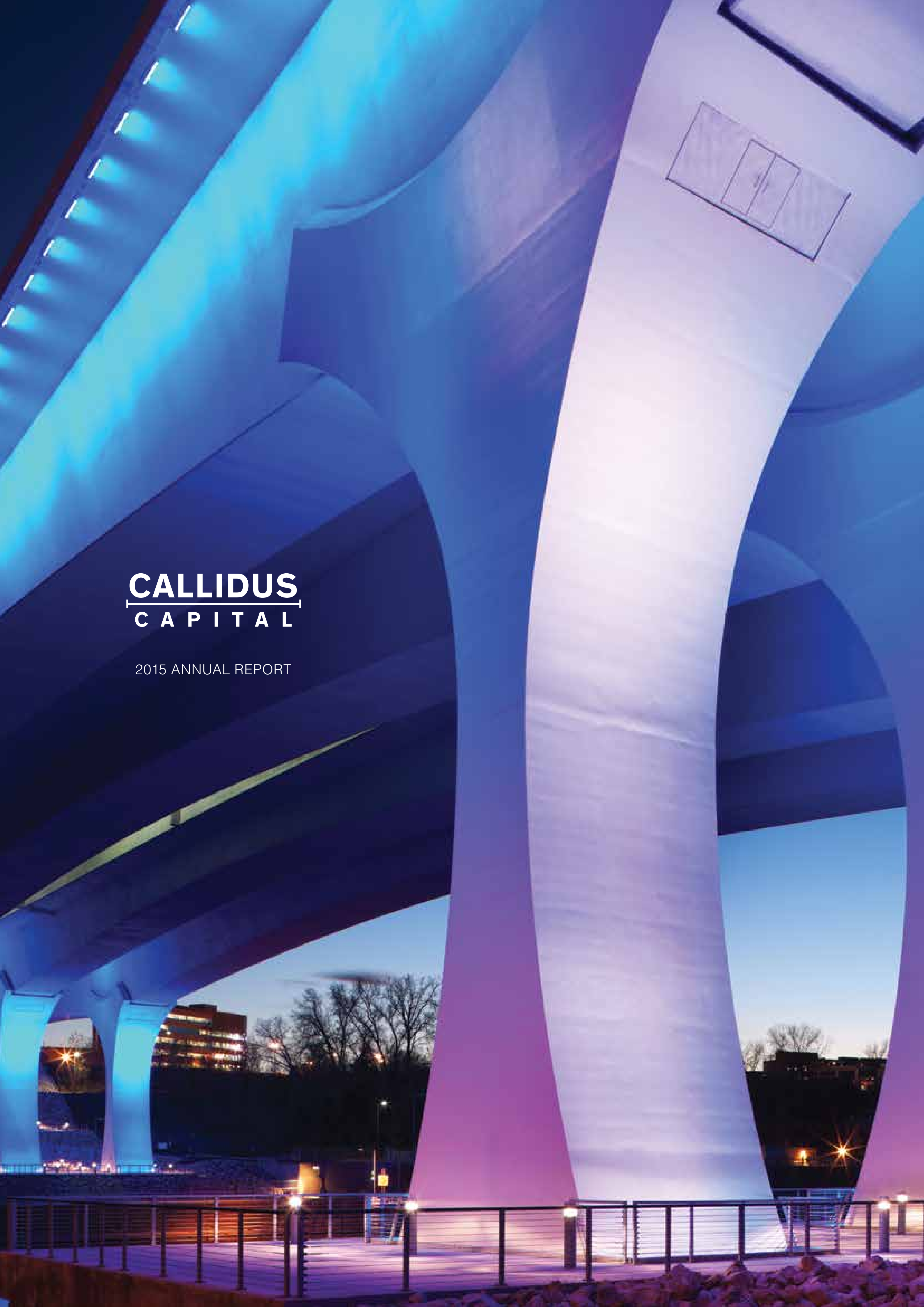


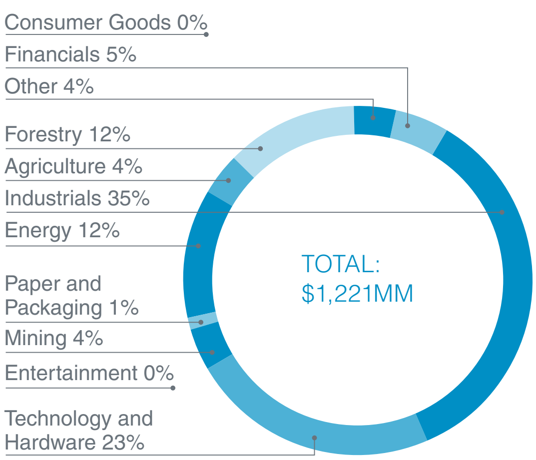
CALLIDUS CAPITAL

2015 ANNUAL REPORT

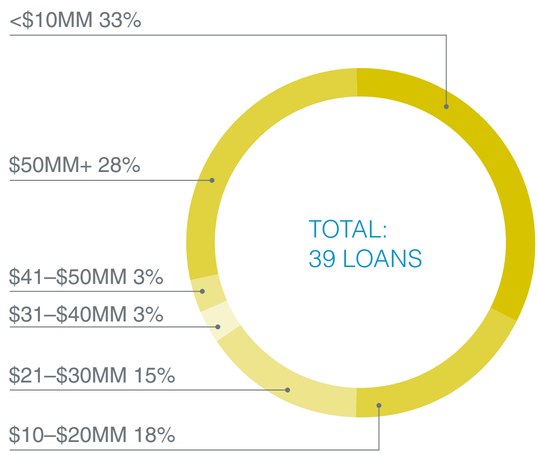
FINANCIAL HIGHLIGHTS

(C$ 000s, except per share information)	2015	2014
Average loan portfolio outstanding[1]	**$ 1,021,553**	$ 545,749
Total revenue (after derecognition)	**171,306**	99,046
Gross yield[1]	**18.9%**	20.3%
Net interest income	**132,433**	70,625
Net interest margin[1]	**13.0%**	12.9%
Net income (loss)	**61,952**	41,759
Earnings per share (diluted)	**$ 1.22**	$ 1.03

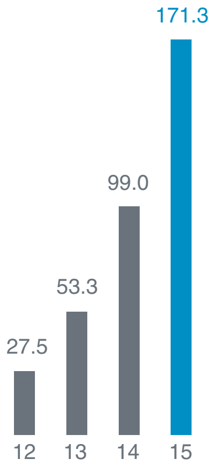
GROSS LOANS RECEIVABLE
BY BORROWER SECTOR



LOAN PORTFOLIO
BY AMOUNT FUNDED



TOTAL REVENUE
(after derecognition)
(C$ millions)



GROSS YIELD[1]

[1] Refer to "Description of Non-IFRS Measures" in the MD&A. These financial measures are not recognized measures under International Financial Reporting Standards (IFRS) and do not have a standardized meaning prescribed by IFRS. Therefore, they may not be comparable to similar measures used by other issuers.

CALLIDUS CAPITAL

Callidus Capital is an asset-based lender (ABL) providing bridge financing to Canadian and U.S. companies unable to obtain adequate credit from traditional lenders. Loans range from $10 million to $100+ million and are generally structured as fully collateralized demand, first lien facilities with historical gross yields of approximately 20%.

101 loans

since 2006, representing total credit facilities of $2.2 billion

Callidus spans a significant gap in the lending market, working with companies with capital requirements too small to access high-yield markets. Its competitive advantages include:

- A proprietary and agile due diligence process to evaluate assets, operations and credit risks;
- Generally non-dilutive demand loans with limited or no financial covenants; and
- A senior management team with extensive restructuring experience across numerous industries.

Callidus effectively manages risk by working closely with its borrowers, constantly monitoring and assessing collateral and controlling all cash flow through blocked accounts. It has a long track record of successfully helping companies expand operations, make prudent acquisitions and improve financial stability until they can gain access to traditional credit.

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ARC PRODUCTIONS

Arc Productions is one of the largest digital animation and visual effects studios in Canada, renowned for bringing the vision of major Hollywood studios and independent producers to life. Once a subsidiary of a U.S. media giant, the studio turned a new page when an investor group, including the Canadian management team, took ownership.

As the new owners embarked on an aggressive growth strategy, they turned to Callidus for financing, recognizing our unique capabilities and experience lending against tax credits. Upon confirming the validity of Arc Productions' strategy and the value of its tax credit collateral, we designed a $17 million senior revolving and term credit facility that became its working capital funding. With Callidus' continuing support, the company more than doubled in size over two years to become the 500-person powerhouse it is today.

$17 MILLION

"At a time when we couldn't access financing from traditional lenders, Callidus recognized the value of our tax credits and structured a loan that enabled us to achieve our growth objectives."

Tom Murray
CEO,
Arc Productions

$11 MILLION

"Not only did Callidus help us through a difficult period, they also taught us to look at our business differently and become better managers of our money."

Brian Payne
Vice-President and Chief Operating Officer, Thomas Canning

THOMAS CANNING

Thomas Canning is a multi-generational family-owned company that has made a name for itself as the only organic tomato processor in Canada. The company spends two months of the year packing tomatoes and the rest of the time selling its products in Canada, the U.S. and abroad.

After a poor crop in 2013, Thomas Canning learned just weeks before its 2014 packing season that its traditional bank would no longer support the company. Thomas Canning had to seek alternative financing at this make-or-break time of the year. In less than 30 days, the Callidus team conducted its due diligence and structured an $11 million term loan and operating line of credit. We worked closely with Thomas Canning and put in place our proprietary system for monitoring collateral and ensuring that cash flow controls are functioning properly. As a result, Thomas Canning successfully managed its critical packing season, positioning the company for further growth and achievement.

