guarantees:

In connection with the repayment of the Catalyst debenture at the time of the Offering, the Catalyst Funds agreed to guarantee any losses incurred by the Company on loans in the portfolio at the time of the Offering. The guarantee covers losses of principal incurred by the Company on certain specified loans until fully realized (“watch-list loans”). Watch-list loans are identified by management as subject to heightened monitoring due to the financial condition of the borrowers. All other loans in the portfolio at the time of the Offering were also guaranteed for any losses of principal until such time as the loans

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

were renewed by the Company at their next scheduled credit review. The scheduled credit reviews have taken place for all such loans.

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

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

As at December 31, 2017, the Company recorded a guarantee asset of \$8,429 (December 31, 2016 - \$30,667) related to the Catalyst guarantee. During the year, \$46,171 (2016 - \$35,445) was received under the Catalyst guarantee. Amounts received are subject to refund if further collections are made on the guaranteed loans.

(d) Other Transactions during the Period:

During the year ended December 31, 2017, commitment fees of \$4,654 (2016 - \$5,105), were paid or accrued to Catalyst. Interest expense also includes \$25,974 (2016 - \$23,341) accrued to Catalyst. All transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As at December 31, 2017, accounts payable and accrued liabilities included \$27,900 (December 31, 2016 - nil) representing participation interest funding received in advance which is due to Catalyst, \$28,157 (December 31, 2016 - \$6,563) representing the unpaid portion of interest expense and commitment fees due to Catalyst on the subordinated bridge facility (which is payable in 2019 - see note 27) and \$367 (December 31, 2016 - \$6,526) representing the unpaid portion of net income due to the Fund's participation interest in the loan portfolio (note 25).

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. The Catalyst Funds acquired the loan in question for an amount equal to the guarantee. The Company primarily used the proceeds from the guarantee to repay a portion of the balance outstanding under the subordinated bridge facility.

As at December 31, 2017, there was \$1.0 million (December 31, 2016 - nil) in loans receivable outstanding relating to advances provided by the Company on an employee retention plan.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)
Years Ended December 31, 2017 and 2016

(e) **Key Management Personnel Compensation:**

No compensation is paid by the Company to its Chief Executive Officer. Other key management personnel compensation for two employees and three directors comprised the following:

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	\$ 4,670	\$ 2,728
Share-based payments	422	683
Director fees	848	293
	\$ 5,940	\$ 3,704

16. **SHARE CAPITAL:**

	December 31, 2017		December 31, 2016	
	Shares	Amount	Shares	Amount
Common shares outstanding, beginning of year	49,916,781	\$ 435,413	49,354,355	\$ 416,750
Issue of common shares	3,970,675	50,172	3,412,030	43,949
Purchase and cancellation of common shares	(2,495,839)	(22,351)	(2,849,604)	(25,286)
Common shares outstanding, end of year	51,391,617	\$ 463,234	49,916,781	\$ 435,413

Note: The par value of each common share is \$1.

In August 2015, the Company adopted a dividend policy pursuant to which the Company would declare and pay quarterly cash dividends to holders of its outstanding common shares of record as of the close of business on the last business day of each calendar quarter. In addition, the Company implemented a dividend reinvestment plan (“DRIP”) pursuant to which eligible shareholders may elect to automatically reinvest their cash dividends payable in respect of the common shares to acquire additional common shares. During the year, 3.9 million shares (2016 – 2.8 million shares) were granted to those who elected to participate in the DRIP. Catalyst elected to participate in the DRIP on 100% of their shareholdings of the Company and, therefore, received 3.3 million shares (2016 – 2.5 million shares) in consideration of the dividend. Cash outflow during the year for the dividend was \$10.5 million (2016 – \$13.1 million). In April 2016, the Company adopted a dividend policy pursuant to which it would declare and pay monthly dividends in lieu of quarterly dividends. In May 2016, the Company increased the amount of its aggregate annual dividend to \$1.00 per share. In October 2016, the Company increased the amount of its aggregate annual dividend to \$1.20 per share. A dividend of \$5.1 million was accrued as at December 31, 2017 (December 31, 2016 - \$5.0 million) as it is payable to shareholders of record as at December 31, 2017.

