Callidus Capital Reports First Quarter 2018 Results

All amounts in Canadian dollars unless otherwise indicated.

Highlights

- The pipeline of potential borrowers, measured on a gross basis is currently approximately $2.9 billion. If presented on a basis consistent with past reporting parameters, the pipeline measure at March 31, 2018 was $1.4 billion, and currently stands at $1.3 billion with four signed back term sheets totaling $316 million.
- Total revenue of $56.2 million in the first quarter of 2018 increased 78% ($24.7 million) from the same period in 2017, primarily due to the consolidation of three additional businesses, partially offset by lower interest and fees in the lending business.
- A provision for loan losses of $15.0 million, the vast majority of which was non-cash, was recorded in Q1-2018, down from $19.4 million recorded in the first quarter of 2017. Approximately $7.6 million of the provision is non-cash and related to unrealized foreign exchange movements with the remainder primarily attributed to a non-cash $4.7 million provision on one specific loan concentrated in the energy sector.
- In Q1-2018 Callidus recognized a recovery in the statements of comprehensive income of $29.8 million under the Catalyst guarantee due to the recognition of specific loan loss provisions and other asset impairments in the quarter and confirmation of coverage of the Catalyst guarantee related to a specific loan.
- In January 2018, the Company gained control of one of its borrowers (Midwest Asphalt Corporation) and the revenue and net loss of the acquired business since the acquisition date are recorded in the statements of comprehensive income. Callidus is in the process of finalizing the fair values of all assets acquired and liabilities assumed.
- Net loss of $7.0 million in Q1-2018 compared to a loss of $3.5 million in the prior year period.
- Loss of $0.13 per share (diluted) for the first quarter of 2018 compared to a loss of $0.07 in the same period in 2017.

TORONTO, May 15, 2018 - Callidus Capital Corporation (TSX:CBL) (the “Company” or “Callidus”) today announced its unaudited financial and operating results for the quarter ended March 31, 2018.

	For Three Months Ended		
($ 000s unless otherwise indicated)	**Mar 31, 2018**	Dec 31, 2017	Mar 31, 2017
Net loans receivable (before derecognition), end of period	**244,709**	247,306	584,639
Gross loans receivable (before derecognition), end of period (1)	**1,106,140**	1,046,983	1,016,135
Average loan portfolio outstanding (1)	**1,080,836**	1,055,468	1,218,125
Gross yield (%) (1)	**6.3%**	10.8%	20.2%
Total revenues(2)	**56,248**	52,808	31,579
Net interest margin (%) (1)	**-0.4%**	1.9%	7.7%
Net (loss) income	**(7,023)**	(171,599)	(3,518)
Earnings per share (diluted)	**($0.13)**	($3.37)	($0.07)
Unrecognized non-IFRS yield enhancements, end of period(1)	**77,900**	75,000	123,000
Recognized yield enhancements(3)	**-**	900	5,800
Leverage ratio (%)(1)	**38.2%**	37.3%	39.9%

2018 amounts are under IFRS 9 and 2017 amounts are under IAS 39.

(1) Refer to “Forward-Looking and Non-IFRS Measures” in this press release. These financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, they may not be comparable to similar measures used by other issuers.

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

(3) Recognized yield enhancements are recorded in the statements of income in total revenues (Q1-2018 – nil; Q1-2017 - $7.0 million) and in loss on derivative assets associated with loans (Q1-2018 – nil; Q1-2017 - loss of $1.2 million). Unrecognized yield enhancements are non-IFRS measures and are further summarized in “Yield-Enhancement Agreements”.

(4) Income statement data is after derecognition, unless otherwise indicated.

Business Update (As at May 15, 2018)

Loan Portfolio – The Company's pipeline, measured on a gross basis is currently approximately $2.9 billion. If presented on a basis consistent with past reporting parameters, the pipeline measure at March 31, 2018 was $1.4 billion, and currently stands at $1.3 billion with four signed back term sheets totaling $316 million. As a result of ongoing, continuous process changes and improvements, the Company revised its measure of its loan pipeline of potential borrowers, to include what was internally categorized as lower probability in order to present what Management believes is a more appropriate measure of opportunities being pursued and a better reflection of the size of the addressable market. The Company made this revision as there have been instances of migration of opportunities within the pipeline from lower to higher probability categories and vice versa.

As previously disclosed, the Company has four term sheets totaling $316 million signed back by prospective borrowers which is included in the estimated pipeline number and is the subject of ongoing due diligence. As previously disclosed, Callidus undertakes extensive due diligence before closing on a loan transaction and there can be no assurance that the results of the due diligence will be satisfactory to Callidus.