LETTER FROM THE CHAIRMAN AND CEO

Fellow shareholders,

Callidus Capital's management, with oversight and strategic direction provided by the Board of Directors, has one principal role and objective – maintaining and improving upon our record of strong operating performance. We achieved that goal in 2015.

Our annual, rather than quarterly, results are the best indication of the overall consistency of our performance and of our potential. In 2015 we achieved significant gains over 2014 in virtually every meaningful operating and financial measure. Our loan book nearly doubled. Net income, earnings per share (EPS), revenue, leverage ratio, loan pipeline, and return on equity (ROE) all improved substantially, and in some cases also nearly doubled.

Without the impact of an atypical provision in the fourth quarter, our 2015 results would have been even stronger and our growth trajectory even steeper. We finished the year with the balance of our loan portfolio doing extremely well.

We operate in a market segment that by definition is more complicated than the one served by traditional banks and lending institutions. It is also less competitive and faster growing due to regulatory changes. We expect market growth to continue, if not accelerate, for the foreseeable future.

It is common for us to have some loans that are working through issues and, in the vast majority of cases, they do so successfully, often with the assistance of Catalyst Capital's proven workout expertise. In many cases, the process results in further gains for an entity like Callidus.

RESULTS BEFORE ATYPICAL PROVISION
Before the impact of the atypical provision, Callidus Capital's 2015 results were net income of **$78.6 million,** an increase of **88%** over 2014; EPS of **$1.54,** an increase of **50%**; and ROE of **16.2%,** an improvement from last year's **10.6%**.

Risk is a typical and necessary part of a rapidly growing business, and we approach it in a very controlled manner. In most cases, the approach results in positive returns. Occasionally, we will experience a loss – such as the one in the fourth quarter leading to the atypical provision. It related to an isolated event experienced by one borrower, Gray Aqua Group Ltd. At a minimum, it provided a very valuable learning experience in our rapidly growing business – albeit an undesirable one and a fairly painful lesson indeed.

A number of positives resulted from the decisive action we took to address the issue. During the first quarter of 2016, we implemented an intentional and substantial slowdown in new loan underwriting while we undertook an internal review of operating and underwriting procedures with a view to achieving improved processes and enhanced margins. A number of process changes and improvements to those procedures have been implemented which we expect will be reflected in future results.

Portfolio credit quality higher than ever

As a result of (a) the number of recent repayments as well as soon to be completed repayments, (b) the current and expected decline in the number and value of watch-list loans, and (c) the Project Resolve loan, we believe that the credit quality of Callidus' portfolio is much higher currently than at any time in the past.

In addition, we have significantly enhanced our yield potential with a decision to consider technical ways of improving our returns when a client needs or desires changes to the original deal. In our view, this is about ensuring proper changes to return when risks are being reallocated. This could therefore include priority cash sweeps, accrual interest and, where appropriate, warrants and limited equity or equity-linked participations. Starting in the second quarter of 2016, we will begin to explicitly disclose the nature and financial impact of all such "yield-enhancement options".

Overall, we believe that our continuing success in prudently growing a loan book with less risk and higher credit quality, as well as the process improvements we have implemented, will ultimately enhance our EPS, ROE and other metrics fundamentally important to shareholders.

PROJECT RESOLVE

One of Callidus Capital's newest and largest loans is for Project Resolve Inc., the conversion of a modern container ship into a much needed Auxiliary Oil Replenishment vessel for the Royal Canadian Navy. Callidus extended a project finance loan that at close was supported first by the collateral of the ship, and second, upon completion, a Government of Canada take-out lease with expected positive margin.

Maximizing shareholder value

In 2015, however, we faced a continuing disconnection between our strong operating performance and our share performance. We recognize ours is a unique and complex business model from a Canadian equity-markets perspective, and we will continue in our efforts to explain our company and sector as clearly as possible while respecting the confidentiality of our clients. However, in late March 2016, the valuation disconnect led our Board of Directors to approve a Substantial Issuer Bid (SIB) of up to $50 million at $14 per common share. In April 2016, the Board of Directors received a formal valuation of the common shares from National Bank Financial Inc. (NBF) valuing Callidus shares between $18 and $22 per share, substantially and materially higher than the SIB price.

We have said strongly in the past that we will do everything we can to ensure maximum value for all shareholders – address shareholders' concerns, communicate effectively with the market, and now provide liquidity to shareholders who want it through the SIB. Going forward we will continue to review the optimal allocation of capital to generate value for shareholders. As part of this review, we will consider future SIBs should we determine they would benefit shareholders from an overall valuation and liquidity perspective.

SUBSTANTIAL ISSUER BID

The SIB is the third step of a potential four – all aimed at maximizing shareholder value. Callidus completed a successful Normal Course Issuer Bid in 2015. The Company then adopted a dividend policy initially set at $0.70 per common share per year, paid quarterly, and implemented an associated dividend reinvestment plan. The Board modified the dividend payment frequency to monthly beginning in April 2016.

The $14 per share SIB purchase price is a substantial and material premium over the closing price on March 29, 2016, the last trading day before the SIB announcement, and over the volume-weighted average for the 20 days ended March 29. The Board received a formal valuation by National Bank Financial Inc. which concluded that as of April 22, 2016, the fair market value falls within the range of $18 and $22 per share, including $0.50 to $1.00 per share of value for "yield-enhancement options", which management believes is conservative. Catalyst Capital, which owns 62.4% of the common shares, has advised Callidus that it will not tender any of its holdings to the Offer.

If following the completion of the Offer, shares continue to trade at a significant discount to their value, Callidus has stated it may seek to privatize the Company. Catalyst took Callidus public to provide investors an opportunity to partner with one of the best operating distress managers in the world. This remains our preference and, we think, the best option for all parties. However, we are fully aware that the market environment may force Callidus in another direction.

Future of the Company

Overall, both the management of Callidus and its majority shareholder, represented by Catalyst Capital Group, firmly believe that Callidus has an incredible future – all while being massively undervalued by the public markets. The recent valuation by NBF previously discussed supports the view of management and Catalyst. The credit quality of the loan portfolio, already strong on an annualized basis, is improving even further. In addition, the economic and regulatory environments are providing us with a growing pipeline of borrowers that in other circumstances would have been clients of traditional banks, as well as increasing the future value of the "yield-enhancement options" which will be included in our disclosure in Q2 2016. We are well advanced on discussions with a credit rating agency firm to rate a securitization, and expect to achieve an investment-grade rating on the securitization structure. The rating will allow us to further diversify our sources of capital at a lower cost.

Ann Davis, who has served on the Board of Directors since our initial public offering, has decided not to stand for re-election at the 2016 annual meeting. We wish her well and thank her for her wisdom and counsel. Bradley Ashley will be standing for nomination for the first time at the annual meeting. He brings over 25 years' experience in the investment industry and capital markets, and extensive experience gained as a board member of several public and private corporations.

Let me close by thanking our Board of Directors for their guidance and strategic insight; our shareholders for their support and patience while, like all public company owners, exercising their prerogative to continue to trust management's expertise and commitment to them; and our employees for their work and dedication.

In 2015, we again delivered a strong performance in terms of growth, financial results and credit quality, and we are confident we can continue to maintain this standard of performance.

Newton Glassman
Chairman and CEO

LETTER FROM THE PRESIDENT AND COO

Yet another year of solid operating performance for Callidus confirms the strength and robustness of our business model. We know how to succeed in the specialty asset-based lending business, and we are delivering on our plan.

While there was improvement in all key metrics in 2015, the growth of our loan book tells the most compelling story:

- The number of active loans at year-end rose to 39, up from 32 in 2014.
- Gross loans receivable before derecognition of $1,221 million was a 47% improvement over the prior year.
- The average loan portfolio outstanding of $1,022 million was up 87% over the prior year.
- Our pipeline of potential new loans stood at $700 million at year-end.

Since 2006, Callidus has extended 101 loans representing total credit facilities of $2.2 billion. Of the total, 65 loans have been fully repaid or realized. Repayments in the normal course are expected to accelerate as our loan book continues to grow.

There is clearly demand for our highly specialized loan products and Callidus has the right business model and growth strategy to capitalize on the market opportunity, while prudently managing the associated risks. Prior to advancing a loan, we implement a rigorous due diligence process to evaluate assets, operations and credit risk. The process has been honed over time – as recently as the first quarter of 2016 – and no stone is left unturned. Once a loan is approved, we employ an equally disciplined process of monitoring collateral and controlling the cash flow of each borrower to manage the risk of loss and to support repayment.

68%

compound annual growth rate in loan portfolio since 2011

However, it's people who make our business model hum. Our in-house team includes deeply experienced originators, loan underwriters, collateral analysts and field examiners, as well as IT and finance specialists. As a firm, we benefit immensely from their expertise and ingenuity – as do our borrowers. Callidus people work closely with borrowers to understand their businesses and to structure innovative financing solutions tailored to their needs. They also provide support in multiple ways throughout the term of the loan. Clients tell us that the professionalism and "can do" attitude of our people make a difference to them as their companies go through what are often challenging times.

With more growth in our sights, we added staff in all key areas in 2015. Our headcount has more than doubled over the past two years. Hiring is done well in advance of planned growth to ensure proper training. Similarly, we continue to build out our own capital structure to ensure that our internal financing is growing in lockstep with our plans.

