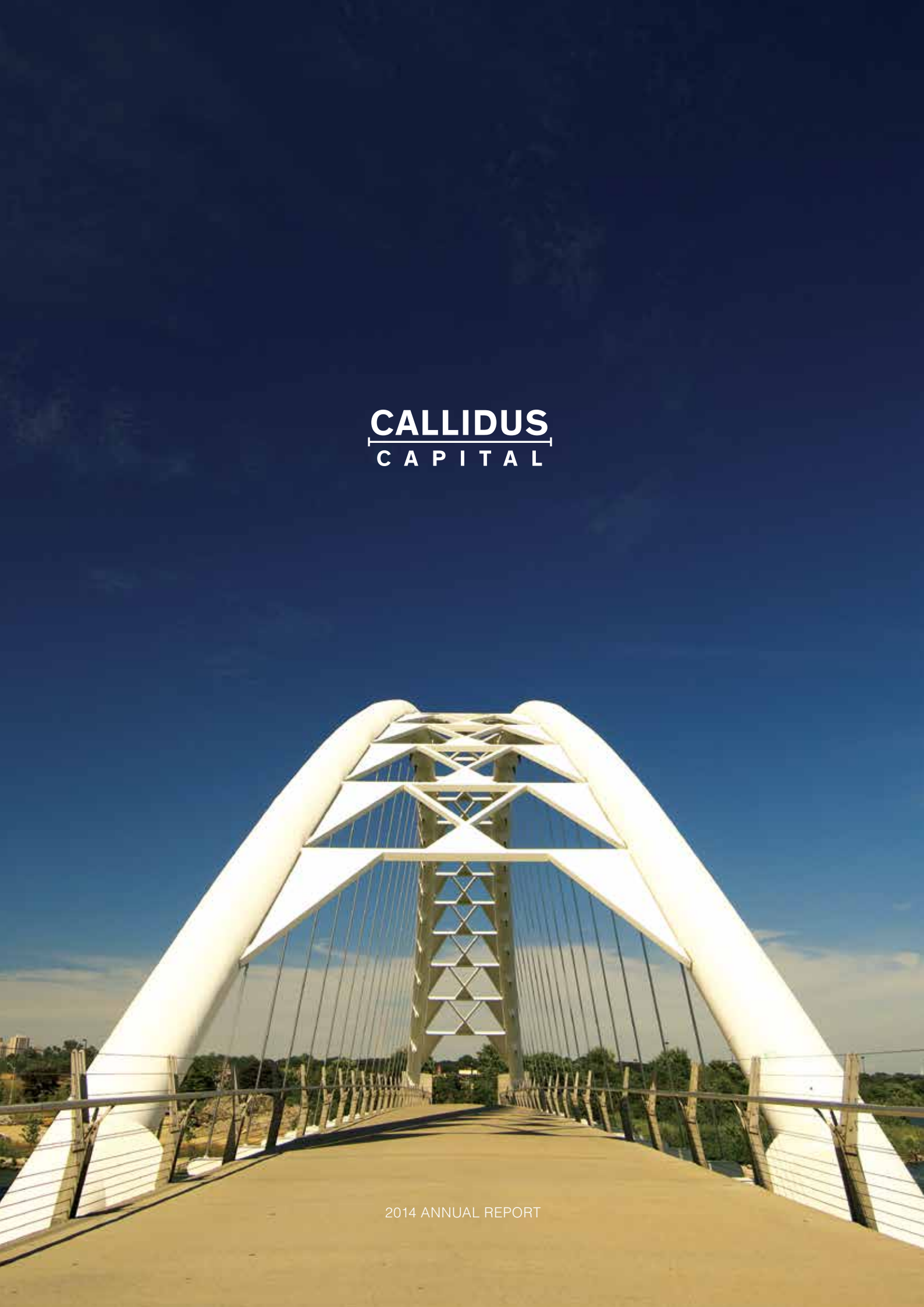
CALLIDUS CAPITAL

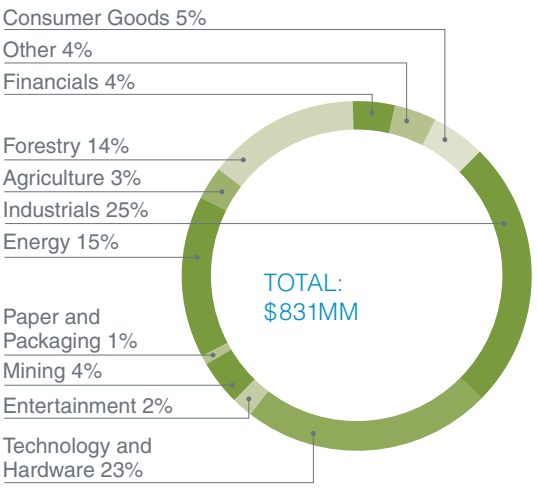


2014 ANNUAL REPORT

Financial Highlights

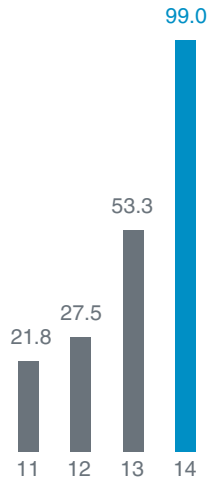
(C$ 000s, except per share information)	**2014**	2013
Average loan portfolio outstanding[1]	**$ 545,749**	$ 251,223
Total revenue (after derecognition)	**99,046**	53,324
Gross yield[1]	**20.3%**	21.2%
Adjusted net interest income[1]	**87,479**	48,910
Adjusted net interest margin[1]	**16.0%**	19.5%
Net income (loss)	**41,759**	(5,714)
Earnings per share (diluted)	**$ 1.03**	$ (0.27)

GROSS LOANS RECEIVABLE BY BORROWER SECTOR

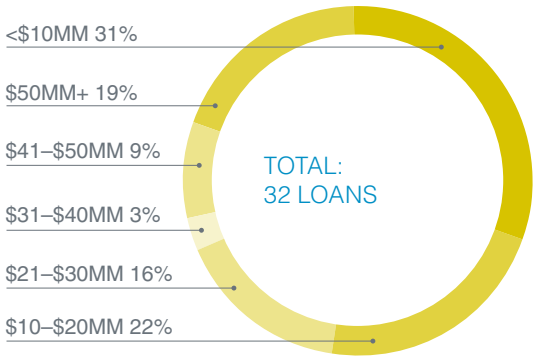


TOTAL REVENUE (after derecognition)

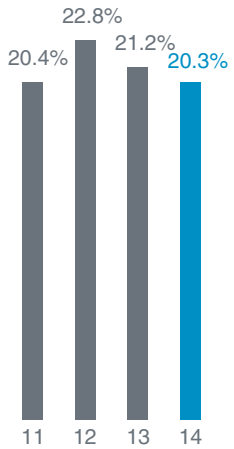
(C$ millions)



LOAN PORTFOLIO BY AMOUNT FUNDED



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 providing bridge financing to Canadian and U.S. companies unable to obtain adequate credit from traditional lenders. Its loans range from $5 million to $100 million and are generally structured as fully collateralized demand, first lien facilities with historical gross yields of approximately 20%. 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; non-dilutive 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.