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 an increase to the purchase price under the Offer from \$14.00 per share to \$15.50 per share. In July 2016, the Board authorized an increase to the purchase price under the Offer from \$15.50 per share to \$16.10 per share. In August 2016, the Board authorized an increase to the purchase price under the Offer from \$16.10 per share to \$16.50 per share. Under the revised Offer, the aggregate maximum purchase price payable by Callidus was \$58.9 million. In October 2016, the Company announced that it was increasing the number of shares eligible under its substantial issuer bid by 1,500,000 shares, or approximately an additional 3% of the shares outstanding as at October 27, 2016. Under the revised Offer, Callidus offered to purchase for cancellation up to 5,071,428 of its outstanding common shares at \$16.50 per share, from its shareholders. In December 2016, the Company announced final take-up

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

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 for \$16.50 per share or \$47.0 million (\$24.4 million through share capital and \$22.6 million through retained earnings).

17. INCOME TAXES:

Amounts recognized in profit or loss:

	2017	2016
Current tax (recovery) expense		
Current year	\$ (2,721)	\$ 9,939
Prior year adjustments	79	(6,355)
	<u>(2,642)</u>	<u>3,584</u>
Deferred tax expense:		
Origination and reversal of temporary differences	185	588
Derecognition of previously recognized deferred tax assets	5,191	-
Prior year adjustments	(85)	6,290
	<u>5,291</u>	<u>6,878</u>
Total income tax expense	<u>\$ 2,649</u>	<u>\$ 10,462</u>

Reconciliation of effective tax rate:

	2017	2016
Tax using the combined statutory tax rate	\$ (54,342)	\$ 8,209
Current year losses for which no deferred asset is recognized	43,226	1,677
Stock-based compensation and non-deductible expenses	1,002	641
Permanent differences	7,727	-
Impairment of goodwill and other assets	3,690	-
Previously unrecognized tax losses used	(2,261)	-
Rate differential across jurisdictions	(1,944)	-
Derecognition of previously recognized deferred tax assets	5,192	-
Changes to estimates for prior years	(6)	(65)
Other	365	-
Total income tax expense	<u>\$ 2,649</u>	<u>\$ 10,462</u>

Components of deferred tax assets:

	December 31, 2017	December 31, 2016
Deferred tax assets:		
Deferred financing fees	\$ -	\$ 3,033
Provision for loan losses	1,734	11,726
Non-capital loss carryforward	-	1,145
Other	-	101
	<u>1,734</u>	<u>16,005</u>
Deferred tax liabilities:		
Fixed and intangible assets	-	(22)
Unrealized gain on derivative asset	-	(831)
Recovery under the Catalyst guarantee	-	(8,127)
Total recognized deferred tax assets	<u>\$ 1,734</u>	<u>\$ 7,025</u>

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

Movements in deferred tax assets and liabilities during the year:

	Balance at January 1, 2017	Balance Recognized in Profit or Loss	Balance Recognized in Share Capital	Balance at December 31, 2017
Deferred financing fees and share issue costs	\$ 3,033	\$ (3,033)	\$ -	\$ -
Provision for loan losses	11,726	(9,992)	-	1,734
Fixed assets and intangibles	(22)	22	-	-
Other	101	(101)	-	-
Unrealized gain on derivative asset	(831)	831	-	-
Non-capital loss carryforward	1,145	(1,145)	-	-
Recovery under the Catalyst guarantee	(8,127)	8,127	-	-
	\$ 7,025	\$ (5,291)	\$ -	\$ 1,734

	Balance at January 1, 2016	Balance Recognized in Profit or Loss	Balance Recognized in Share Capital	Balance at December 31, 2016
Deferred financing fees and share issue costs	\$ 5,828	\$ (2,795)	\$ -	\$ 3,033
Provision for loan losses	17,500	(5,774)	-	11,726
Fixed assets and intangibles	(20)	(2)	-	(22)
Other	-	101	-	101
Unrealized gain on derivative asset	-	(831)	-	(831)
Non-capital loss carryforward	-	1,145	-	1,145
Recovery under the Catalyst guarantee	(9,406)	1,279	-	(8,127)
	\$ 13,902	\$ (6,877)	\$ -	\$ 7,025

Unrecognized Deferred Tax Assets

Deferred tax assets have not been recognized in respect of the following items due to recent taxable losses and as the Company does not currently have convincing evidence that future taxable profit will be available against which the Company can use the benefits.