As at March 31, 2018, net loans receivable remained relatively flat from year-end as increased funding was offset by higher provisions for loan losses and impairments on businesses acquired and the consolidation of Midwest Asphalt Corporation in the first quarter of 2018 as this loan was removed from loans receivable and the company was consolidated in the financial statements.

Acquired Subsidiary Companies – The consolidation of Midwest Asphalt Corporation in the first quarter of 2018 brings to six the total number of loans removed from loans receivable and consolidated in the financial statements in order to protect collateral in each of those loans.

Callidus continues to work with these subsidiaries to implement strategic decisions and execute new business plans as part of their respective turnarounds and is pleased with the progress achieved to date at several of them.

Provision for Loan Losses – Provision for loan losses of $15.0 million, the vast majority of which was non-cash, (2017 - $19.4 million) was recorded in the statements of income for the current quarter. Of this total provision, approximately $7.6 million is non-cash and related to unrealized foreign exchange movements with the remainder primarily attributed to a non-cash $4.7 million provision on one specific loan concentrated in the energy sector as a result of a delay in future expected cashflows.

During the first quarter of 2018, the Company recognized a recovery in the statements of comprehensive income of $29.8 million under the Catalyst guarantee due to the recognition of specific loan loss provisions and other asset impairments in the quarter and confirmation of coverage of the Catalyst guarantee related to a specific loan.

Normal Course Issuer Bid – Subsequent to quarter end, in April 2018, the Toronto Stock Exchange accepted Callidus' notice of intention to undertake a normal course issuer bid ("NCIB"). Under the terms of the NCIB, Callidus may acquire up to 2,648,529 of its common shares, representing 5% of the 52,970,597 common shares comprising Callidus' total issued and outstanding common shares as of April 2, 2018, and will be purchased only when and if the Company considers it advisable. The NCIB will terminate on the earlier of April 17, 2019 or on the date on which the maximum number of common shares that can be acquired pursuant to the NCIB have been purchased.

The Company's directors and management believe that from time to time the market price of Callidus' common shares does not reflect the underlying value of the common shares and that the purchase of common shares for cancellation at such times is a prudent corporate measure that will both increase the proportionate interest in the Company of, and be advantageous to, all of the Company's remaining shareholders.

Liquidity and Changes to Credit Facility – The Corporation's primary sources of short-term liquidity are cash and cash equivalents and undrawn credit facilities. Assuming a continued participation rate for Catalyst Fund V of 75% which Catalyst has assured the Company, total liquidity as at March 31, 2018 would be able to support in excess of $400 million of new loans, up from approximately $300 million at year end. In addition, as business acquisitions are rehabilitated, we will pursue opportunities to monetize these investments where and when we believe capital may be deployed in opportunities that generate superior returns. Timing of these divestitures is uncertain and will be assessed on a case by case basis, taking into account performance of the investment and the macro-economic conditions impacting the sector of the investment.

Privatization Process – The Company continues to pursue a privatization and has no material facts or changes to report.

Forward-Looking and Non-IFRS Statements

Certain statements made herein contain forward-looking information. Although Callidus believes these statements to be reasonable, the assumptions upon which they are based may prove to be incorrect. Furthermore, the forward-looking statements contained in this press release are made as at the date of this press release and Callidus does not undertake any obligation to update or revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

The following table outlines certain significant forward-looking statements contained in this release and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward looking statements.