TABLE OF CONTENTS

THE PENROD COMPANY

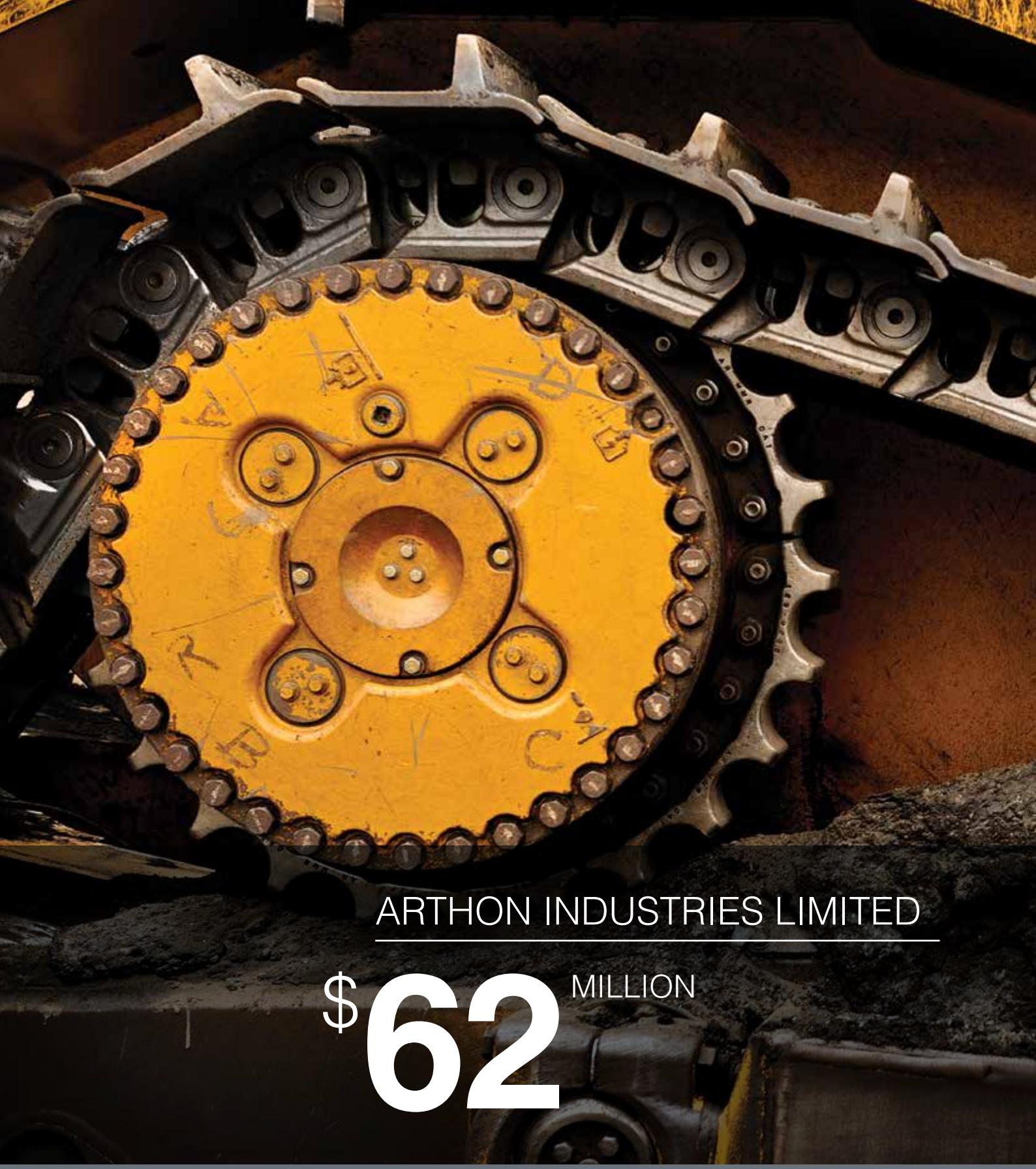
$13 MILLION

Founded in 1888, Virginia Beach–based PENROD has experienced its share of ups and downs. But the most recent global financial crisis threatened its very survival. As a large manufacturer of wood, metal and PVC products for construction, it was particularly vulnerable to the economic downturn. An ill-timed expansion strategy, combined with a steep drop in demand for its products, triggered a cash flow crisis, prompting its banks to reel in credit and look for opportunities to dissolve the relationship.

"It was truly a pleasure working with the Callidus team. The loan was key, but I cannot overstate how valuable it was to have such experienced experts in restructuring at our side."

Edward "Buzz" Heidt, Jr.
CEO

When Callidus Capital arrived on the scene, our rigorous due diligence process confirmed PENROD was well run and had valuable assets. A US$13 million 12-month loan gave CEO Edward "Buzz" Heidt, Jr. the capital he needed to satisfy creditors. Working closely with the Callidus team, he implemented a downsizing plan while also investing to expand money-making product lines. Today, PENROD is a profitable, $200 million business operating on five continents.



ARTHON INDUSTRIES LIMITED

$62 MILLION

Arthon Industries Ltd. spent the last 50 years helping to build British Columbia by excavating, building roads and processing and supplying aggregate for large construction projects throughout the province. The Kelowna-based company ran into trouble in 2012 when it purchased a dormant coal mine in southern B.C. Delays and cost overruns in getting it up and running triggered a credit crunch from its bank, eventually forcing it into receivership.

"After other potential lenders fled, the Callidus team got to work and developed the financing plan that helped save my company."

Kerry Leong
Owner

Its significant assets allowed Callidus Capital to design a $62 million senior revolving and term credit facility in late 2013. An effective restructuring plan, including the liquidation of non-core assets, set Arthon on the road to recovery. Its large aggregate mine in Kitimat is particularly well positioned to supply building materials to nearby oil and gas exploration companies in dire need of construction materials. Arthon is on track to again access conventional financing by the end of 2015.

NETRICOM

$28 MILLION

Like all successful entrepreneurs, Francois J. Gaudreau recognized when opportunity was knocking. But acting on it required help from Callidus Capital. Mr. Gaudreau was running a successful Montreal-based company that installed wired and wireless telecommunications infrastructure. He watched as rival Prestige Telecom expanded through aggressive acquisitions. But Prestige's failure to efficiently integrate the new business units eventually forced it into receivership in late 2011.

"By fully understanding the opportunity at hand, Callidus Capital played an instrumental role in helping us resurrect this important company and save more than 1,100 jobs."

Francois J. Gaudreau
Entrepreneur

Mr. Gaudreau saw tremendous value in the insolvent company and wanted to make a bid for it. Traditional lenders were not interested in financing the deal, so he and his investors turned to Callidus for a $3 million 12-month term loan and a $25 million revolving credit line, both secured against inventories and receivables. Nearly 1,200 employees at Prestige kept their jobs with the new company, NETRICOM. Mr. Gaudreau's group sold the profitable company in mid-2014, using some of the proceeds to pay off the remaining balance on the Callidus credit facilities.

Letter from the Chairman and CEO

I am very pleased to be presenting Callidus Capital's first annual report, as a public company, to our shareholders. This is an opportunity to showcase our strong performance in 2014 and explain and illustrate our business in the specialized distressed or troubled asset-based lending market.

In simple terms, we lend money to companies in one of two categories: a) those experiencing growing pains, strategic changes and/or financial distress; or b) those experiencing growth at a rate exceeding their ability to fund such growth. In either case, we lend only if we confirm, upon analysis, that sufficient excess collateral is available to support the loan in question. Our loans, which can reach $100 million and usually have a term of 12 months, are generally fully collateralized with real and valuable assets, typically fairly easy to be monetized. We also contractually and structurally control all of a borrower's access to cash. Our unrivalled team of operations experts and credit analysts work closely with the borrowing companies to design a financing plan that will hopefully get them back to traditional lenders as soon as possible.

Before our initial public offering, we estimated that, given the market opportunity in North America, lack of competition, and fundamental pending regulatory changes, we could double our loan portfolio within two to three years. We are proud to report that we have achieved this target within a year, ending the year with $831 million in active loans, up from $381 million at the start of 2014. The fact our current pipeline of $450 million to $600 million of potential new loans has not changed in spite of our extraordinary growth confirms the market opportunity is even greater than expected. In part, the fact that signed back term sheets have been growing quarter over quarter leads us to believe the opportunity is even bigger than ever hoped.

At a macro level, stricter North American financial regulations have introduced higher capital requirements for banks issuing loans, creating added opportunities for non-traditional lenders such as Callidus Capital. While our business model does well in a normal economic environment, it thrives during uncertainty or changes in credit fundamentals. When traditional lenders walked away from established and well-managed auto parts makers during the 2008/09 financial crisis, we secured several lucrative loan arrangements. Simply put, we understand the difference between perceived risk and actual risk since we focus on the underlying collateral. We see similar selective opportunities today.

Competitive Advantages:

1. Industry's best credit and workout experts
2. Access to capital
3. Covenant-light, non-dilutive loan terms
4. Proprietary due diligence process
5. Ability to design custom borrowing solutions

Since our initial public offering (IPO), we increased the number of loans, the average size of our loans and loan retention with the launch of Callidus Lite. At the time of the IPO, we suggested we had five ways to grow the business: pursuing organic growth in Canada, the expansion of Callidus Lite, tapping the sizable U.S. market, acquiring loan assets from the Catalyst Funds and the possible acquisition of portfolios from North American lenders looking to reduce exposure in their workout groups or forced to leave the business.

Callidus Capital remains very well positioned to continue its strong growth in 2015. We have an outstanding and agile team with ample access to capital through our financing partners and our majority owner, The Catalyst Capital Group Inc. Our 2014 results attest to the tremendous demand in the marketplace for our products.

Finally, I would like to thank the Board of Directors for their counsel and hard work in this, our first full year as a public company.

Newton Glassman
Chairman and CEO

Letter from the President and COO

Entering our first year as a publicly traded company, we knew Callidus Capital was well positioned for strong growth. Everything was in place – a highly talented and experienced team, a proven business model and credit approval process, access to sufficient capital and a gaping opportunity in our niche market for growth and distressed asset-based lending. When we ended 2014, our strong performance exceeded the growth targets set at the time of the IPO and it became clear that the demand for our highly specialized loan products is even greater than we originally estimated.

We set out to drive exceptional organic growth in our loans with gross yields of 20% for our traditional product, and our strong results show that we also benefitted from retaining loans longer than expected. Our ability to move to a sliding yield schedule for companies that are improving their creditworthiness, with the introduction of our Callidus Lite loans, is allowing us to extend some lending relationships while still retaining strong margins and no increase in risk of credit loss.