	2017	2016
Gross amounts		
Deductible temporary differences	\$ 41,720	\$ -
Tax losses	196,347	13,050
	\$ 238,067	\$ 13,050

Tax losses for which no deferred tax asset was recognized expire between 2019 and 2037 (2016 - 2033 and 2036).

18. FAIR VALUES OF FINANCIAL INSTRUMENTS:

Fair values and carrying values of financial instruments:

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

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

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

	December 31, 2017		December 31, 2016		Fair Value Over Carrying	Fair Value Hierarchy
	Fair Value	Carrying Value	Fair Value Over Carrying	Fair Value Over Carrying		
Assets						
Cash and cash equivalents	\$ 59,577	\$ 59,577	\$ -	\$ 47,824	\$ 47,824	\$ - 1
Accounts receivable	29,123	29,123	-	5,059	5,059	- 3
Loans receivable - not covered by guarantee	212,258	212,258	-	801,759	801,759	- 3
Loans receivable - covered by guarantee	11,120	11,120	-	15,432	15,432	- 3
Derivative assets associated with loans	-	-	-	3,136	3,136	- 3
Derivative assets	9,958	9,958	-	8,722	8,722	- 2
Guarantee asset	8,429	8,429	-	30,667	30,667	- 3
	\$ 330,465	\$ 330,465	\$ -	\$ 912,599	\$ 912,599	\$ -
Liabilities						
Accounts payable and accrued liabilities	\$ 114,091	\$ 114,091	\$ -	\$ 26,200	\$ 26,200	\$ - 2
Derivative liabilities	3,549	3,549	-	-	-	- 2
Revolving credit facility	-	-	-	91,715	91,715	- 3
Senior debt	49,418	49,418	-	49,404	49,404	- 3
Collateralized loan obligation	76,416	76,416	-	88,142	88,142	- 3
Subordinated bridge facility, due to Catalyst	315,406	315,406	-	332,668	332,668	- 3
	\$ 558,880	\$ 558,880	\$ -	\$ 588,129	\$ 588,129	\$ -

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

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

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

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

- The carrying value of cash and cash equivalents, accounts receivable, revolving and non-revolving credit facilities, the guarantee asset and accounts payable and accrued liabilities is a reasonable approximation of fair value because these instruments are either short-term in nature or re-priced to current market rates frequently.
- The fair value of the loan portfolio is determined by aggregating the present value of the discounted cash flows factoring current interest rates and estimates of credit risk. Discount rates used to determine the fair value of loans range between 6.0% and 30.0%.

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

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)
Years Ended December 31, 2017 and 2016

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

19. CONTINGENCIES:

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

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

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.

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

The Company has entered into certain post-acquisition earnout arrangements with key members of its operating subsidiaries whereby a cash payment will be made contingent on successful sale of those operating subsidiaries over and above certain thresholds. As at December 31, 2017, the total undiscounted contingent consideration was \$7.8 million (December 31, 2016 – nil). No amount is recorded in the consolidated financial statements related to this contingency.

20. FINANCIAL RISK MANAGEMENT:

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

(a) Currency Risk:

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

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)
Years Ended December 31, 2017 and 2016

A change of 1% in the value of the Canadian dollar as compared to the U.S. dollar would result in an immaterial change to the Canadian equivalent amount of U.S. dollar foreign exchange exposure as at December 31, 2017 and December 31, 2016 as the gain or loss on translation is offset by the mark-to-market value of the foreign exchange forward contracts.

(b) Interest Rate Risk:

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

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

(c) Liquidity Risk:

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

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

The Company in the normal course needs to raise new funding and extend funding sources, including related party funding (which has historically been provided as needed), to fund its ongoing operations and loan growth plans. The Company is currently reliant on continued funding from Catalyst. See note 27 for details of extensions of funding and additions of new related party funding, which were executed prior to the issuance of the financial statements. The Company's liquidity may be adversely impacted by market conditions and unfavourable results. The outcome of these matters is inherently not predictable. To address the requirements, the Company has extended financing from both its senior debt provider and existing shareholders into 2019, and continues to seek new debt financing and asset disposals.