All in all, 2015 was a strong year. What sometimes does not come through in the numbers is the fact that Callidus works with real companies, which contribute in many different ways to the health and well-being of our economy and our society as a whole. We get paid for the risks we take to save companies and create or save jobs. It's a rewarding role, and one that we anticipate extending in the years to come.

David Reese
President and COO

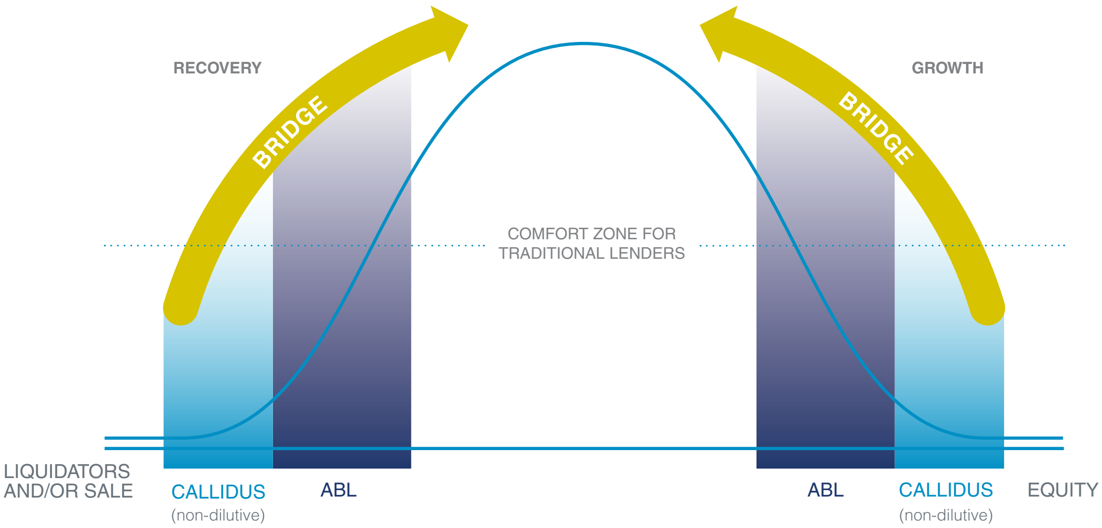
BUSINESS MODEL

Callidus' success as a specialty asset-based lender is rooted in its talented and experienced people, differentiated business model and access to capital.

Unique Market Positioning

Asset-based lending is an important financing source for fast growing or highly leveraged companies that, for various reasons, cannot access traditional credit. Loans are secured against liquid and saleable assets, like accounts receivable, inventory, machinery and equipment, and in some cases real estate.

Major banks account for most of the asset-based lending sector. They provide loans of all sizes, sometimes in excess of $100 million, with interest rates ranging from 3% to 6%. In addition to using assets as collateral, these loans can include restrictive performance covenants. At the other end of the market, specialized "factoring" companies provide loans of up to $10 million and charge interest of 20% or more, typically lending money against accounts receivable.



$700 million

pipeline of potential new loans as of December 31, 2015

Callidus operates in between these two extremes, offering 364-day loans of up to $100 million with gross yields of about 20% for our core product. Our credit facilities have few, if any, covenants and are based on the value of a company's assets, enterprise value and borrowing needs. What's more, Callidus loans are non-dilutive – that is, we do not require borrowers who are in good standing to give up any equity stake in their company.

Our borrowers range from entrepreneur-owned ventures to mid-cap publicly traded companies. They need capital for growth or opportunistic acquisitions or to inject cash flow to get through a difficult period. They may even be undergoing court-supervised restructuring.

Rigorous Lending Review Process

Callidus uses a comprehensive due diligence process to mitigate the risks of lending to its target market. Our loan originators initially review each prospective borrower and its suitability for a loan. From there, field examiners review all financial records and assets. We do thorough background checks of key managers and hire third-party specialists to appraise inventory and fixed assets. Loan underwriters create a detailed analysis of borrowers and determine credit terms. Credit memos are then evaluated by our Credit Committee. Unanimous approval is required for each loan.

While thorough, the lending review process is extremely efficient and our speed of execution is one of our strengths.

Active Loan Management

From the start, the Callidus team works directly with borrowers to develop financing solutions to help them achieve their strategic goals. If we are satisfied that a borrower has capable management and a viable business model, we ensure that the company has sufficient flexible capital to execute its plan.

Once a loan is approved, we set up blocked accounts to contractually control a borrower's incoming cash flow. Our collateral analysts constantly monitor and evaluate the quality of the collateral, supported by field inspections, third-party appraisers and the use of custom software. Borrowers with potentially deteriorating financial conditions are placed on a watch list and monitored with increased scrutiny.

During the term of the loan, we work closely with borrowers, providing counsel and helping them implement processes and controls to support their continued success. As a company's financial situation stabilizes, we can extend the relationship with a Callidus Lite loan, our lower-priced loan product. At the end of the process, our borrowers are stronger, have more efficient operations and generally return to traditional lenders.

CORE CALLIDUS LOAN

- Four-week average transaction time from first meeting to initial draw
- $5 million to $100 million in size, with an average of $23 million in 2015
- Typically structured as first secured loan on inventory, receivables and fixed assets
- Initial term of 12 months but, with extensions, typically outstanding for 24 to 36 months
- Targeted gross yield of 20%

Growth Strategy

Our multi-pronged growth strategy is poised to provide another year of exciting performance.

Organic growth in Canada	• Canadian loan book increased by $183 million or 35% in 2015. • Estimated market opportunity well in excess of $1 billion. • New originators and loan officers hired to expand geographic reach and increase penetration in Quebec and Western Canada – we target $50 million to $150 million of net new loan growth per year, per originator. • Current state of the Canadian economy presents more lending opportunities as otherwise solid companies face cash flow shortages because their traditional lenders are tightening access to credit.
Expansion in the United States	• Focus on underserved markets. • Seattle-based originator hired in 2014 to cover U.S. Pacific coast and Western Canada. • Originated 6 loans representing about $251 million in commitments in 2014 and 4 loans representing about $82 million in commitments in 2015. • U.S. loans represented 42% of total portfolio at year-end.
Growth of Callidus Lite	• Expands addressable market by providing lower cost, longer duration loans to lower risk borrowers that are achieving improving credit quality. • Targets gross yields between 12% and 14%. • While some borrowers may have access to traditional lending, they prefer the higher pricing of Callidus Lite in exchange for flexible and innovative loan structuring and limited or no covenants. • Product has lower loan loss provisions and, by slightly increasing the associated financial leverage, generates an attractive return on equity.
Acquisition of loan portfolios	• North American financial regulations that introduced higher capital requirements for banks issuing loans present attractive opportunities for Callidus to acquire asset-backed loan portfolios from traditional lenders. • Transactions in Canada and U.S. are reviewed on an opportunistic basis, at discounted values.
Purchase of Callidus loan participation interests from the Catalyst Funds	• Exclusive right to acquire current and future Catalyst Funds' loan participation interests at par. • Principal guarantee on all participation interest amounts acquired from Catalyst Funds, subject to the published guarantee mechanics.

Corporate Governance

The Board of Directors believes that good governance supports the corporation's strong performance and long-term success. The Board's mandate is to supervise management of the corporation's business and affairs and, generally through the management team, to pursue the best interests of the corporation in conducting day-to-day business.

Newton Glassman

Executive Chairman, Chief Executive Officer and Director

Mr. Glassman is the Executive Chairman and Chief Executive Officer of Callidus and is the Founder, Managing Partner and acts as Chief Executive Officer of The Catalyst Group Inc. (CCGI). He devotes all of his working time to CCGI and Callidus, investment funds managed by CCGI and assets held by those investment funds. Mr. Glassman was formerly a director of FrontPoint Partners, LLC. He also serves, or has formerly served, as a director or senior officer of various CCGI portfolio companies, including Gateway Casinos & Entertainment Limited, Cable Satisfaction International Inc./Cabovisão, Natural Markets Restaurants Corp., and Therapure Biopharma Inc. Mr. Glassman was previously a Managing Director at Cerberus Capital Management LP where he was involved in several Canadian restructurings, including Loewen Inc., Livent Corporation of Canada, Inc., Philip Services Corporation, GST Telecommunications, Inc., Pacifica Papers, Inc., and AT&T Canada Inc. CCGI and funds managed by it have, since 2002, been involved in numerous distressed and/or under-valued situations. Mr. Glassman holds an MBA from the Wharton School of the University of Pennsylvania, a law degree from the Faculty of Law, University of Toronto and an undergraduate degree from the University of Toronto.

James Riley

Secretary and Director

Mr. Riley is a Managing Director and Chief Operating Officer of The Catalyst Group Inc. (CCGI) and devotes all of his working time to CCGI and Callidus. Prior to joining CCGI in 2011, Mr. Riley was a Partner and Co-Chair of the Banking and Finance Law Group at Goodmans LLP. Prior to joining Goodmans LLP, Mr. Riley was a Founding Partner of the Toronto office of Ogilvy Renault (now Norton Rose Fulbright Canada) in 1996 and prior to that was a Partner at Stikeman Elliott LLP. Mr. Riley holds a Master of Laws degree from Harvard University and a law degree from the Faculty of Law, University of Toronto.