While we haven't experienced a realized loss in more than three years, we will nevertheless continue to build prudent loan loss provisions into our business plans; with an adjusted net interest rate margin of about 16%, we have plenty of room to be highly vigilant in managing risk.

Our entire team deserves full credit for our strong performance. In 2014, we added two experienced originators – one based in Seattle and the other in Montreal – who are already contributing directly to our pipeline and are closing deals. Further, we added to all areas of credit review – underwriting, collateral analysts and field examiners. Our collateral analysts and field examiners in particular spend a great deal of time in the field assessing all assets and processes of potential borrowers. If a loan is approved, they are on-site frequently to monitor the business and the quality of assets. This is augmented regularly with the use of arm's-length valuation teams to ensure the protection and value of our collateral.

Our proprietary due diligence system is an important competitive advantage. It gives us the information and certainty needed to design a workable and profitable loan structure after less confident lenders or those without the in-house expertise and systems to manage these very hands-on situations have already walked away. This year, we further strengthened this advantage by hiring an in-house technology expert with a PhD in computer science. He creates custom software programs that can interface directly with our borrowers' systems to allow us to monitor and evaluate the quality of inventories and receivables in real time as well as ensure our cash flow controls are functioning properly.

Our oversight team and our rigid processes force our borrowers to improve the way they manage their businesses. Moreover, our clients only have to pick up the phone to access some of North America's most experienced experts in restructuring.

Looking ahead, we will be working diligently to build on the success we had in 2014. We have all the ingredients needed to post another fantastic year.

David Reese
President and COO

Business Model and Strategy

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, such as accounts receivable, inventory, machinery and equipment, and in some cases plant (building and land).

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

Callidus Capital operates in the middle of these two extremes, offering 364-day loans of up to $100 million with gross yields of approximately 20% for our traditional product. We also offer Callidus Lite loans with 14% to 16% gross yields for companies with a better credit profile. In addition to not requiring performance covenants, another key competitive advantage is that we are non-dilutive. That is, unlike some other lenders trying to service this niche, we do not require borrowers to give up any equity stake in their company.

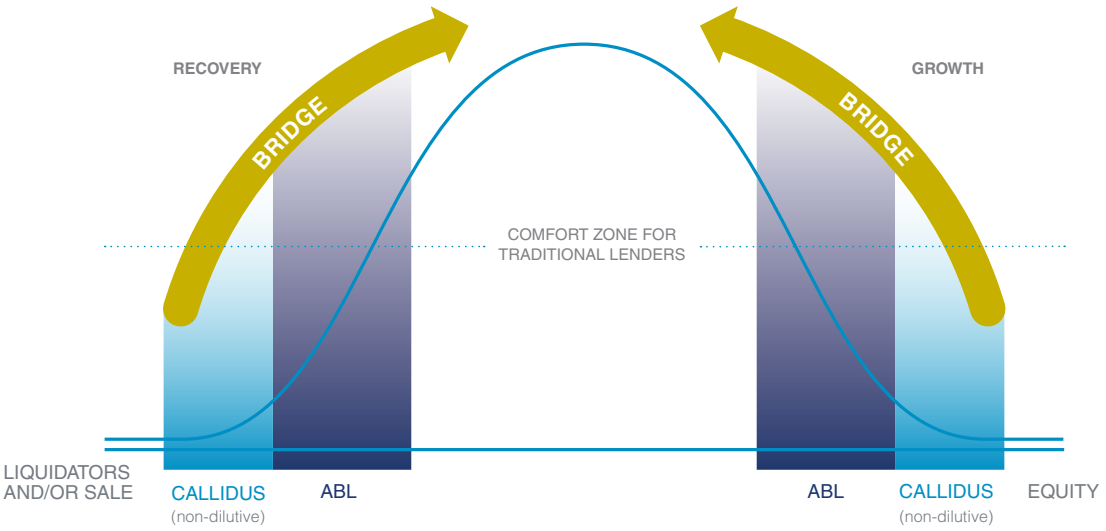
Our borrowers range from entrepreneur-owned ventures to mid-cap publicly traded corporations. They need capital for growth, opportunistic acquisitions or to inject cash flow to get through a difficult period. They may even be in the middle of court-supervised restructuring.

Callidus succeeds in effectively mitigating risk by using an agile but uncompromising proprietary due diligence process. After we evaluate a potential borrower's operations and potential, we conduct field examinations to review all financial records and assets. We then do thorough background checks of key managers and hire third-party specialists to appraise inventory and fixed assets. Loan underwriters submit a detailed analysis to our credit committee for consideration/approval.

If 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, which is augmented by field inspections and third-party asset appraisers, and by the use of custom software. Callidus executives also work closely with borrowers to provide counsel as required.

The fact that we have not experienced any realized loan losses since 2011 while maintaining gross yields of 20% attests to the calibre of our team and our processes.

Loans are typically for a term of 12 months but can be extended to 24 months and sometimes beyond. As a company's financial situation stabilizes, we can extend the relationship with a Callidus Lite loan. At the end of the process, our borrowers are much stronger, have more efficient operations and generally return to traditional lenders.



Growth

Callidus Capital posted loan book growth stronger than anticipated in 2014 while continuing to enforce our very strict lending criteria. Our average loan portfolio outstanding increased by 118% compared to the prior year, to $546 million. Our pipeline contains approximately $450 million to $600 million in potential new loans, confirming that demand for our specialized asset-based lending products and the underlying market fundamentals are robust. Our multi-pronged growth strategy is poised to provide another year of exciting performance.

Canada

Prior to our IPO, we estimated the total market opportunity for Callidus in Canada at about $1 billion. With more than $550 million in loans to Canadian companies already booked, management now believes this estimate to be overly conservative. With increased access to capital, a strong balance sheet and a higher profile as a public company, Callidus is well positioned to continue growing its core lending products within Canada.

United States

The U.S. presents a significantly larger opportunity than Canada. It already represents almost 40% of total portfolio loans. Our team is experienced working with U.S. bankruptcy and restructuring processes. We are making extensive inroads in this critical market and expect to continue increasing the overall share of U.S.-originated loans. Unlike many of our competitors, we are not affected by the increased constraints placed on commercial lenders as a result of the Dodd–Frank Wall Street Reform and Consumer Protection Act combined with the Basel III Accord.

Callidus Lite

Initially conceived as a scalable “pricing grid” tied to improving cash flow and collateral coverage, Callidus Lite was targeted to extend our relationship with clients with improving credit. Our success with placing lower yield Callidus Lite loans suggests the market opportunity in this segment is greater than expected. We believe this product has the potential to significantly increase our activity in both Canadian and U.S. markets. This product should have lower loan loss provisions and, by slightly increasing the associated financial leverage, should generate a similar return on equity when compared to our traditional product.

Industries

Callidus is closely monitoring the fallout from recent uncertainties in the North American economy, reflected in the steep drop in energy prices. We expect to see more lending opportunities as otherwise solid companies face cash flow shortages because their traditional lenders are tightening access to credit.

Acquiring Loan Portfolios

Economic uncertainty, combined with a regulatory framework enforcing higher capital requirements on commercial lenders, has the potential to prompt banks to divest loans deemed more at risk. We are actively pursuing opportunities to acquire groups of loans from banks at attractive terms, with a focus on packages with average loan sizes of $50 million or larger.

Acquiring Competitors

Our market leadership and ample access to capital put us in a position to take advantage of opportunistic purchases of competing lenders. While the competition in our niche market target smaller average loan sizes, we continually evaluate opportunities as they arise.

Board of Directors

The Board has responsibility for the supervision of the management of the business and affairs of the Corporation and, generally through management, to pursue the best interests of the Corporation in conducting the day-to-day business.

Newton Glassman, Callidus Capital Corporation
Director, Executive Chairman

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 Capital Group Inc. (CCGI). He devotes all of his working time to CCGI, 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 Market 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, 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, Callidus Capital Corporation
Director, Secretary

Mr. Riley is a Managing Director and the Chief Operating Officer of The Catalyst Capital 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.

David Sutin, Independent Financial Advisor, Former Managing Director, Quest Partners Ltd.
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 of 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.

Ann Davis, Retired Partner, KPMG LLP
Director

After a 37-year career at KPMG LLP in Canada, Ann Davis retired from KPMG on March 31, 2013, having been a partner in the audit practice for over 25 years with specialization in the financial services sector. Ms. Davis provided audit and audit related services to some of KPMG's largest clients and has extensive experience with financial institutions including banking, wealth management, investment banking and brokerage, and alternative and mutual funds. She also led the financial services audit practice in the Greater Toronto Area and served as National Industry Leader for KPMG's financial services practice. Ms. Davis graduated from Queen's University in Kingston, Ontario in 1976 with a Bachelor of Science (Honours) Degree. She became a Chartered Accountant in 1979 and is a member of the Chartered Professional Accountants of Ontario. In 1997, she was elected a Fellow of the Chartered Professional Accountants of Ontario.