In addition to the Bridge Facility, in March 2018, the Corporation entered into letter agreements (the "Catalyst Letter Agreements") with certain Catalyst Funds, in which the Catalyst Funds agreed, among other things, to provide additional financing to the Corporation to enhance its liquidity. The Catalyst Letter Agreements provide for additional financing to the Corporation of up to \$15.5 million if required for the purposes of making scheduled amortization payments under the Term Loan and an amount of up to the face amount of loans subject to the Catalyst Guarantee that have been pledged to the lender under the Term Loan. These amounts would be advanced on the same terms as the Bridge Facility. Additionally, the Catalyst Funds agreed to advance to the Corporation up to US \$150 million if required by the Corporation to fund potential future advances to a 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.

(d) Credit Risk:

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

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

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)
Years Ended December 31, 2017 and 2016

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

The net carrying amount of all loans is at least 100% collateralized as of December 31, 2017 and December 31, 2016. Collateral securing loans receivable primarily relates to enterprise values, vessels, and machinery and equipment.

21. DERIVATIVES HELD FOR RISK MANAGEMENT:

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

	Notional Amount*		Fair Value Asset (Liability)**	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Foreign exchange forward contracts	\$ 181,000	\$ 70,000	\$ 6,409	\$ (485)
Foreign exchange call option contract	70,000	70,000	3,549	8,493
Foreign exchange put option contract	70,000	70,000	(3,549)	714

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

**The fair value of these assets and liabilities is shown separately on the statements of financial position as there is no legal right to offset.

22. SHARE-BASED PAYMENTS:

The Company grants stock options which vest evenly over a three-year period and are exercisable up to 10 years from the date of grant. As approved by the directors, a total of 10% of the total issued and outstanding common shares of the Company have been reserved for issuance under the plan of which approximately 7% have been awarded and remain outstanding as at December 31, 2017 (December 31, 2016 – 4%).

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

The amount recorded in contributed surplus as at December 31, 2017 was \$7,760 (December 31, 2016 - \$6,424). For the year ended December 31, 2017, an expense of \$1,336 (2016 - \$2,221) was recorded in the consolidated statements of income and comprehensive income. As at December 31, 2017, future unrecognized compensation cost for non-vested stock options was \$1,211 (December 31, 2016 - \$1,458), which is to be recognized over a weighted average period of 1.7 years (December 31, 2016 - 1.4 years).

Significant assumptions used in valuing the options granted at year-end include a volatility rate of 38% (December 31, 2016 – 37%), a dividend rate of 11.8% (December 31, 2016 – 6.6%), an expected life assumption of 10 years (December 31, 2016 – 10 years), and a risk-free rate of 2.40% (December 31, 2016 – 2.06%).

The following table summarizes the weighted average exercise prices and the weighted average remaining contractual life of the balances of stock options outstanding at December 31, 2017.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)
Years Ended December 31, 2017 and 2016

Exercise Price (\$)	Options	Options Outstanding		Options Exercisable		
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)	Options	Weighted Average Exercise Price (\$)	
\$3.41 - \$8.03	1,252,848	7.76	7.71	829,644	7.55	
\$8.04 - \$16.34	1,377,435	9.77	\$ 11.01	50,747	14.82	
\$16.35 - \$19.86	790,834	7.39	\$ 17.16	652,071	16.92	
	3,421,117	8.48	\$ 11.22	1,532,462	\$ 11.78	

For the year ended December 31, 2017, 124,402 (2016 – 198,260) options were forfeited or expired.

23. BUSINESS COMBINATIONS:

(a) Assets Held for Sale:

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 had presented the net assets and liabilities of the business as assets held for sale.

In March 2016, as approved by the independent members of the Board, the Company required payment by the Catalyst Funds of a guarantee (as described in note 15(c)) with respect to the Company's assets held for sale in an amount equal to the total outstanding principal plus accrued and unpaid interest of \$101.3 million. The Catalyst Funds acquired the loan in question for an amount equal to the guarantee.