Tibor Donath

Lead Director

Since 1979, Mr. Donath has been a Partner at Bench & Donath, Chartered Professional Accountants – a Toronto accounting firm providing assurance, accounting and income tax consulting services for private entities in various sectors of the economy. Mr. Donath is a member of the Chartered Professional Accountants of Ontario and of the Ordre des comptables professionnel agréés du Québec. Mr. Donath graduated from Sir George Williams University (now Concordia University) with a Bachelor of Commerce degree in 1973, major in Accounting, minor in Economics, and was first licensed to practise accounting in 1976. Mr. Donath sits on the Investment Committee of a private venture capital firm. Mr. Donath was formerly a director and chairman of the Audit Committee of O&Y FPT Inc., O&Y Properties Corporation and Counsel Corporation.

David E. Sutin
Director

From May 2008 until November, 2011, Mr. Sutin was Managing Partner of Quest Partners Ltd., a financial advisory boutique. Since 2001, Mr. Sutin has been an independent financial advisor, private investor and board member of several companies. Until 2001, Mr. Sutin was Executive Vice-President of Harrowston Inc., a publicly traded private equity firm. Mr. Sutin has over 30 years' experience in corporate and real estate investment and financing activity. From March 2011 until March 2014, Mr. Sutin was a director of Patheon Inc. Between June 2009 and December 2010, Mr. Sutin was a director of Sun Gro Horticulture Inc., and a trustee of Sun Gro Horticulture Income Fund. From March 2007 to May 2009, Mr. Sutin was a director of Pay Linx Financial Corporation. Mr. Sutin holds a Bachelor of Arts degree and Master of Business Administration degree from York University.

Bradley W. Ashley
Director

Mr. Ashley is the Managing Partner and Founder of PRIVEQ Capital Funds (PRIVEQ), a manager of several private equity funds. Mr. Ashley founded PRIVEQ in 1994 and devotes substantially all of his working time to PRIVEQ and its portfolio companies. Prior to founding PRIVEQ, Mr. Ashley was an Investment Manager with VenGrowth Capital Funds from 1990 to 1994, a Senior Manager in the Corporate Finance Group with Ernst & Young from 1989 to 1990, and an Assistant Treasurer with JP Morgan Canada from 1986 to 1989. Mr. Ashley is a director of Frantic Films Corporation, Accipiter Radar Technologies Inc., and Kraus Global Ltd. He also sits on the Investment Committee of a venture capital fund. Mr. Ashley is a former Chairman and President of Canada's Venture Capital and Private Equity Association (CVCA). Mr. Ashley holds a law degree and Master of Business Administration degree from York University. In 2014, Mr. Ashley obtained his ICD.D designation from the Institute of Corporate Directors.

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Management's Discussion and Analysis

December 31, 2015

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

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND USE OF NON-IFRS MEASURES

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

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

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

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

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

BUSINESS PROFILE AND STRATEGY

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

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

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

2015 STRATEGIES AND ACHIEVEMENTS

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

Goal	2015 Achievements
Organic growth in Canada	• Originated 7 new loans in Canada representing $412 million in commitments. • Increased gross loans receivable in Canada by $183 million or 35% from the prior year. • Increased the amount of the revolving credit facility by US$100 million to US$300 million. • Increased the amount of the revolving unsecured subordinated bridge facility from Catalyst Funds by US$50 million to US$250 million. This facility continues to provide a portion of the growth capital necessary to fund growth in the loan portfolio both in Canada and the U.S.
Expansion of loan product	• Closed 3 Callidus Lite loans representing $302 million in commitments. In addition to these 3 loans, $50 million of the existing portfolio qualified for Callidus Lite and another $219 million of the existing portfolio was being considered for Callidus Lite as a retention product for borrowers with improving credit quality.
Expansion in the U.S.	• Originated 4 new loans in the U.S. representing $82 million in commitments. • Increased the gross loans receivable in the U.S. by $208 million or 69% from the prior year.

CURRENT STATUS OF THE BUSINESS

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

DESCRIPTION OF NON-IFRS MEASURES

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

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

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

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

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

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

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

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

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

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

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

The non-IFRS measures should not be considered as the sole measure of the Corporation's performance and should not be considered in isolation from, or as a substitute for, analysis of the Corporation's financial statements.

SELECTED FINANCIAL INFORMATION

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

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

Balance Sheet and Other Data

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

(1) Refer to "Description of Non-IFRS Measures".
(2) Consists of salaries and wages, stock options expense, general and administrative expenses, net of Catalyst's share of overhead expenses.

HIGHLIGHTS

- As at December 31, 2015, gross loans receivable before derecognition was $1,221 million, an increase of $390 million or 47% from December 31, 2014. The increase was due to funding of new loans that closed in the current year as well as funding of existing loans. At December 31, 2015, there were 39 loans and the average loan amount funded was approximately $31 million. This compares with 32 loans and an average loan amount funded of $26 million at December 31, 2014. The gross loans receivable before derecognition has more than doubled since the IPO.
- Gross yield for the current year was 18.9%, a decrease of 1.4% from last year due primarily to lower interest yield. Interest yield was 16.0% for the current year, a decrease of 2.5% from last year due primarily to a greater proportion of Callidus Lite loans in the portfolio in the current year.
- Provision for loan losses/assets acquired from loans of $38.7 million recorded in the statement of income and comprehensive income. Included in this amount is an unusual provision of $22.7 million in the fourth quarter of 2015 as a result of an isolated atypical event experienced by a borrower, Gray Aqua Group Ltd. ("Gray Aqua"). Before this specific provision, the provision for loan losses/assets acquired from loans was $16.0 million, which amounts to an annualized rate of approximately 1.3% on a gross loans receivable balance of $1,221 million.
- For the current year, the average loan portfolio outstanding was $1,022 million, an increase of $476 million or 87% from last year.
- In the current year, the Company substantially realized on two of its watch-list loans in line with its $11.3 million provision. These watch-list loans had a $10.9 million guarantee from the Catalyst Funds which was paid in the current year.
- Before the unusual specific provision discussed above, results for 2015 were net income of $78.6 million, an increase of 88% over 2014; earnings per share ("EPS") (diluted) of $1.54, an increase of 50%; and ROE of 16.2%, an improvement from 10.6% in 2014.

RESULTS OF OPERATIONS

Net Income

Condensed Consolidated Statement of Income

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

2015 vs. 2014

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

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

Provision for Loan Losses

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

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

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

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

Selected Quarterly Information

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

(1) Refer to "Description of Non-IFRS Measures".
(2) Consists of salaries and wages, stock options expense, general and administrative expenses, net of Catalyst's share of overhead expenses.
(3) Comparatives for 2014 have not been presented as the Company operated under a capital structure that was replaced at the Company's initial public offering.

Q4-2015 vs. Q3-2015

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

Q4-2015 vs. Q4-2014

- For the current quarter, the average loan portfolio outstanding was $1,193 million, an increase of $474 million or 66% from the same quarter last year due primarily to funding of existing loans as well as funding of new loans that closed in the current year.

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

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

Statement of Income

($ 000s)	Consolidated	Effect of Derecognition	**Q4-2015 after Derecognition**
Interest	$ 48,823	$ (3,212)	**$ 45,611**
Fees and other	3,275	(419)	**2,856**
	52,098	(3,631)	**48,467**
Catalyst Fund Limited Partnerships	(7,363)	531	**(6,832)**
Senior debt and revolving credit facilities	(5,283)	381	**(4,902)**
	(12,646)	912	**(11,734)**
Net interest income	39,452	(2,719)	**36,733**
Provision for loan losses	(26,702)	1,306	**(25,396)**
Recovery under the Catalyst guarantee	6,795	(740)	**6,055**
Foreign exchange loss	(1,398)	101	**(1,297)**
Income from assets acquired from loans	590	–	**590**
Catalyst's share of overhead expenses	–	928	**928**
	(20,715)	1,595	**(19,120)**
Salaries and wages	(2,979)	–	**(2,979)**
Stock options expense	(1,114)	–	**(1,114)**
General and administrative	(2,712)	–	**(2,712)**
	(6,805)	–	**(6,805)**
Income before income taxes	11,932	(1,124)	**10,808**
Current income taxes (expense) recovery	(8,927)	–	**(8,927)**
Deferred income taxes (expense) recovery	5,766	–	**5,766**
	(3,161)	–	**(3,161)**
Net income	$ 8,771	$ (1,124)	**$ 7,647**
Earnings per common share (dollars)			
Basic			**$ 0.15**
Diluted			**$ 0.15**

Catalyst Guarantee

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

In December 2014, the Company acquired all of the Funds' participation interest in the loan portfolio at par plus accrued interest and fees. The participation agreement also provided that in the event that the Company purchased Catalyst Fund IV's participation interest, Fund IV agreed to provide a guarantee that covered Catalyst's percentage ownership interest in the relevant loans at the time of the acquisition. The guarantee covers losses of principal until fully realized on watch-list loans at the time of acquisition and losses of principal on all other loans until such loans are renewed at the next scheduled review.