Tibor Donath, Partner, Bench & Donath
Director

Since 1979, Mr. Donath has been a Partner at Bench & Donath, Chartered 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 professionnels agréés du Québec. Mr. Donath graduated from Sir George Williams University (now Concordia University) with a Bachelor of Commerce in 1973 (Major in Accounting, Minor in Economics) and was first licensed to practise accounting in 1976. Since July 2006, Mr. Donath has been a member of the Board of Directors and Chair of the Audit Committee for Counsel Corporation. Mr. Donath also sits on the Investment Committee of a private venture capital firm.

Financial Review
Table of Contents

Management's Discussion and Analysis

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, 2014 and 2013, and for the years ended December 31, 2014 and 2013, and the related notes attached thereto, which were prepared in accordance with International Financial Reporting Standards ("IFRS") and the final prospectus filed with the various securities regulatory authorities through Canada on April 15, 2014, in connection with the Company's initial public offering that closed April 23, 2014 (the "Offering"). The Offering and the effect of the related transactions, including the impact of derecognition is accounted for in the Financial Statements. These items and additional information regarding the Corporation are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. This MD&A has been prepared taking into consideration information available to March 27, 2015 and is current to that date unless otherwise stated. All amounts herein are expressed in Canadian dollars unless otherwise indicated.

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

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

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

Forward-looking statements involve significant risks and uncertainties, and should not be read as guarantees of future events, performance or results, and will not necessarily be accurate indicators of whether such events, performance or results will be achieved. Forward-looking statements are based on information available at the time and/or management's expectations with respect to future events that involve a number of risks and uncertainties. Any forward-looking information concerning prospective results of operations, financial position, expectations of cash flows and future cash flows is based upon

assumptions about future results, economic conditions and courses of action and is presented for the purpose of providing prospective investors with a more complete perspective on Callidus' present and planned future operations. Such information may not be appropriate for other purposes and actual results may differ materially from those anticipated in such forward-looking statements.

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

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

BUSINESS PROFILE AND STRATEGY

Callidus is a specialty asset-based lender, focused primarily on Canadian companies and select U.S. companies that are unable to obtain adequate financing from traditional lenders. Callidus provides flexible and innovative loan structuring, with limited or no covenants and an efficient credit approval process. The Corporation's loans are generally structured as demand, first lien (senior secured) facilities, on a fully collateralized basis, with targeted gross yields of approximately 20%.

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 and inventory, 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. Callidus has a strong track record, as evidenced by, among other things, no realized losses on principal on Callidus-originated loans after consideration of liquidated collateral and transaction costs from 2012 to 2014.

2014 STRATEGIES AND ACHIEVEMENTS

Following the completion of the Offering, the Company employed the following strategies to grow its loan portfolio:

Goal	2014 Achievement
Organic growth in Canada	• Originated 11 new loans in Canada representing $206 million in commitments. • Increased gross loans receivable in Canada by $234 million or 80% from the prior year. • Hired an originator in Montreal, Quebec to cover the Quebec and eastern Canadian markets. • Hired an originator in Seattle, Washington to cover Western Canada and the U.S. Pacific coast. • Obtained a US$200 million unsecured subordinated bridge facility from Catalyst Funds. This facility will 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 4 Callidus Lite loans representing $122 million in commitments. In addition to these 4 loans, as at December 31, 2014, $109 million of the existing portfolio qualified for Callidus Lite and another $201 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.	• Hired an originator in Seattle, Washington to cover the U.S. Pacific coast and Western Canada. • Originated 6 new loans in the U.S. representing $251 million in commitments. • Increased the gross loans receivable in the U.S. by $216 million or 247% from the prior year.
Purchase of loan assets from the Catalyst Funds	• In December 2014, the Company acquired all of the Catalyst Funds' participation interest in the loan portfolio at par plus accrued interest and fees in exchange for 2.335 million common shares at $21.41 per share, as well as a cash payment of approximately $821 as a post-closing adjustment for foreign exchange. The acquisition of the participation interest is accretive to earnings and is enhanced by the Catalyst guarantee on a pro-rata basis.

CURRENT STATUS OF THE BUSINESS

As at March 27, 2015, Callidus managed $883 million of loan assets. Management estimates net income of approximately $90 million before derecognition, had the gross loans receivable of approximately $883 million been outstanding for a full year. Please see the "Outlook" section elsewhere in this MD&A for further detail about the estimates and assumptions utilized to calculate this figure. The Corporation is currently considering potential new loans totaling approximately $450 million to $600 million.

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 average loan portfolio outstanding. 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 held for sale 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 Changes in Financial Position and a summary of gross loans receivable as at December 31, 2014 and December 31, 2013 and updated amounts as at March 27, 2015.

($ 000s)	**March 27, 2015**	December 31, 2014	December 31, 2013
Loan facilities	**$ 1,162,349**	$ 1,028,989	$ 479,300
Gross loans receivable	**882,891**	830,505	381,302
Less: Discounted facilities	**(9,793)**	(9,793)	(9,774)
Less: Provision for loan losses	**(18,970)**	(29,139)	(10,176)
Less: Assets held for sale	**(60,185)**	–	(11,360)
Net loans receivable	**$ 793,943**	$ 791,573	$ 349,992

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 held for sale, (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.

Adjusted net interest income is defined as net interest income adjusted for interest expense and participation fees to the Catalyst Fund Limited Partnerships for the period prior to the Offering.

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

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

Provision for loan losses ratio is defined as provision for loan losses divided by gross loans receivable.

Operating expense ratio is defined as operating expenses divided by average loan portfolio outstanding.

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

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

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, 2014 and December 31, 2013 has been derived from the Company's Financial Statements that were prepared in accordance with IAS 34. The following information should be read in conjunction with those statements and related notes.

($ 000s)		**2014**		2013
Average loan portfolio outstanding[1]	**$**	**545,749**	$	251,223
Gross yield[1]		**20.3%**		21.2%
Income Statement Data (After Derecognition):				
Total revenue	**$**	**99,046**	$	53,324
Operating expenses[2]		**(12,651)**		(10,985)
Provision for loan losses		**(18,963)**		(5,976)
Recovery under the Catalyst guarantee		**22,606**		–
Net interest income		**70,625**		11,416
Adjusted net interest income[1]		**87,479**		48,910
Net interest margin[1]		**12.9%**		4.5%
Adjusted net interest margin[1]		**16.0%**		19.5%
Provision for loan losses ratio[1]		**3.5%**		2.7%
Operating expense ratio[1]		**2.3%**		4.4%
Net income (loss)	**$**	**41,759**	$	(5,714)
ROE[1]		**10.6%**		note 3

Balance Sheet and Other Data:

($ 000s)		**December 31, 2014**		December 31, 2013	Change from 2013		$	%
Total assets	**$**	**883,434**	$	400,620	$	482,814		121%
Gross loans receivable[4]		**830,505**		381,302		449,203		118%
Assets held for sale		**–**		11,360		(11,360)		-100%
Revolving credit facility and senior debt		**260,063**		69,562		190,501		274%
Subordinated bridge facility, due to Catalyst		**116,010**		–		116,010		n/a
Due to Catalyst Fund Limited Partnerships	**$**	**–**	$	330,703	$	(330,703)		-100%
Leverage ratio[1]		**38.1%**		note 3				

(1) Refer to "Description of Non-IFRS Measures".
(2) Consists of salaries and wages, stock options, general and administrative expenses, and participation fees.
(3) Comparatives for 2013 have not been presented as the Company operated under a capital structure that was replaced at the Company's initial public offering.
(4) Net of provision for loan losses and discounts on loan acquisitions.

HIGHLIGHTS

- As at December 31, 2014, gross loans receivable was $831 million, an increase of $450 million or 118% from December 31, 2013. The increase was due to (i) an increase in the number of loans and (ii) an increase in the average loan amount funded. At December 31, 2014, there were 32 loans and the average loan amount funded was approximately $26 million. This compares with 19 loans and an average loan amount funded of $20 million at December 31, 2013.
- The increase in the loan portfolio was funded by draws on the Company's new revolving credit facility, the Catalyst subordinated bridge facility, and the Company's initial public offering and related transactions.
- Gross yield for the year was 20.3%, a decrease of 0.9% from the prior year due to lower interest yield and lower fees. Interest yield was 18.5% for the current year, a decrease of 0.2% from the prior year due primarily to a greater proportion of Callidus Lite loans in the portfolio in the current year. As noted previously, Callidus Lite loans are used as (i) an origination and (ii) a retention product for borrowers with improving credit quality. Lower fees were the result of fees earned in 2013 that were non-recurring in 2014.
- Provision for loan losses for the year increased $13.0 million from last year, while write-offs were nil. At December 31, 2014, the provision for loan losses ratio was 3.5%, compared to 2.7% last year. The increase from the prior year is primarily as a result of the adoption of a collective allowance. This practice will better account for losses within a rapidly growing loan portfolio. Excluding the effect of the collective allowance, the provision for loan losses ratio for the year would be consistent with the prior year.
- During the fourth quarter, the Company clarified the Catalyst guarantee and as a result, recognized in income $22.6 million related to the guarantee.
- For the year ended December 31, 2014, the average loan portfolio outstanding was $546 million, an increase of $295 million or 118% from the prior year.
- Adjusted net interest margin for the year was 16.0%, compared to 19.5% last year. The movement in net interest margin was due to increased financial leverage this year compared to last year.
- At December 31, 2014, net loans receivable was $792 million, an increase of $442 million or 126% from December 31, 2013.
- On a pro-forma basis, had the capital structure at December 31, 2014 existed throughout the entire year, Callidus would have recorded adjusted net interest income of approximately $100 million, net income of $58 million, earnings per share (diluted) of $1.42 and an ROE of 17%.