Forward-looking Statement	Fair value of controlling interest in a subsidiary expected to be recognized into income upon disposition is estimated at $77.9 million as at March 31, 2018.
Assumptions	The valuation technique used a discounted cash flow with the following significant unobservable inputs and estimates: (1) Risk adjusted discount rate: 24.0%[a] (avg. of two rates: 15.9% (core operations)[b] and 32.1% (growth operations)[c] (2) Long term growth rate: 2.5%[d] (3) Annual average EBITDA: $59.1 million[e] (4) Bluberi obtains required licenses and successfully enters key North American and Latin American markets where it does not have operations. [a] The forward looking information ("FLI") disclosure reflects financial forecasts with separate and distinct assumptions for 'core' and 'non-core' business operations, as described below, including different discount rates to reflect the different risks associated with each operation. [b] Core business operations include: electronic gaming machine ("EGM") sales and revenue sharing arrangements with customers in North America and a royalty contract with a large, diversified gaming company. North America markets are not identified for competitive reasons. [c] Growth operations include: EGM sales and revenue sharing arrangements with Class Three ("C-3") customers and revenue sharing arrangements with customers in a South American country. The South American country is not identified for competitive reasons. [d] Consistent with discount rate used in the previous quarter. [e] Represents an annual average figure over a 4-year forecast period and not representative of Bluberi's current results.
Risk Factors	Significant risk factors that could cause actual results to differ materially from the estimates used in the valuation include: (1) Bluberi's ability to achieve the forecasted EBITDA targets; (2) competitor risk and unexpected changes in working capital requirements; (3) the possibility that Bluberi may not receive the regulatory approval required to sell games into key, new North American and non-North American markets; (4) delays in the creation of a regulatory framework in a key targeted South American country. A 10% decrease or increase in the cashflows would result in a yield enhancement range between $57.6 million to $98.3 million.
Significant Future Events/Milestone Assumptions to Support the Top End of the Valuations	(1) Bluberi is able to achieve forecasted results; (2) regulatory approval is obtained in key new markets and Bluberi is able to achieve forecasted results in these regions; (3) Bluberi is able to successfully procure contract manufacturing to meet demand; (4) working capital to meet demand is funded by Callidus (or other 3rd party); (5) the slot machines to be deployed meet the standards of the growing customer base; (6) a targeted South American country legislates and creates a regulatory framework for the gaming industry by 2019 and Bluberi is able to achieve forecasted results in the region; (7) regulatory approval is granted to allow Bluberi to operate in Ontario, BC and Alberta.
Updates for the Current Year	

The Company has amended its Q4-2017 forward looking information disclosure in connection with an Ontario Securities Commission continuous disclosure review. The Ontario Securities Commission has not reviewed nor expressed an opinion about the amended disclosure.

These amendments to the Company's disclosure, are intended: (i) for an investor to better understand the assumptions and related risks of Unrecognized Yield Enhancement; (ii) to support that the Company has a reasonable basis for Unrecognized Yield Enhancement, and (iii) to meet the disclosure requirements in Section 4A.3(b) and Section 4A.3(c) of NI 51-102. Therefore, readers should refer to the forward-looking information disclosure in this MD&A, which supersedes and replaces the disclosure for the year ended December 31, 2017. The Company has worked closely with key stakeholders, including shareholders, in developing the amended disclosure which we believe continues to provide our investors with useful and clear insight into the Company's performance while complying with applicable regulatory requirements.

Amended Q4-2017 Forward-Looking Information:

Forward-looking Statement	Fair value of controlling interest in a subsidiary expected to be recognized into income upon disposition is estimated at $75.0 million as at December 31, 2017.
Assumptions[1]	The valuation technique used a discounted cash flow with the following significant unobservable inputs and estimates: (1) Risk adjusted discount rate: 24.1%[a] (avg. of two rates: 16.4% (core operations)[b] and 31.7% (growth operations)[c]) (2) Long term growth rate: 2.5%[d] (3) Annual average EBITDA: $59.1 million[e] (4) Bluberi obtains required licenses and successfully enters key North American markets where it does not have operations. [f] [a] The forward looking information ("FLI") disclosure for the year-ended December 31, 2017 ("Q4-17 FLI"), reflects updated financial forecasts with separate and distinct assumptions for 'core' and 'non-core' business operations, as described below, including different discount rates to reflect the different risks associated with each operation. [b] Growth operations include: electronic gaming machine ("EGM") sales and revenue sharing arrangements with customers in North America and a royalty contract with a large, diversified gaming company. North America markets are not identified for competitive reasons. [c] Non-core business operations include: EGM sales and revenue sharing arrangements with Class Three ("C-3") customers an revenue sharing arrangements with customers in a South American country. The South American country is not identified for competitive reasons. [d] Decrease from 8.0% used in the previous quarter given revised expectation for future growth. [e] Increase from $44.3 million in the previous quarter based on revised financial forecast prepared by company management in Q4 2017 and supported by positive market reception to performance of new products evidenced in growth of order book and pipeline. The changes in assumptions include revised mix of sale of machines and revenue sharing arrangements to align with industry trend. The nature of forecast costs of the arrangements include cost of development and manufacture of game consoles, and overhead allocation. [f] Updated financial forecasts exclude assumption that 7,000 games are deployed to a large diversified gaming company. North America markets are not identified for competitive reasons.
Risk Factors[1],[2]	Significant risk factors that could cause actual results to differ materially from the estimates used in the valuation include: (1) Bluberi's ability to achieve the forecasted EBITDA targets; (2) competitor risk and unexpected changes in working capital requirements; (3) the possibility that Bluberi may not receive the regulatory approval required to sell games into key, new North American markets; (4) delays in the creation of a regulatory framework in a key targeted South American country. A 10% decrease or increase in the cashflows would result in a yield enhancement range between $54.4 million to $93.7 million.
Significant Future Events/Milestone Assumptions to Support the Top End of the Valuations[1],[2]	(1) Bluberi is able to achieve forecasted results; (2) regulatory approval is obtained in key new markets; (3) Bluberi is able to successfully procure contract manufacturing to meet demand; (4) working capital to meet demand is funded by Callidus (or other 3rd party); (5) the slot machines to be deployed meet the standards of the growing customer base; (6) a targeted South American country legislates and creates a regulatory framework for the gaming industry by 2019 and Bluberi is able to achieve forecasted results in the region.
Updates for the Current Year	(1) Callidus obtained control of the underlying borrower; (2) negotiations on the royalty agreement between Bluberi and a gaming company were completed; (3) successfully developed and launched a new gaming cabinet; (4) materially increased game library; (5) completed reorganization of corporate structure to streamline the licensing process; (6) commenced the regulatory approval process in Ontario and British Columbia and anticipates receiving approval by the end of 2018. The Alberta approval process has commenced but lags Ontario and British Columbia and is not expected until 2019. The length of the approval process is not unusual in the industry.