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

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

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

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

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

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

Operating and Other Expenses

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

Salaries and Wages and Stock Options Expense

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

Foreign Exchange Gain/Loss

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

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

INCOME TAXES

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

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

FINANCIAL POSITION

Condensed Consolidated Statements of Financial Position

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

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

Current Loan Portfolio (before Derecognition)

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

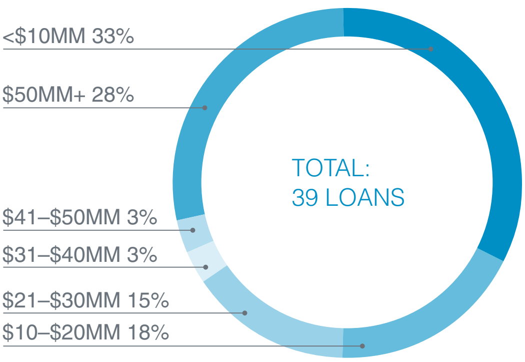
As of December 31, 2015, the loan portfolio consisted of 39 loans with an aggregate gross loans receivable amount outstanding of $1,221 million. This compares with 32 loans and $831 million outstanding as of December 31, 2014. As of December 31, 2015, the largest loan facility was $275 million (of which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

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

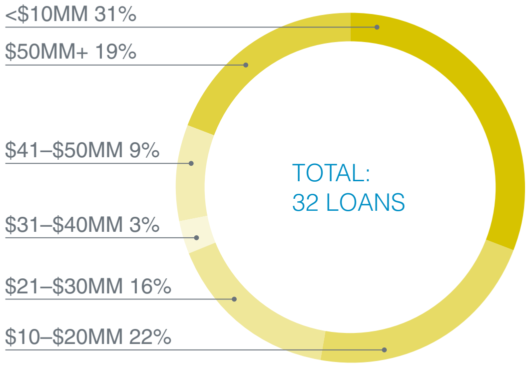
As at December 31, 2015, the estimated collateral value coverage across aggregate net loans receivable was approximately 172% with a range between 100% and 525% on an individual loan basis. Furthermore, the aggregate watch-list loans had an estimated aggregate collateral value coverage of 104% and non-watch-list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

Loan Portfolio by Amount Funded

December 31, 2015



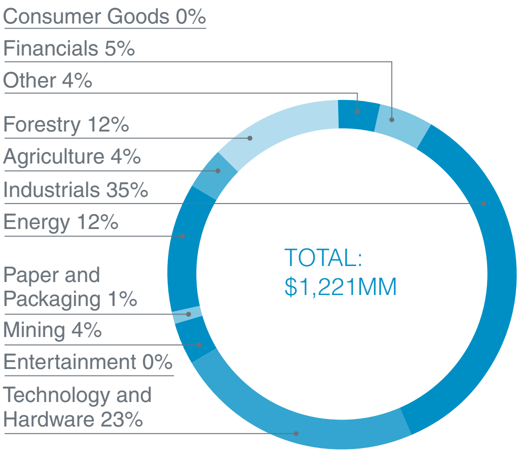
December 31, 2014



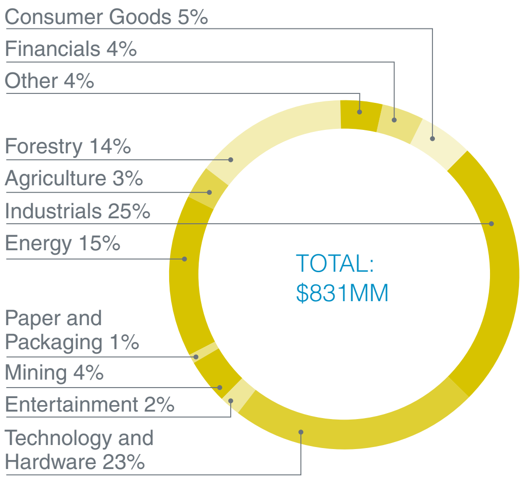
The average amount funded per loan increased to $31 million as at December 31, 2015 from $26 million as at December 31, 2014. The distribution of loans greater than $20 million decreased from 47% at December 31, 2014 to 41% at December 31, 2015 and the distribution of loans exceeding $50 million decreased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

Gross Loans Receivable by Borrower Sector

December 31, 2015



December 31, 2014



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

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

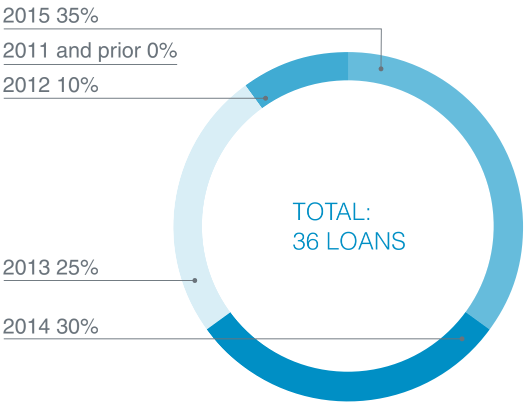
It is not uncommon for Callidus to deal with borrowers undertaking some form of financial restructuring given the nature of its business. As the Company operates primarily in the distressed lending sector, a formal or informal restructuring process offers an efficient tool to protect the collateral,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

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

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

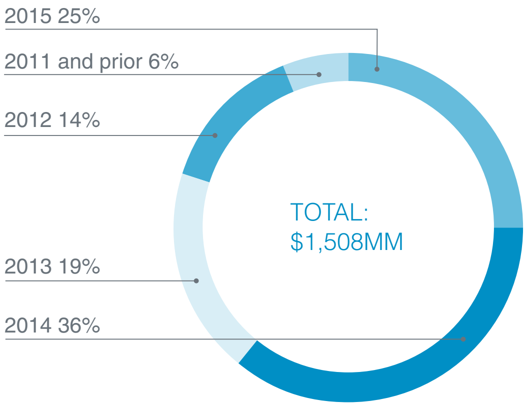
Number of Existing Loans by Year of Origination

March 29, 2016



Total Existing Credit Facilities by Year of Origination

March 29, 2016



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

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

Impaired Loans Receivable

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

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

The Company also considers evidence of impairment for loans at the collective level. The collective allowance is calculated by using the probability of default ("PD"), loss given default ("LGD"), and exposure at default factors, which are determined with reference to (1) historical default experience, (2) the Company's loss experience, and (3) loan exposure at the financial statement date. Funded exposures are multiplied by the borrower's PD and by the relevant LGD parameter. A qualitative component is also applied to account for external factors not captured in the historical results. As the Company grows, we continue to refine our methodology for the collective allowance.

Off Balance Sheet Arrangements

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

Changes to Underwriting Process

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

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

Financing Strategy

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

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

Capitalization

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

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

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

Financial Covenants, Restrictions and Events of Default

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

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

Cash Flow Summary

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

Operating Activities

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

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

Financing Activities

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

Contractual Obligations

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

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

Related Party Transactions

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

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

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

In connection with the Offering, and the repayment of the Catalyst debenture, Catalyst Fund IV obtained an approximate 18% undivided interest in the loan portfolio of the Company at the time of the Offering. 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. In December 2014, the Company acquired all of the Fund's participation interest in the loan portfolio at par plus accrued interest and fees for 2,335,357 common shares, at a price of $21.41 per common share, as well as a cash payment of approximately $821 as a post-closing adjustment for foreign exchange.

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

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

During the current year, the Company implemented a dividend reinvestment plan ("DRIP") pursuant to which eligible shareholders may elect to automatically reinvest their cash dividends payable in respect of the common shares to acquire additional common shares. In the current year, 473,773 shares were granted to those who elected to participate in the DRIP. Catalyst elected to participate in the DRIP on 100% of their shareholdings of the Company and, therefore, received 469,529 shares in consideration of the dividend.

Catalyst Fund II, an investment fund and major shareholder of the Company, was previously scheduled to dispose of its assets no later than 2016. The term of that Fund has now been extended at least until November 2017.

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

Exposures to Selected Financial Instruments

Certain of the Corporation's loans receivable and amounts outstanding under the revolving credit facility are denominated in foreign currencies, primarily the U.S. dollar, and accordingly the Corporation is exposed to foreign exchange risk. To mitigate this foreign exchange risk, the Corporation enters into foreign exchange forward contracts.

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

Critical Accounting Estimates

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

Allowance for Loan Losses

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

Objective evidence that financial assets are impaired includes:

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

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

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

Consolidation

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

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

Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Corporation's consolidated statements of comprehensive income. In determining the provision for income taxes, the Corporation interprets tax legislation and makes assumptions about the expected timing of the reversal of the deferred tax asset. If the Corporation's interpretations differ from those of the tax authorities or if the timing of reversals is not as expected, the Corporation's provision for income taxes could increase or decrease in future periods. The amount of any such increase or decrease cannot be reasonably estimated. Information on the Corporation's income taxes can be found in note 11 to the Financial Statements.

Standards Issued But Not Effective

The Corporation actively monitors developments and changes in standards from the International Accounting Standards Board ("IASB"). The IASB issued a number of new or revised standards. The Company is currently assessing the impact the adoption of these standards will have on its consolidated financial statements. Refer to note 4 to the Financial Statements.

Risk Factors

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

Disclosure of Outstanding Share Data

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

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

RISK FACTORS

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

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

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

Financial Risk Management

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

Foreign Currency Risk

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

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

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

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

Interest Rate Risk

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

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

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

Liquidity Risk

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

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

Credit Risk

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

Risks Relating to Callidus' Operations

Performance of the Loan Portfolio

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

Reliance on Certain Individuals and the Management Services Agreement

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

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

Fraud by a Borrower

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

Changes in Market and General Economic Conditions

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

Competitive Business Environment

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

Entering New Markets

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

Litigation

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

Operating Policies and Strategies

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

Lack of Regulation

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

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 judgments. 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.

March 29, 2016

"Newton Glassman"
Chairman and CEO

"David Reese"
President and COO

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, 2015 and 2014, 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.