RESULTS OF OPERATIONS

Net Income

Condensed Consolidated Statement of Income (Loss)

($ 000s)		2014		2013
Interest	$	**90,442**	$	47,102
Fees and other		**8,604**		6,222
Total revenue		**99,046**		53,324
Salaries and wages		**(7,376)**		(4,248)
Stock options expense		**(2,479)**		(5,152)
Provision for loan losses		**(18,963)**		(5,976)
Recovery under the Catalyst guarantee		**22,606**		–
General and administrative		**(5,040)**		(2,036)
Catalyst's share of overhead expenses		**2,244**		451
		(9,008)		(16,961)
Interest expense and participation fees to:				
Catalyst Fund Limited Partnerships		**(18,052)**		(37,494)
Senior debt and revolving credit facilities		**(10,369)**		(4,414)
Foreign exchange loss		**(1,165)**		(1,363)
		(29,586)		(43,271)
Income (loss) before income taxes		**60,452**		(6,908)
Income taxes (expense) recovery		**(18,693)**		1,194
Income (loss)	$	**41,759**	$	(5,714)
Earnings per common share (dollars)				
Basic	$	**1.04**	$	(0.28)
Diluted	$	**1.03**	$	(0.27)

2014 vs. 2013

Interest income increased $43 million from last year, as a result of (i) a $295 million increase in the average loan portfolio outstanding to $546 million year-over-year, which was partially offset by (ii) a decrease of 0.2% in the interest yield to 18.5% year-over-year, due primarily to a greater proportion of Callidus Lite loans in the portfolio in the current year.

Fee income was $8.6 million, a $2.4 million increase from the same period in the prior year as a result of growth in the loan portfolio.

Provision for Loan Losses

($ 000s)		2014		2013
Specific individual loan loss provisions	$	**12,601**	$	5,976
Collective allowances		**6,362**		–
Total	$	**18,963**	$	5,976

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 weekly borrowing base calculations and quarterly field audits, 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.

Total provision for loan losses for the year was $19.0 million, a $13.0 million increase from the prior year, primarily as a result of growth in the loan portfolio and the adoption of a collective allowance in addition to the specific provisions historically recorded. This practice will better reflect incurred but not yet identified losses in the loan portfolio.

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.

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

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

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

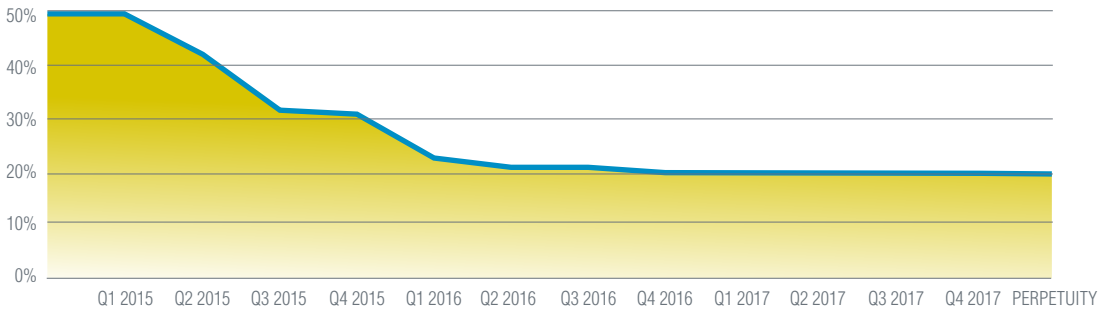
As of December 31, 2014, the amount of accrued and unpaid interest and fees included in the gross loans receivable balance that would not be covered under a guarantee was $6.4 million.

At December 31, 2014		($ 000s)	%
Guarantee Coverage of Gross Loans Receivable			
Gross loans receivable covered by a guarantee:			
Watch list loans	$	163,439	20%
Non-watch list loans		254,306	30%
Gross loans receivable not covered by a guarantee:			
Watch list loans		30,864	4%
Non-watch list loans		381,896	46%
Total gross loans receivable	$	830,505	100%
Guarantee Coverage of Provision for Loan Losses			
Provision for loan losses covered by a guarantee:			
Watch list loans	$	22,606	77%
Non-watch list loans		–	0%
Provision for loan losses not covered by a guarantee:			
Watch list loans		171	1%
Non-watch list loans		6,362	22%
Total provision for loan losses	$	29,139	100%

For the year, the Company recognized in income $22.6 million related to the Catalyst guarantee. At December 31, 2014, the Catalyst guarantee covered a portion of all 32 loans in the portfolio as a result of the purchase of the $50 million participating interest (loans originated after the Offering are covered on a pro-rata basis), 50% of gross loans receivable and 99% of the specific provision for loan losses. The portion of the provision for loan losses not covered by the Catalyst guarantee primarily relates to the collective allowance included in the provision at December 31, 2014.

The graph below illustrates the coverage of gross loans receivable by the Catalyst guarantee based on expected loan maturity dates. Approximately 20% of the gross loans receivable at December 31, 2014 is covered into perpetuity regardless of whether those loans are renewed in the normal course.

% of Gross Loans Receivable Covered by a Guarantee
(Based on Expected Maturity Date as at December 31, 2014)



Operating and Other Expenses

($ 000s)		2014		2013
Salaries and benefits	$	**7,376**	$	4,248
Stock options expense		**2,479**		5,152
General and administrative		**5,040**		2,036
Foreign exchange loss		**1,165**		1,363
Catalyst's share of overhead expenses		**(2,244)**		(451)
Total	$	**13,816**	$	12,348

Salaries and Benefits and Stock Options Expense

Salaries and benefits for the year increased $3.1 million from the prior year, primarily as a result of a number of net new hires in anticipation of and to accommodate growth in the loan portfolio and an increase in cash compensation for the Corporation's employees. Stock options expense decreased $2.7 million from last year. Callidus recognized a $5.2 million option expense in fiscal 2013, as a result of implementation of the Incentive Plan. 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 loans receivable and amounts outstanding under the revolving credit facilities 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 with a number of financial institutions in an amount offsetting the net balance sheet exposure at a cost dependent on the forward premium at the transaction date.

Refer to note 16 in the Financial Statements for further information.

INCOME TAXES

The effective tax rate for this quarter was lower than the enacted domestic corporation tax rate of 26.5% and higher than the third quarter last year. This year, the tax rate was impacted by the tax treatment of issuance costs associated with the Offering and the associated deferred tax provision.

Historically, the Corporation's income tax expense has been less than $0.1 million as a result of participating interest amounts paid to the Catalyst Funds. However, going forward, as a result of the full repayment of the participating debenture, the Company considers it probable that future taxable profits will be generated that will be taxed at the enacted rate, which was 26.5% in 2014. Additionally, the deductible temporary differences can be used against such future taxable profits. As a result, the Corporation recognized a $7 million deferred tax asset as at December 31, 2014 (2013 – deferred tax asset of $1 million).

FINANCIAL POSITION

Condensed Consolidated Balance Sheets

($ 000s)	December 31, 2014	December 31, 2013	Change from 2013 $	Change from 2013 %
Cash and cash equivalents	**$ 59,636**	$ 38,014	$ 21,622	57%
Deferred tax asset	**7,498**	1,228	6,270	511%
Assets held for sale	**–**	11,360	(11,360)	-100%
Loans receivable	**791,573**	349,992	441,581	126%
Guarantee asset	**22,606**	–	22,606	n/a
Other assets and receivables	**2,121**	26	2,095	8,058%
Total	**$ 883,434**	$ 400,620	$ 482,814	121%
Accounts payable and accrued liabilities	**$ 12,915**	$ 788	$ 12,127	1,539%
Income taxes payable	**19,961**	–	19,961	n/a
Deferred facility fees and other	**6,655**	4,265	2,390	56%
Due to Catalyst Fund Limited Partnerships	**–**	330,703	(330,703)	-100%
Revolving credit facilities and senior debt	**260,063**	69,562	190,501	274%
Subordinated bridge facility, due to Catalyst	**116,010**	–	116,010	n/a
Shareholders' equity	**467,830**	(4,698)	472,528	-10,058%
Total	**$ 883,434**	$ 400,620	$ 482,814	121%

Total assets at December 31, 2014 were $883 million, an increase of $483 million, or 121%, from December 31, 2013. The increase in total assets was attributable primarily to an increase of $442 million in loans receivable. As at December 2014, the Company recorded a guarantee receivable of $22.6 million related to the Catalyst guarantee. In 2011, the Corporation received 100% of the common shares of a borrower, as part of an acquisition of a distressed loan portfolio from a competitor. The entity was classified as held for sale in the Statement of Financial Position and was recorded at the lower of (i) carrying value and (ii) fair value less cost to sell. The assets of the borrower were sold in September 2014 with no resulting gain or loss recorded on disposition.