	For the Year Ended December 31	
	2017	2016
Net loss from operations of assets held for sale	\$ -	\$ (1,417)
Provision related to assets held for sale	-	-
Recovery under the Catalyst guarantee	-	1,417
	\$ -	\$ -

(b) Businesses Acquired:

In November 2015, one of the Company's borrowers (Wabash Castings Inc., a manufacturer of aluminum castings) emerged from formal restructuring proceedings in the U.S. as a going concern. In May 2016, one of the Company's borrowers (Altair Water and Drilling Inc., a water and oil drilling services company) emerged from formal restructuring proceedings in Canada as a going concern. In February 2017, one of the Company's borrowers (Bluberi Gaming Technologies Inc., a digital slot gaming company) emerged from formal restructuring proceedings in Canada as a going concern. In June 2017, the Company gained control of one of its borrowers (Otto Industries North America Inc., an injection molding company). In November 2017, the Company gained control of one of its borrowers (C&C 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 all of these borrowers and has consolidated the assets, liabilities and operations of these businesses.

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

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

acquisition date recorded in the statements of comprehensive income were \$16.7 million and \$0.8 million, respectively.

The business acquired in June 2017 was initially recognized at the carrying value of the loan immediately prior to acquiring control, which was an amount of \$90 million, reflecting the fair value of the consideration transferred. The major class of assets acquired included property, plant and equipment of \$40 million, goodwill of \$28 million, accounts receivables of \$20 million, inventory of \$15 million, intellectual property of \$9 million, prepaids and other assets of \$8 million and the assumption of accounts payable of \$24 million, and other liabilities of \$6 million. No other material liabilities were assumed in the acquisition. The amounts of revenue and net loss of the business acquired since the acquisition date recorded in the statements of comprehensive income were \$71.5 million and \$11.1 million, respectively.

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

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

Goodwill is tested for impairment at least annually at December 31. During the year, there were indications of impairment for two of the Company's businesses (Wabash Castings Inc. and Altair Water and Drilling Inc.) that reflected significant declines in forecasted cash flows from those operating assets and lower than expected economic performance of those businesses. As a result, an amount of \$9.5 million was recorded in the statements of comprehensive income as an impairment for the year. As at December 31, 2017, the total recoverable amount for these two businesses is estimated to be \$42.8 million. The recoverable amount for these two businesses was based on value in use and the discount rate and growth rates used in determining these recoverable amounts range from 18% to 20% and 2% to 3%, respectively.

24. CAPITAL REQUIREMENTS:

The Company maintained minimum excess working capital as prescribed by the OSC. At December 31, 2017 and December 31, 2016, the Company was in compliance with the OSC's requirement to maintain minimum capital of \$100.

25. TRANSFERS OF FINANCIAL ASSETS:

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

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

Statement of Financial Position

As at December 31, 2017	Before Derecognition	Effect of Derecognition	After Derecognition
Cash and cash equivalents	\$ 59,577	\$ -	\$ 59,577
Accounts receivable	29,123	-	29,123
Inventory	37,197	-	37,197
Income taxes recoverable	14,239	-	14,239
Derivative assets	9,958	-	9,958
Loans receivable - not covered by guarantee	236,186	(23,928)	212,258
Loans receivable - covered by guarantee	11,120	-	11,120
Derivative assets associated with loans	-	-	-
Deferred tax asset	1,734	-	1,734
Guarantee asset	8,429	-	8,429
Other assets	34,691	-	34,691
Property, plant and equipment	85,772	-	85,772
Intangibles	104,708	-	104,708
Goodwill	127,814	-	127,814
	\$ 760,548	\$ (23,928)	\$ 736,620
Accounts payable and accrued liabilities ⁽¹⁾	\$ 102,466	\$ 11,625	\$ 114,091
Income taxes payable	14	-	14
Derivative liabilities	3,549	-	3,549
Borrower deposits	81	-	81
Deferred facility fees	677	-	677
Due to Catalyst Fund Limited Partnership V	15,641	(15,641)	-
Senior debt	49,975	(557)	49,418
Collateralized loan obligation	83,785	(7,369)	76,416
Subordinated bridge facility, due to Catalyst	316,629	(1,223)	315,406
	572,817	(13,165)	559,652
Share capital	463,234	-	463,234
Contributed surplus	7,760	-	7,760
Retained deficit	(282,655)	(10,763)	(293,418)
Accumulated other comprehensive loss	(608)	-	(608)
	187,731	(10,763)	176,968
	\$ 760,548	\$ (23,928)	\$ 736,620

⁽¹⁾ Payable recognized pertains to the derecognized income owed to Catalyst Fund V as a result of the participation interest.