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, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 29, 2016
Toronto, Canada

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)	**December 31, 2015**	December 31, 2014
Assets		
Cash and cash equivalents	**$ 25,210**	$ 59,636
Income taxes receivable (note 11)	**6,068**	–
Derivative assets (note 15)	**1,310**	466
Assets acquired from loans (notes 6 and 17)	**102,367**	–
Loans receivable (notes 5 and 6)	**935,130**	791,573
Deferred tax asset (note 11)	**13,903**	7,498
Guarantee asset (note 9)	**34,755**	22,606
Other assets	**3,055**	1,655
	$ 1,121,798	$ 883,434
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities (note 9)	**$ 19,208**	$ 12,915
Income and other taxes payable (note 11)	**15,413**	19,961
Borrower deposits	**142**	169
Deferred facility fees	**10,096**	6,486
Revolving credit facility (note 8)	**248,710**	210,409
Senior debt (note 7)	**45,279**	49,654
Subordinated bridge facility, due to Catalyst (note 7)	**291,479**	116,010
	630,327	415,604
Shareholders' equity:		
Share capital (note 10)	**416,750**	428,291
Contributed surplus (note 16)	**8,843**	7,631
Retained earnings	**64,007**	31,908
Accumulated other comprehensive income	**1,871**	–
	491,471	467,830
Contingencies (note 13)	**–**	–
	$ 1,121,798	$ 883,434

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Newton Glassman"
Chairman and CEO

"Ann Davis"
Director

Consolidated Statements of Income and Comprehensive Income

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

	2015	2014
(Note 19)		
Revenue:		
Interest	$ 158,356	$ 90,442
Fees and other	12,950	8,604
	171,306	99,046
Interest expense and participation fees:		
Catalyst Fund Limited Partnerships	(20,109)	(18,052)
Senior debt and revolving credit facilities	(18,764)	(10,369)
	(38,873)	(28,421)
Net interest income	132,433	70,625
Other income (expenses):		
Provision for loan losses (note 6)	(35,653)	(18,963)
Recovery under the Catalyst guarantee (note 9)	11,807	22,606
Foreign exchange loss	(1,692)	(1,165)
Income from assets acquired from loans (note 17)	590	–
Catalyst's share of overhead expenses (note 19)	1,639	2,244
	(23,309)	4,722
Non-interest expenses:		
Salaries and wages	(9,716)	(7,376)
Stock options expense (note 16)	(4,452)	(2,479)
General and administrative	(8,064)	(5,040)
	(22,232)	(14,895)
Income before income taxes	86,892	60,452
Income taxes (expense) recovery:		
Current	(31,345)	(19,896)
Deferred	6,405	1,203
	(24,940)	(18,693)
Net income	$ 61,952	$ 41,759
Earnings per common share (dollars)		
Basic (note 20)	$ 1.23	$ 1.04
Diluted (note 20)	$ 1.22	$ 1.03

Consolidated Statement of Comprehensive Income

	2015	2014
Net income	$ 61,952	$ 41,759
Other comprehensive income (loss) net of tax:		
Items that may be reclassed to profit and loss:		
Foreign currency translation gain on foreign operations	1,871	–
Comprehensive income	$ 63,823	$ 41,759

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

(Expressed in thousands of Canadian dollars)	Share Capital Amount	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	**Total**
Balance, January 1, 2014	$ 1	$ 5,152	$ (9,851)	$ –	**$ (4,698)**
Net income	–	–	41,759	–	**41,759**
Shares issued/issuance costs	428,290	–	–	–	**428,290**
Stock options expense (note 16)	–	2,479	–	–	**2,479**
Balance, December 31, 2014	$ 428,291	$ 7,631	$ 31,908	$ –	**$ 467,830**
Balance, January 1, 2015	$ 428,291	$ 7,631	$ 31,908	$ –	**$ 467,830**
Net income	–	–	61,952	–	**61,952**
Dividends	–	–	(17,250)	–	**(17,250)**
Shares issued	10,011	(3,240)	–	–	**6,771**
Shares repurchased and cancelled	(21,552)	–	(12,603)	–	**(34,155)**
Stock options expense (note 16)	–	4,452	–	–	**4,452**
Other comprehensive income (note 3)	–	–	–	1,871	**1,871**
Balance, December 31, 2015	$ 416,750	$ 8,843	$ 64,007	$ 1,871	**$ 491,471**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)	2015	2014
Cash provided by (used in):		
Operating activities:		
Income for the period	**$ 61,952**	$ 41,759
Items not involving cash:		
Stock options expense	**4,452**	2,479
Provision for loan losses	**35,653**	18,963
Change in non-cash operating items:		
Change in loans receivable, net of repayments	**(179,210)**	(460,544)
Derivative assets	**(844)**	(466)
Income taxes receivable	**(6,068)**	9
Deferred tax asset	**(6,405)**	(6,270)
Assets acquired from loans	**(102,367)**	11,360
Guarantee asset	**(12,149)**	(22,606)
Other assets	**(1,400)**	(1,638)
Accounts payable and accrued liabilities	**(2,344)**	12,127
Deferred facility fees	**3,610**	2,785
Derivative liabilities	**–**	(329)
Income and other taxes payable	**(4,548)**	19,961
Borrower deposits	**(27)**	(66)
Other	**1,875**	(67)
	(207,820)	(382,543)
Financing activities:		
Dividends	**(3,260)**	–
Net repayments to Catalyst Fund Limited Partnerships	**–**	(222,298)
Net draw on revolving credit facility	**38,301**	190,530
Change in senior debt	**(4,375)**	(29)
Issuance of share capital	**1,413**	319,952
Repurchase of share capital	**(34,154)**	–
Net draw on subordinated bridge facility	**175,469**	116,010
	173,394	404,165
(Decrease) increase in cash and cash equivalents	**(34,426)**	21,622
Cash and cash equivalents, beginning of period	**59,636**	38,014
Cash and cash equivalents, end of period	**$ 25,210**	$ 59,636
Cash and cash equivalents are composed of the following:		
Cash	**$ 25,210**	$ 59,176
Restricted cash	**–**	460
	$ 25,210	$ 59,636

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars)
Years Ended December 31, 2015 and 2014

1. REPORTING ENTITY

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

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

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

2. BASIS OF PRESENTATION

(a) Statement of Compliance

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

The consolidated financial statements have been approved for issue by the Board of Directors on March 29, 2016.

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Cash and Cash Equivalents

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

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

(b) Loans Receivable

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

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

(c) 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;
- 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.

(d) Catalyst Guarantee

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

(e) Borrower Deposits

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

(f) Foreign Currency Transactions

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 Statement of Comprehensive Income. On disposal or partial disposal of a foreign operation, resulting in a loss of control, an appropriate portion of the translation differences previously recognized in other comprehensive income are recognized in the Consolidated Statement 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.

(g) Financial Assets and Financial Liabilities

(i) Recognition

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

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

(ii) Classification

Financial Assets:

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

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

At December 31, 2015 and 2014, 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, 2015 and 2014, 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.

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

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

(h) Derivatives Held for Risk Management Purposes

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

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

(i) Income Taxes

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

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

(j) Consolidation

The Company consolidates any entities which it controls. Control is established when the Company has the power over the entity, exposure or rights to variable returns from its involvement, and the ability to exercise power to affect the amount of returns. The Company assesses individual loans for control at each reporting date.

(k) Interest

Interest income and expense are recognized in profit or loss using the effective interest 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 are recognized in accordance with the signed loan agreements.

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

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

Discounts on acquired loans are recognized as payments are received.

As at December 31, 2015, there were $10,096 (2014 – $6,486) in deferred facility fees that will be recognized in income in fiscal 2016 and 2017.

As at December 31, 2015, there were $9,793 (2014 – $9,793) in discounts on acquired loans that will be recognized when the related loans are fully repaid.

(l) Loan Commitments

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

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

(m) Stock-based Compensation

(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.

(n) Assets Acquired from Loans

Assets acquired from loans are carried at the lower of the carrying amount at designation and fair value less costs to sell.

4. FUTURE ACCOUNTING DEVELOPMENTS

(a) *Financial Instruments* (IFRS 9)

IFRS 9 (2014) addresses classification and measurement of financial assets and liabilities, including impairment of financial assets, and hedge accounting. Under this standard, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The accounting model for financial liabilities is largely unchanged from IAS 39 except for the presentation of the impact of own credit risk on financial liabilities designated at fair value through profit or loss account. The new impairment model is an expected loss model as against an incurred loss model in IAS 39.

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

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

The IASB issued IFRS 15, *Revenue from Contracts with Customers*, which is effective for fiscal years beginning on January 1, 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, A*greements 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.

(c) Annual Improvements to IFRS

On September 25, 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Amendments were made to clarify the following:

- Changes in method for disposal under IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*;
- "Continuing involvement" for servicing contracts and offsetting disclosures in financial statements under IFRS 7, *Financial Instruments: Disclosures*;
- Discount rate in a regional market sharing the same currency under IAS 19, *Employee Benefits*;
- Disclosure of information "elsewhere in the financial report" under IAS 34, *Financial Reporting*.

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

5. LOANS RECEIVABLE

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

Contractual Maturity	**December 31, 2015**	December 31, 2014
0–3 months	**$ 573,060**	$ 120,341
4–6 months	**92,562**	132,662
7–12 months	**111,357**	262,915
13 months or more	**158,151**	275,655
	$ 935,130	$ 791,573

The loans can be prepaid subject to prepayment penalties. The total credit facilities before derecognition available to borrowers subject to borrowing base availability at December 31, 2015 were $1,645,298 (December 31, 2014 – $1,028,989). Of the total loan balance noted in the table above, $292,229 related to watch-list loans (December 31, 2014 – $169,307) and was subject to the Catalyst guarantee (note 9(c)).