Current Loan Portfolio

Gross Loans Receivable Continuity	Number of Loans 2014	Number of Loans 2013	($ 000s) 2014	($ 000s) 2013
Balance, beginning of period	**19**	15	**$ 381,302**	$ 132,485
Originations	**17**	7	**361,085**	158,639
Full repayments[1]	**(4)**	(3)	**(37,138)**	(18,285)
Net funding	**–**	–	**125,256**	108,463
Balance, end of period	**32**	19	**$ 830,505**	$ 381,302

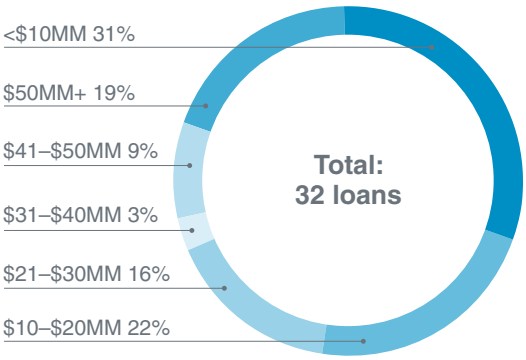
[1] Of the 4 loans that were repaid, 2 were originated in 2011, 1 was originated in 2012 and 1 was originated in 2014.

As of December 31, 2014, the loan portfolio consisted of 32 loans with an aggregate gross loans receivable amount outstanding of $831 million. This compares with 19 loans and $381 million outstanding as of December 31, 2013. As of December 31, 2014, the largest loan facility was US$95 million and the smallest loan facility was $3 million.

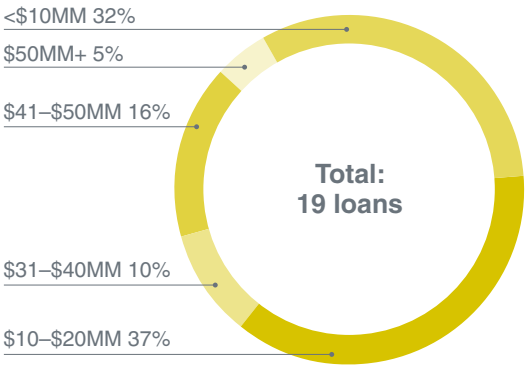
As of December 31, 2014, the loan portfolio was distributed 64% in Canada and 36% in the U.S. by dollar amount funded.

Loan Portfolio by Amount Funded

December 31, 2014



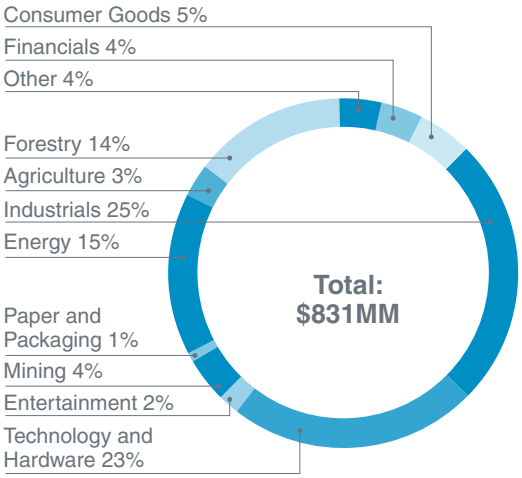
December 31, 2013



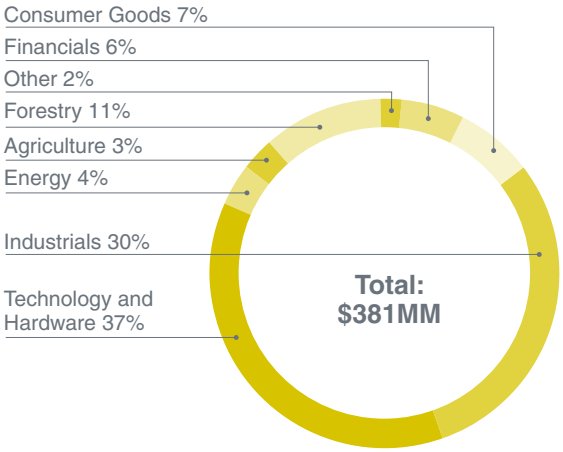
The average amount funded per loan increased from $20 million as at December 31, 2013 to $26 million as at December 31, 2014. The distribution of loans greater than $20 million increased from 31% at December 31, 2013 to 44% at December 31, 2014 and the distribution of loans exceeding $50 million increased from 5% at December 31, 2013 to 17% at December 31, 2014.

Gross Loans Receivable by Borrower Sector

December 31, 2014



December 31, 2013



The Corporation's loans are diversified across a variety of industries, with the "technology and hardware" industry and the industrials industry comprising the largest segments. The largest loan in the "technology and hardware" industry is to a company whose loan is secured primarily by investment-grade accounts receivable. 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 more 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, 2014, there were 8 loans that were on the Company's watch list and these loans represented 23% of gross loans receivable. As of December 31, 2014, of these 8 loans, a total specific loan loss provision of $22.8 million had been taken, and a corresponding $22.6 million asset related to the Catalyst guarantee was recorded. A further $6.3 million collective allowance was also recorded as of December 31, 2014.

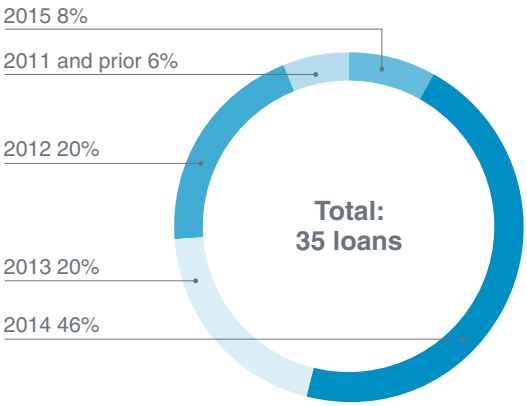
It is not uncommon for Callidus to deal with borrowers undertaking some form of financial restructuring given the nature of its business. As the Company operates primarily in the distressed lending sector, a formal or informal restructuring process offers an efficient tool to protect the collateral, 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, 2014, there were 5 of 32 loans that were going through a formal restructuring process representing 17% of gross loans receivable. As of December 31, 2014, for these 5 loans, a total loan loss provision of $22.3 million had been taken (part of the $22.8 million loan loss provision referred to above) and a corresponding $22.1 million asset (part of the $22.6 million asset referred to above) related to the Catalyst guarantee was recorded, resulting in a net $0.2 million exposure for Callidus. The difference between the loan loss provisions of $22.8 million and the $22.3 million noted above is related to a loan that was not going through a formal restructuring process, and as a result of being added to the watch list prior to its first renewal, is eligible for full coverage under the guarantee.

Since 2006, Callidus has advanced 93 loans representing total credit facilities of $1.8 billion of which 58 loans have been fully repaid or realized. Of the 58 loans, 3 resulted in an aggregate loss of $4 million (less than 70bps since 2006 of realized losses based on commitments). In addition, of the 58 loans, 5 went through a form of restructuring and were fully repaid. The balance of the 50 loans were fully repaid in the normal course. As at March 27, 2015, 35 loans are outstanding representing total credit facilities of approximately $1.2 billion. In the current portfolio, 7 loans are going through a form of restructuring and one loan will be considered as an asset held for sale.

As of December 31, 2014, the portfolio included 3 companies directly or indirectly involved in the oil and gas industry, representing 13% of gross loans receivable. As of December 31, 2014, for these loans, a total loan loss provision of $0.5 million (part of the $22.8 million loan loss provision referred to above) and a corresponding $0.5 million (part of the $22.6 million asset referred to above) related to the Catalyst guarantee was recorded.

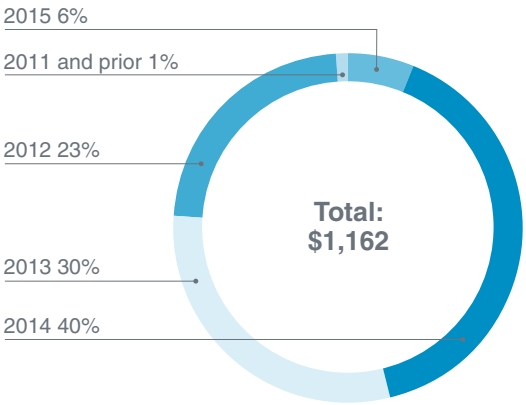
Number of Existing Loans by Year of Origination

March 27, 2015



Total Existing Credit Facilities by Year of Origination

March 27, 2015



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

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. Independent, recognized appraisal firms are engaged in determining collateral values.