⁽²⁾ Presentation reflects as at December 31, 2017 balances with retained deficit reflecting the impact of derecognition for the current year.

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

Statement of Comprehensive Income

	Year Ended December 31, 2017		
	Consolidated	Effect of Derecognition	After Derecognition
Interest	\$ 94,551	\$ (10,015)	\$ 84,536
Fees and other	14,419	(6,435)	7,984
	108,970	(16,450)	92,520
Catalyst Fund Limited Partnerships	(30,800)	145	(30,655)
Senior debt and revolving credit facilities	(18,736)	303	(18,433)
	(49,536)	448	(49,088)
Net interest income	59,434	(16,002)	43,432
Revenues from injection molding business	71,517	-	71,517
Revenues from forestry products business	16,346	-	16,346
Revenues from aluminum castings business	14,688	-	14,688
Revenues from gaming business	16,682	-	16,682
Revenues from drilling services business	3,145	-	3,145
	122,378	-	122,378
Total revenue	181,812	(16,002)	165,810
Cost of sales from injection molding business	(70,894)	-	(70,894)
Cost of sales from forestry products business	(15,117)	-	(15,117)
Cost of sales from aluminum castings business	(17,859)	-	(17,859)
Cost of sales from gaming business	(4,412)	-	(4,412)
Cost of sales from drilling services business	(1,842)	-	(1,842)
Total cost of sales	(110,124)	-	(110,124)
Provision for loan losses	(216,487)	(895)	(217,382)
Recovery under the Catalyst guarantee	23,933	-	23,933
Loss on derivative assets associated with loans	(3,136)	-	(3,136)
Impairment of goodwill and other assets	(13,924)	-	(13,924)
Foreign exchange loss	(2,902)	240	(2,662)
Catalyst's share of overhead expenses	-	5,894	5,894
Depreciation	(6,283)	-	(6,283)
Salaries and wages	(25,117)	-	(25,117)
Stock options expense	(1,336)	-	(1,336)
General and administrative	(31,510)	-	(31,510)
	(276,762)	5,239	(271,523)
Income before income taxes	(205,074)	(10,763)	(215,837)
Current income taxes (expense) recovery	2,642	-	2,642
Deferred income taxes (expense) recovery	(5,291)	-	(5,291)
	(2,649)	-	(2,649)
Income and comprehensive income	\$(207,723)	\$ (10,763)	\$ (218,486)

CALLIDUS CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

Years Ended December 31, 2017 and 2016

26. EARNINGS PER SHARE:

	For the Year Ended December 31	
	2017	2016
Basic earnings per common share:		
Net (loss) income	\$ (218,486)	\$ 1,153
Weighted average number of common shares outstanding ('000s)	50,550	50,132
Basic (loss) earnings per common share	\$ (4.32)	\$ 0.02
Diluted earnings per common share:		
Net (loss) income	\$ (218,486)	\$ 1,153
Weighted average number of common shares outstanding ('000s)	50,550	50,132
Adjustments to average shares due to:		
Share-based payment options and others	-	208
Weighted average number of common shares outstanding ('000s)	50,550	50,340
Diluted (loss) earnings per common share	\$ (4.32)	\$ 0.02

27. SUBSEQUENT EVENTS:

- (a) In January 2018, the Company gained 100% control of one of its borrowers (Midwest Asphalt Corporation, a paving and maintenance company). The carrying value of the loan at December 31, 2017 was \$16 million. The Company is in the process of evaluating the fair values of all assets acquired and liabilities assumed.
- (b) In February and March of 2018, the Company received a \$31 million advance under the guarantee from Catalyst over and above the guarantee receivable amount on the consolidated statement of financial position as of December 31, 2017. This amount will be presented in accounts payable and accrued liabilities on the statement of financial position.
- (c) In March 2018, the Company extended the maturity of its senior debt from March 31, 2018 to the earlier of March 31, 2019 and the date in which a privatization transaction closes. All other terms remain substantially unchanged other than approximately \$15.5 million of scheduled amortization over the year and potential cash sweeps.
- (d) In March 2018, the Company extended the maturity date of its revolving unsecured subordinated bridge facility from Catalyst 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.