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 19% (2014 – 20%). The loans are generally senior secured credit facilities with revolving and non-revolving facilities secured by a first charge on substantially all of the borrowers' assets.

6. LOAN LOSS ALLOWANCE

As at December 31, 2015, the Company has an allowance for loan losses of $43,307 (December 31, 2014 – $29,139), which is offset against loans receivable on the consolidated statements of financial position. In addition, the Company has accumulated impairment on assets held for sale of $13,169 (December 31, 2014 – $nil), which is offset against the assets acquired from loans on the consolidated statements of financial position.

		December 31, 2015		December 31, 2014
Allowance for loan losses				
Balance, beginning of period	**$**	**29,139**	$	10,176
Changes for the period:				
Specific individual loan loss provisions		**38,215**		12,601
Collective allowances		**(2,562)**		6,362
Provision previously related to assets held for sale		**(10,169)**		–
Write-offs for the period:		**(11,316)**		–
Ending allowance for loan losses	**$**	**43,307**	$	29,139
Impairment on assets held for sale				
Balance, beginning of period	**$**	**–**	$	–
Changes for the period:				
Impairment previously classified as provision for loan losses		**10,169**		–
Provision related to assets held for sale		**3,000**		–
Ending allowance for impairment on assets held for sale	**$**	**13,169**	$	–
Balance, end of period	**$**	**56,476**	$	29,139

The specific loan loss provisions of $38,215 relates to a pool of loans with gross loans receivables of $263,228.

During the current year, the Company had write-offs of $11,316 (2014 – $nil).

7. LONG-TERM DEBT

		December 31, 2015		December 31, 2014
Senior debt	**$**	**45,555**	$	50,000
Less: Associated transaction costs		**(276)**		(346)
		45,279		49,654
Subordinated bridge facility, due to Catalyst		**291,479**		116,010
	$	**336,758**	$	165,664

The amounts due on the senior debt represent a senior secured non-revolving term loan for $50 million. The loan matures 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. The Company was in compliance with its financial covenants at December 31, 2015 and 2014.

The Company paid $584 in transaction costs in 2011 and an additional $169 in 2014 associated with the senior debt, which has been deferred and is 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 matures 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.

8. REVOLVING CREDIT FACILITY

The Company has a US$300 million 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 may be drawn in either Canadian or U.S. dollars and provides for an aggregate of US$250 million of Class A loans and US$50 million of Class B loans. The Class A loans and the Class B loans together (the “Loans”) are subject to borrowing base availability dependent on certain eligible loans receivable balances approved by the lender.

The Loans are also subject to a minimum utilization of 50%, measured quarterly and bear 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 matures January 15, 2019, and contains a two-year revolving period, followed by a two-year amortization period. The revolving period may be extended subject to lender approval. Additionally, there is a non-call period to the end of the revolving period. If Callidus has requested an extension to the facility and the lender has denied the request, the facility may be repaid in full without penalty.

In January 2015, the Company increased the amount of its revolving credit facility by US$62.5 million to US$262.5 million in the aggregate. In April 2015, the Company increased the amount of the revolving credit facility by a further US$37.5 million to US$300 million in the aggregate.

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

9. 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

CCGI and funds managed by them (collectively, “Catalyst”) own approximately 62.4% of the issued and outstanding shares of the Company.

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

(b) Catalyst Participation Interest

In connection with the Offering, and the repayment of the Catalyst debenture, 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. In December 2014, the Company acquired all of the Fund's participation interest in the loan portfolio at par plus accrued interest and fees in exchange for issuance of 2,335,357 common shares of the Company, at a price of $21.41 per common share, as well as a cash payment of approximately $821 as a post-closing adjustment for foreign exchange.

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

In accordance with the terms of the participation agreement, entered into in connection with Callidus' initial public offering, effective April 2015, Catalyst Fund V began to participate in the funding of new loans originated by Callidus. This provides Callidus with access to additional funds to fund the expansion of the Company's loan portfolio (note 19).

(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 are renewed by the Company at their next scheduled credit review.

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

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

As at December 31, 2015, the Company recorded a guarantee asset of $34,755 related to the Catalyst guarantee. During the year, $10,916 (2014 – $nil) was received under the Catalyst guarantee.

(d) Other Transactions during the Period

In 2015, participation fees of $nil (2014 – $8,134) and commitment fees of $3,849 (2014 – $764) were paid or accrued to Catalyst. Interest expense also includes $15,592 (2014 – $8,969) paid and 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, 2015, accounts payable and accrued liabilities included $1,689 (December 31, 2014 – $7,478) representing the unpaid portion of net income due to the Fund's participation interest in the loan portfolio (note 19).

(e) Key Management Personnel Compensation

No compensation is paid by the Company to its Chief Executive Officer. Other key management personnel compensation comprised the following:

		2015		2014
Short-term employee benefits	**$**	**2,947**	$	2,097
Share-based payments		**1,365**		807
	$	**4,312**	$	2,904

10. SHARE CAPITAL

	December 31, 2015			December 31, 2014		
	Shares		**Amount**	Shares		Amount
Common shares outstanding, beginning of year	**51,026,754**	**$**	**428,291**	100	$	1
Issue of common shares	**888,997**		**10,011**	51,026,654		428,290
Purchase and cancellation of common shares	**(2,561,396)**		**(21,552)**	–		–
Common shares outstanding, end of year	**49,354,355**	**$**	**416,750**	51,026,754	$	428,291

In August 2015, the Company adopted a dividend policy pursuant to which the Company intends to 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. The quarterly dividend was initially set at $0.175 per common share ($0.70 per annum). 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, 473,773 shares were granted to those who elected to participate in the DRIP. Catalyst elected to participate in the DRIP on 100% of their shareholdings of the Company and, therefore, received 469,529 shares in consideration of the dividend. Cash outflow during the year for the dividend was $3.3 million. A dividend of $8.6 million was accrued as at December 31, 2015 as it is payable to shareholders of record as at December 31, 2015.

11. INCOME TAXES

Amounts recognized in profit or loss:

		2015		2014
Current tax expense:				
Current year	**$**	**31,134**	$	19,896
Prior year adjustments		**211**		–
		31,345		19,896
Deferred tax expense:				
Origination and reversal of temporary differences		**(6,405)**		(1,203)
		(6,405)		(1,203)
Total income tax expense	**$**	**24,940**	$	18,693

Reconciliation of effective tax rate:

	2015	2014
Tax using the combined statutory tax rate	**$ 23,580**	$ 18,057
Non-deductible expenses	**60**	92
Stock-based compensation	**1,180**	657
Changes to estimates for prior years	**211**	–
Other	**(91)**	(113)
Total income tax expense	**$ 24,940**	$ 18,693

Components of deferred tax assets:

	December 31, 2015	December 31, 2014
Deferred tax assets:		
Deferred financing fees	**$ 2,675**	$ 1,719
Provision for loan losses	**17,501**	7,722
Deferred share issue costs	**113**	4,053
Financing costs	**3,040**	11
	23,329	13,505
Deferred tax liabilities:		
Leasehold improvements	**(20)**	(16)
Recovery under the Catalyst guarantee	**(9,406)**	(5,991)
Total recognized deferred tax assets	**$ 13,903**	$ 7,498

Movements in temporary differences during the year:

	Balance at January 1, 2015	Balance Recognized in Profit or Loss	Balance Recognized in Share Capital	Balance at December 31, 2015
Deferred facility fees	**$ 1,719**	**$ 956**	**$ –**	**$ 2,675**
Provision for loan losses	**7,722**	**9,779**	**–**	**17,501**
Financing costs	**11**	**102**	**–**	**113**
Leasehold improvements	**(16)**	**(4)**	**–**	**(20)**
Deferred share issue costs	**4,053**	**(1,013)**	**–**	**3,040**
Recovery under the Catalyst guarantee	**(5,991)**	**(3,415)**	**–**	**(9,406)**
	$ 7,498	**$ 6,405**	**$ –**	**$ 13,903**

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

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values and carrying values of financial instruments:

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

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

	December 31, 2015			December 31, 2014			
	Fair Value	**Carrying Value**	**Fair Value over Carrying**	Fair Value	Carrying Value	Fair Value over Carrying	Fair Value Hierarchy
Assets							
Cash and cash equivalents	**$ 25,210**	**$ 25,210**	**$ –**	$ 59,636	$ 59,636	$ –	1
Loans receivable	**935,130**	**935,130**	**–**	791,573	791,573	–	3
Derivative assets	**1,310**	**1,310**	**–**	466	466	–	2
Guarantee asset	**34,755**	**34,755**	**–**	22,606	22,606	–	3
	$ 996,405	**$ 996,405**	**$ –**	$ 874,281	$ 874,281	$ –	
Liabilities							
Accounts payable and accrued liabilities	**$ 19,208**	**$ 19,208**	**$ –**	$ 12,915	$ 12,915	$ –	2
Revolving credit facility	**248,710**	**248,710**	**–**	210,409	210,409	–	3
Senior debt	**45,279**	**45,279**	**–**	49,654	49,654	–	3
Subordinated bridge facility, due to Catalyst	**291,479**	**291,479**	**–**	116,010	116,010	–	3
	$ 604,676	**$ 604,676**	**$ –**	$ 388,988	$ 388,988	$ –	

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:

(i) The carrying value of cash and cash equivalents, revolving and non-revolving credit facilities, assets held for sale, 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.
(ii) The fair value of the loan portfolio is determined by aggregating the present value of the discounted cash flows factoring current interest rates and estimates of credit risk. Discount rates used to determine the fair value of loans range between 6.0% and 35.0%.
(iii) Fair values of derivative instruments are determined using pricing models, which take into account current market and contractual prices of underlying instruments, as well as time value and yield curve underlying the positions, which are observable. Accordingly, such instruments are classified in Level 2 of the fair value hierarchy.