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) management's loss experience, and (3) loan exposure at the financial statement date. Funded exposures are multiplied by the borrower's PD and by the relevant LGD parameter. A model stress component is also applied to recognize uncertainty in the credit risk parameters and the fact that current actual loss rates may differ from the long-term averages included in the model.

Off Balance Sheet Arrangements

The Corporation has no off balance sheet arrangements, except for undrawn loan commitments of approximately $26 million based on borrowing base availability.

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, 2014, total liquidity was $180 million (December 31, 2013 – $99 million), consisting of $60 million of cash and cash equivalents (December 31, 2013 – $38 million), and $120 million (December 31, 2013 – $61 million) in undrawn credit facilities. In connection with the Corporation's initial public offering that closed on April 23, 2014, the Corporation entered into a new loan financing and servicing agreement, which provides a revolving credit facility for up to US$200 million. 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 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 and extended its term to January 15, 2019.

Total credit facilities issued by the Corporation and available to borrowers at December 31, 2014 was $1,029 million (December 31, 2013 – $479 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 contract. 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 and the Corporation entered into a new loan financing and servicing agreement, which provides a revolving credit facility for up to US$200 million. In January 2015, the Company increased the amount of this revolving credit facility by US$62.5 million to US$262.5 million in the aggregate and extended its term to January 15, 2019.

Financial Covenants, Restrictions and Events of Default

The US$200 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, 2014, $210 million was outstanding under the revolving facility and $4 million remained available.

The Corporation was in compliance with its financial covenants at December 31, 2014 and December 31, 2013.

Cash Flow Summary

($ 000s)		**2014**		2013
Operating activities	**$**	**(382,543)**	$	(236,025)
Financing activities		**404,165**		224,912
Increase (decrease) in cash and cash equivalents	**$**	**21,622**	$	(11,113)

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 $383 million in 2014. The movement in cash flow from operating activities was attributable primarily to amounts advanced as part of ongoing lending activities, representing an outflow of $461 million in 2014.

Financing Activities

During the year, financing activities generated $404 million of cash flow, attributable to the draws on the Company's new revolving credit facility, the Catalyst subordinated bridge facility, and the Company's initial public offering and related transactions. This compares to $225 million last year, which was attributable to net advances under the Participating Debenture.

Fourth Quarter Results

($ 000s except per share information)		Q4-2014		Q3-2014		Q4-2013
Average loan portfolio outstanding[1]	**$**	**718,562**	$	608,925	$	334,609
Gross yield[1]		**18.6%**		20.0%		21.7%
Income Statement Data:						
Total revenue	**$**	**29,194**	$	26,182	$	18,163
Operating expenses[2]		**(4,102)**		(2,776)		(2,907)
Provision for loan losses		**(11,638)**		(2,934)		(1,500)
Recovery under the Catalyst guarantee		**22,606**		–		–
Net interest income		**24,816**		23,453		(1,269)
Adjusted net interest income[1]		**24,816**		23,453		16,971
Net interest margin[1]		**13.8%**		15.4%		-1.5%
Adjusted net interest margin[1]		**13.8%**		15.4%		20.3%
Provision for loan losses ratio[1]		**3.5%**		2.8%		2.7%
Operating expense ratio[1]		**2.3%**		1.8%		3.5%
Net income (loss)	**$**	**21,019**	$	13,246	$	(4,484)
ROE[1]		**19.5%**		13.6%		note 3

(1) Refer to "Description of Non-IFRS Measures".
(2) Consists of salaries and wages, stock options, general and administrative expenses, and participation fees.
(3) Comparatives for 2013 have not been presented as the Company operated under a capital structure that was replaced at the Company's initial public offering.

Q4-2014 vs. Q3-2014

- For the quarter ended December 31, 2014, the average loan portfolio outstanding was $719 million, an increase of $110 million or 18% from the prior quarter.
- Gross yield for the quarter was 18.6%, a decrease of 1.4% from the prior quarter due primarily to lower rates charged on certain obligor facilities.
- Adjusted net interest margin for the quarter was 13.8%, compared to 15.4% in the prior quarter, due primarily to lower rates charged on certain obligor facilities.
- Provision for loan losses for the quarter increased $8.7 million from the prior quarter. At December 31, 2014, the provision for loan losses ratio was 3.5%, compared to 2.8% at the end of the prior quarter. The increase from the prior quarter is primarily as a result of the adoption of a collective allowance.

Q4-2014 vs. Q4-2013

- For the quarter ended December 31, 2014, the average loan portfolio outstanding was $719 million, an increase of $384 million or 115% from the same quarter last year.
- Gross yield for the quarter was 18.6%, a decrease of 3.1% from the same quarter last year due primarily to lower rates charged on certain obligor facilities.
- Adjusted net interest margin for the quarter was 14.5%, compared to 20.3% in the same quarter last year. The movement in net interest margin was due primarily to increased financial leverage this year compared to last year.
- Provision for loan losses for the quarter increased $10.1 million from the same quarter last year. At December 31, 2014, the provision for loan losses ratio was 3.5%, compared to 2.7% at the end of the same quarter last year. The increase from the same quarter last year is primarily as a result of the adoption of a collective allowance.

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

Statement of Comprehensive Income	Consolidated	Effect of Derecognition	**Q4-2014 After Derecognition**
Interest	$ 30,998	$ (3,981)	**$ 27,017**
Fees and other	2,498	(321)	**2,177**
	33,496	(4,302)	**29,194**
Catalyst Fund Limited Partnerships	(1,374)	176	**(1,198)**
Senior debt and revolving credit facilities	(3,649)	469	**(3,180)**
	(5,023)	645	**(4,378)**
Net interest income	28,473	(3,657)	**24,816**
Provision for loan losses	(10,839)	(799)	**(11,638)**
Recovery under the Catalyst guarantee	22,606	–	**22,606**
Foreign exchange loss	(896)	115	**(781)**
Catalyst's share of overhead expenses	–	220	**220**
	10,871	(464)	**10,407**
Salaries and wages	(1,703)	–	**(1,703)**
Stock options	(723)	–	**(723)**
General and administrative	(1,896)	–	**(1,896)**
	(4,322)	–	**(4,322)**
Income (loss) before income taxes	35,022	(4,121)	**30,901**
Current income taxes (expense) recovery	(11,364)	–	**(11,364)**
Deferred income taxes (expense) recovery	1,482	–	**1,482**
	(9,882)	–	**(9,882)**
Income and comprehensive income	$ 25,140	$ (4,121)	**$ 21,019**
Earnings per common share (dollars)			
Basic			**$ 0.43**
Diluted			**$ 0.42**

Contractual Obligations

The following table summarizes Callidus' contractual obligations at December 31, 2014 and payments due for each of the next five years and thereafter:

For the Years Ended December 31 ($ 000s)	2015	2016	2017	2018 & Thereafter	**Total**
Accounts payable and accrued liabilities	$ 12,915	$ –	$ –	$ –	**$ 12,915**
Income and other taxes payable	19,961	–	–	–	**19,961**
Borrower deposits	169	–	–	–	**169**
Revolving credit facilities	–	–	–	210,409	**210,409**
Subordinated bridge facility, due to Catalyst	–	–	116,010	–	**116,010**
Senior debt	–	–	49,654	–	**49,654**
Total	$ 33,045	$ –	$ 165,664	$ 210,409	**$ 409,118**

Related Party Transactions

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

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

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

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

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

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 with a number of financial institutions.

At December 31, 2014, the Corporation had outstanding obligations to sell an aggregate US$209 million at an average rate of CAD1.16 per USD maturing January 23, 2015 through foreign exchange forward contracts. All foreign currency gains or losses to December 31, 2014 have been recognized as other income in

net income (loss) for the period and the fair value of these instruments at December 31, 2014 was a net asset of $0.5 million (December 31, 2013 – a net liability of $0.3 million) which is recognized on the Consolidated Statements of Financial Position. A net loss of $10.6 million was recognized on contracts which were settled in the current year (2013 – a net loss of $5.6 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 receivable is 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 asset 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.

The total allowance for loan losses as at December 31, 2014 was $29.1 million (December 31, 2013 – $10.2 million), an increase of $18.9 million from December 31, 2013. The increase was primarily as a result of growth in the loan portfolio and the adoption of a collective allowance on loans in addition to the specific provisions currently recorded. 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 held for sale as the intention is not to operate the acquired entity on an ongoing basis. At December 31, 2013 the assets held for sale arose from a borrower for which the Corporation owns 100% of the borrower's common shares. These shares were received in 2011 as part of a larger loan portfolio acquisition from a competitor. The asset held for sale was recorded at the lower of carrying value or fair value less cost to sell. The assets of the borrower were sold to a third party in September 2014 for an amount equivalent to the carrying value in exchange for a loan featuring contingent consideration based on future performance of the assets. No gain or loss was recorded on the disposition of the assets.

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 12 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''.

Outlook

The following information has been prepared by the Corporation to provide an update on the current status of the business. The update is meant to provide a reasonable estimate of the potential earnings of the current loan portfolio, subject to (among other things) the assumptions and risks discussed below and in this MD&A, and should not be relied upon for any other purpose. Some of the information may be considered to be a financial outlook within the meaning of Canadian securities laws, but is not a forecast or projection of future results. Callidus believes that the following information has been prepared on a reasonable basis, reflecting management's best estimates and judgment.

As of March 27, 2015, Callidus had $883 million in gross loans receivable on a consolidated basis.

Based on the update to the gross loans receivable balance and estimates, expectations and assumptions detailed in the final prospectus, taken together, management estimates net income of approximately $90 million before derecognition, had the gross loans receivable of approximately $876 million been outstanding for a full year, such figure having been adjusted by a gross yield of approximately 20.3%, an adjusted EBITDA margin of approximately 81.5% and certain costs including in respect of interest, financing fees, and taxes. Return on equity for incremental loans would be expected to be approximately 21% to 26% based on the targeted leverage of between 50% and 60%. This estimate of implied annualized net income is also impacted by certain key assumptions, including: (i) the loan commitments to borrowers being drawn at a percentage similar to historical levels; (ii) the gross yield on the loan portfolio remaining consistent with historical levels, on both a base interest rate and fee revenue basis; (iii) limited incremental overhead relating to the addition of new loan assets to the loan portfolio; (iv) LIBOR rates similar to those as at closing of the initial public offering, being the base rate for interest on the new loan financing and servicing agreement; (v) loan loss provisions similar to historical amounts, as a percentage of gross loans receivable; (vi) the continued effectiveness of both the Corporation's exchange rate hedging strategy and the ability to draw funds in both Canadian and U.S. dollars under the new loan financing and servicing agreement; and (vii) the ability of borrowers, in aggregate, to continue to meet interest and fee commitments to Callidus at levels consistent with historical levels on the loan portfolio, as a whole. Any variation in the foregoing factors could cause the actual net income generated by a portfolio of approximately $883 million to differ materially from the amount estimated herein. See "Forward-Looking Statements" and "Risk Factors".

Disclosure of Outstanding Share Data

As at December 31, 2014, there were 51,026,754 common shares outstanding and 1,865,000 options outstanding, each option being exercisable into common shares on a 1:1 basis.

RISK FACTORS

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

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

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

Financial Risk Management

A discussion of risk factors and risk management policies and procedures relating to foreign currency risk, interest rate risk, liquidity risk, and credit risk 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 rates 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. Any changes in interest rates will not have an impact on the Company's interest income and related expenses on these financial instruments.

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

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 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, 2014, Callidus had liquidity of $180 million (December 31, 2013 – $99 million) available to fund new loans.

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.

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 $883 million as at March 27, 2015. The past performance of Callidus has been based on a comparable loan portfolio of a smaller size. For example, as at December 31, 2011, the size of Callidus' loan portfolio was approximately $154 million. There can be no assurance that the same types of earnings can be made on the current loan portfolio or additional loans.

Reliance on Certain Individuals and the Management Services Agreement

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

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

Fraud by a Borrower

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

Changes in Market and General Economic Conditions

A weak economy could impact the quality of the loans available to Callidus. Adverse economic conditions also may decrease the estimated value of the collateral securing Callidus' loans. Further or prolonged economic slowdowns or recessions could lead to financial losses in the loan portfolio and a decrease in

Callidus' net finance income, net income and book value. Any of these events, or any other events caused by turmoil in global financial markets, could have a Material Adverse Effect on the Corporation.

Competitive Business Environment

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

Entering New Markets

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

Litigation

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

Operating Policies and Strategies

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

Lack of Regulation

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

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 30, 2015

"Newton Glassman"
Chairman and CEO

"David Reese"
President and COO

Consolidated Statements of Financial Position

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

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Newton Glassman"
Chairman and CEO

"Ann Davis"
Director

Consolidated Statements of Comprehensive Income

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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

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

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)
Years Ended December 31, 2014 and 2013

1. REPORTING ENTITY

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

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

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

2. BASIS OF PRESENTATION

(a) Statement of Compliance

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

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

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Cash and Cash Equivalents

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

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

(b) Loans Receivable

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

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

(c) Impairment

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

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

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

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

(d) Catalyst Guarantee

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

(e) Borrower Deposits

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

(f) Foreign Currency Transactions

Transactions in foreign currencies are translated into the functional currency of the Company at the spot exchange rates at the date of the transactions.

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

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

(g) Financial Assets and Financial Liabilities

(i) Recognition

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

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

(ii) Classification

Financial Assets:

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

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

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

Financial Liabilities:

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

(iii) Derecognition

Financial Assets:

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

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

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

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

Financial Liabilities:

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

(iv) Offsetting

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

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

(v) Amortized Cost Measurement

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

(vi) Fair Value Measurement

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

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

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

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

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

(h) Derivatives Held for Risk Management Purposes

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

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

(i) Income Taxes

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

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

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

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

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

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

Discounts on acquired loans are recognized as payments are received.

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

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

(l) Loan Commitments

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

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

(m) Stock-based Compensation

(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.

(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 Held for Sale

Assets held for sale are carried at the lower of the carrying amount at designation and fair value less costs to sell.

Changes in Financial Statement Presentation During the Year

Financial Assets and Financial Liabilities – Derecognition

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

4. FUTURE ACCOUNTING DEVELOPMENTS

(a) Financial Instruments (IFRS 9)

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

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

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

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

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

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

5. LOANS RECEIVABLE

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

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

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

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

6. LOAN LOSS ALLOWANCE

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

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

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

7. LONG-TERM AND CALLABLE DEBT

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

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

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

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

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

8. NEW REVOLVING CREDIT FACILITY

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

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

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

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

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

9. REVOLVING CREDIT FACILITY

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

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

10. RELATED PARTY TRANSACTIONS

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

(a) Relationships

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

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

(b) Catalyst Participation Interest

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

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

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

(c) The Catalyst Guarantees

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

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

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

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

(d) Transactions During the Period

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

(e) Key Management Personnel Compensation

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

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

11. SHARE CAPITAL

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

12. INCOME TAXES

Amounts recognized in profit or loss:

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

Reconciliation of effective tax rate:

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

Components of deferred tax assets:

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

Movements in temporary differences during the year:

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

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

13. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values and carrying values of financial instruments:

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

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

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

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

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

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

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

(i) The carrying value of cash and cash equivalents, revolving credit facilities, other assets and other liabilities is a reasonable approximation of fair value because these instruments are either short-term in nature or re-price to current market rates frequently.
(ii) The fair value of the loan portfolio is determined by aggregating the present value of the discounted cash flows factoring current interest rates and estimates of credit risk. Discount rates used to determine the fair value of loans range between 6.0% and 33.0%.
(iii) Fair values of derivative instruments are determined using pricing models, which take into account current market and contractual prices of underlying instruments, as well as time value and yield curve underlying the positions, which are observable. Accordingly, such instruments are classified in Level 2 of the fair value hierarchy.

14. CONTINGENCIES

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

15. FINANCIAL RISK MANAGEMENT

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

(a) Currency Risk

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

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

(b) Interest Rate Risk

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

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

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

(c) Liquidity Risk

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

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

(d) Credit Risk

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

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

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

16. DERIVATIVES HELD FOR RISK MANAGEMENT

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

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

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

17. SHARE-BASED PAYMENTS

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

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

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

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

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

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

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

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

18. ASSETS HELD FOR SALE

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

19. CAPITAL

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

20. TRANSFERS OF FINANCIAL ASSETS

As described in note 10, in connection with the Offering, the Company, CCGI, and certain funds managed by CCGI entered into a participation agreement. In December the Company repurchased the Funds' participation interest and recognized all assets and liabilities previously derecognized during the quarters. The Statement of Comprehensive Income continues to be presented on a derecognized basis between the date of sale and repurchase, as the Funds continued to be entitled to their proportionate

share of revenue and expenses from the loan pool between those dates. The tables below provide a summary of the impact of derecognition on the Company's financial statements.

Statement of Financial Position

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

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

Statement of Comprehensive Income

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

21. EARNINGS PER SHARE

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

22. SUBSEQUENT EVENTS

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

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

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.

North American Headquarters

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Stock Exchange Listing Information

Toronto Stock Exchange: CBL

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Auditors

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Investor Relations

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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 12, 2015 at 10:00 a.m. at the Design Exchange, 3rd Floor, 234 Bay Street, Toronto, Ontario M5K 1B2

Concept and Design: **THE WORKS DESIGN COMMUNICATIONS www.worksdesign.com**

CALLIDUS
CAPITAL

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