13. CONTINGENCIES

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

14. 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 15).

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, 2015 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 impact on the Company's interest income and related expenses on these financial instruments.

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

(c) Liquidity Risk

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

The Company 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.

(d) Credit Risk

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

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

The Company actively monitors each loan, as appropriate depending on the risks. In most cases, the Company maintains control of the borrower's deposit account through the use of blocked accounts, which facilitates loan repayment and reduces the risk of fraud. In structuring its loans, the Company 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. Frequent meetings with the borrower's management are combined with regular field audits. Third-party collateral appraisers generally confirm initial inventory and fixed asset values, and professional restructuring advisors are involved, as necessary. This system of collateral monitoring and management contact mitigates risk by acting as an early warning system of potential credit issues. Early detection of issues ensures that proactive remedies can be implemented.

The net carrying amount of all loans are at least 100% collateralized as of December 31, 2015.

15. DERIVATIVES HELD FOR RISK MANAGEMENT

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

	Notional Amount[1]		Fair Value Asset	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Foreign exchange forward contracts	**$ 135,000**	$ 209,000	**$ 1,310**	$ 466

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

16. SHARE-BASED PAYMENTS

The Company grants stocks 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 5% have been awarded and remain outstanding.

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, 2015 was $8,843 (December 31, 2014 – $7,631). For the year ended December 31, 2015, an expense of $4,452 (2014 – $2,479) was recorded in the consolidated statements of income and comprehensive income. As at December 31, 2015, future unrecognized compensation cost for non-vested stock options was $3,129 (December 31, 2014 – $7,086), which is to be recognized over a weighted average period of 2.3 years (December 31, 2014 – 2.7 years).

Significant assumptions used in valuing the options include a volatility rate of 37%, a dividend rate of 8.7%, an expected life assumption of 10 years, and a risk-free rate of 1.89%.

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, 2015:

	Options Outstanding			Options Exercisable	
Exercise Price ($)	Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price ($)	Options	Weighted Average Exercise Price ($)
$3.41	664,800	7.00	$ 3.41	664,800	$ 3.41
$16.89	729,876	8.97	16.89	243,292	16.89
$8.03	1,200,000	9.96	8.03	–	8.03
	2,594,676	8.92	$ 9.34	908,092	$ 7.02

For the year ended December 31, 2015, 55,000 (2014 – nil) options were cancelled and forfeited.

17. ASSETS ACQUIRED FROM LOANS

The table below summarizes the assets acquired from loans:

	December 31, 2015	December 31, 2014
Assets held for sale	**$ 66,787**	$ –
Businesses acquired	**35,580**	–
	$ 102,367	$ –

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

	2015	2014
Net loss from operations of assets held for sale	**$ (8,257)**	$ –
Provision related to assets held for sale	**(3,000)**	–
Recovery under the Catalyst guarantee	**11,257**	–
	$ –	$ –

(b) Businesses Acquired

In November 2015, one of the Company's borrowers emerged from formal restructuring proceedings in the U.S. as a going concern. As a result and under the terms of its secured creditor agreement, the Company gained control of the operating assets of the borrower and has presented the net assets and liabilities of these operating assets as businesses acquired.

An amount of $590 was recorded in the statement of comprehensive income representing the net income from the businesses acquired from the date of acquisition to December 31, 2015.

As at December 31, 2015, the significant assets and liabilities of the businesses acquired consisted of the following:

	December 31, 2015
Significant assets:	
Accounts receivable	**$ 2,428**
Machinery and equipment	**13,576**
Land and building	**5,490**
Goodwill	**13,660**
Significant liabilities:	
Accounts payable and accrued liabilities	**577**
Short-term notes	**913**

18. CAPITAL REQUIREMENTS

The Company is required to maintain minimum excess working capital as prescribed by the OSC. At December 31, 2015 and December 31, 2014, the Company was in compliance with the OSC's requirement to maintain minimum capital of $100.

19. TRANSFERS OF FINANCIAL ASSETS

As described in note 9, 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.

Statement of Financial Position

As at December 31, 2015	Before Derecognition	Effect of Derecognition	After Derecognition
Cash and cash equivalents	$ 25,210	$ –	**$ 25,210**
Income taxes receivable	6,068	–	**6,068**
Derivative assets	1,310	–	**1,310**
Assets acquired from loans	102,367	–	**102,367**
Loans receivable	1,050,773	(115,643)	**935,130**
Deferred tax asset	13,903	–	**13,903**
Guarantee asset	35,495	(740)	**34,755**
Other assets	3,055	–	**3,055**
	$ 1,238,181	$ (116,383)	**$ 1,121,798**
Accounts payable and accrued liabilities[(1)]	$ 16,506	$ 2,702	**$ 19,208**
Income and other taxes payable	15,413	–	**15,413**
Borrower deposits	142	–	**142**
Deferred facility fees	10,096	–	**10,096**
Due to Catalyst Fund Limited Partnership V	55,832	(55,832)	**–**
Revolving credit facilities	299,960	(51,250)	**248,710**
Senior debt	49,724	(4,445)	**45,279**
Subordinated bridge facility, due to Catalyst	296,901	(5,422)	**291,479**
	744,574	(114,247)	**630,327**
Share capital	416,750	–	**416,750**
Contributed surplus	8,843	–	**8,843**
Retained earnings	66,143	(2,136)	**64,007**
Accumulated other comprehensive income	1,871	–	**1,871**
	493,607	(2,136)	**491,471**
	$ 1,238,181	$ (116,383)	**$ 1,121,798**

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

Statement of Comprehensive Income

	Consolidated	Effect of Derecognition	**2015 after Derecognition**
Interest	$ 163,645	$ (5,289)	**$ 158,356**
Fees and other	13,649	(699)	**12,950**
	177,294	(5,988)	**171,306**
Catalyst Fund Limited Partnerships	(20,959)	850	**(20,109)**
Senior debt and revolving credit facilities	(19,429)	665	**(18,764)**
	(40,388)	1,515	**(38,873)**
Net interest income	136,906	(4,473)	**132,433**
Provision for loan losses	(36,959)	1,306	**(35,653)**
Recovery under the Catalyst guarantee	12,547	(740)	**11,807**
Foreign exchange loss	(1,824)	132	**(1,692)**
Income from assets acquired from loans	590	–	**590**
Catalyst's share of overhead expenses	–	1,639	**1,639**
	(25,646)	2,337	**(23,309)**
Salaries and wages	(9,716)	–	**(9,716)**
Stock options expense	(4,452)	–	**(4,452)**
General and administrative	(8,064)	–	**(8,064)**
	(22,232)	–	**(22,232)**
Income before income taxes	89,028	(2,136)	**86,892**
Current income taxes (expense) recovery	(31,345)	–	**(31,345)**
Deferred income taxes (expense) recovery	6,405	–	**6,405**
	(24,940)	–	**(24,940)**
Income and comprehensive income	$ 64,088	$ (2,136)	**$ 61,952**

20. EARNINGS PER SHARE

	2015	2014
Basic earnings per common share:		
Net income	**$ 61,952**	$ 41,759
Weighted average number of common shares outstanding ('000s)	**50,220**	40,032
Basic earnings per common share	**$ 1.23**	$ 1.04
Diluted earnings per common share:		
Net income	**$ 61,952**	$ 41,759
Weighted average number of common shares outstanding ('000s)	**50,220**	40,032
Adjustments to average shares due to:		
Share-based payment options and others	**745**	635
Weighted average number of common shares outstanding ('000s)	**50,965**	40,667
Diluted earnings per common share	**$ 1.22**	$ 1.03

21. SUBSEQUENT EVENTS

Assets Held for Sale

In March 2016, the Company required payment by the Catalyst Funds of a guarantee (as described in note 9(c)) with respect to one of the Company's loan assets in an amount equal to the total outstanding principal plus accrued and unpaid interest of $101.3 million. The Catalyst Funds acquired the loan in question for an amount equal to the guarantee and are now the owners of the business and are actively restructuring it. The Company primarily used the proceeds from the guarantees temporarily to repay a portion of the balance outstanding under the subordinated bridge facility.

Corporate Information

Established in 2003, Callidus Capital Corporation is a Canadian company that specializes in innovative and creative financing solutions for companies that are unable to obtain adequate financing from conventional lending institutions. Unlike conventional lending institutions that demand a long list of covenants and make credit decisions based on cash flow and projections, Callidus' credit facilities have few, if any, covenants and are based on the value of the company's assets, its enterprise value and borrowing needs. Callidus employs a proprietary system of monitoring collateral and exercising control over the cash inflow and outflow of each borrower, enabling Callidus to very effectively manage any risk of loss.

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Regulatory Filings

The Company's filings with the Ontario Securities Commission can be accessed on SEDAR at www.sedar.com.

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on May 17, 2016 at 10:00 a.m. at The Royal York Hotel, Toronto, Ontario, Canada.

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CAPITAL

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