(1) Q4-17 FLI excludes assumption, associated risks and significant future events/milestone assumptions (e.g. regulatory approval) in relation to the deployment of 7,000 slot machines noted in previous quarters. While the order remains a possibility, and progress has been made on conditions precedent, including the 'playability' of games, company management is considering whether a revenue sharing arrangement compared with an outright order would create longer term value. In the interim, company management has been prioritizing more immediately actionable opportunities.

(2) Q4-17 FLI includes disclosure of an opportunity in a South American country; the updated financial forecast noted above, includes forecast financial results for this region based on: (i) discussions with local market experts, (ii) previous operating experience in the region prior to the current regulatory framework and (iii) extrapolating data from other, non-North American markets in which the company currently operates. The forecast assumes the sale of existing EGMs and related products in this market rather than the sale of new product. The company continues to pursue development of this market. No definitive agreements will be available until regulatory approvals are in place. Legislation to legalize regulated gaming in this country remains pending. Management believes that there are a number of reasons that would be positive for legislation to proceed, including: (i) significant investments by large, major gaming companies in the region, and (ii) the poor economic backdrop of the country in recession, continues to pressure the government to increase tax revenue, which could be addressed by legalization of gaming.

As noted previously, as business acquisitions are rehabilitated, we will pursue opportunities to monetize these investments where and when we believe, capital may be deployed in opportunities that generate superior returns. Timing of these divestitures is uncertain and will be assessed on a case by case basis, taking into account performance of the investment and the macro-economic conditions impacting the sector of the investment.

Management uses both IFRS and non-IFRS measures to monitor and assess the operating performance of the Company's operations. Throughout this press release, 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:

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

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

Gross loans receivable is defined as the sum of (i) the aggregate amount of loans receivable on the relevant date, (ii) the loan loss allowance on such date, (iii) the book value of businesses acquired as they appear on the balance sheet, and (iv) discounts on loan acquisitions.

($ 000s)	**After Derecognition March 31, 2018**	**Before Derecognition March 31, 2018**	After Derecognition December 31, 2017	Before Derecognition December 31, 2017
Loan facilities	**$ 1,126,182**	**$1,177,171**	$ 1,096,888	$ 1,162,483
Gross loans receivable	**1,081,376**	**1,106,140**	1,022,193	1,046,983
Less: Discounted facilities	**(7,575)**	**(7,575)**	(7,575)	(7,575)
Less: Allowance for loan losses	**(318,646)**	**(320,541)**	(358,217)	(359,079)
Less: Cumulative change in fair value of financial instruments[1]	**(47,980)**	**(47,980)**	-	-
Less: Impairment on goodwill and businesses acquired[2]	**(71,233)**	**(71,233)**	(57,421)	(57,421)
Less: Businesses acquired[2]	**(414,102)**	**(414,102)**	(375,602)	(375,602)
Net loans receivable	**$ 221,840**	**$ 244,709**	$ 223,378	$ 247,306

2018 amounts are under IFRS 9 and 2017 amounts are under IAS 39.

(1) Certain loans receivable have been reclassified from loans receivables at amortised cost under IAS 39 to loans receivables measured at FVTPL under IFRS 9.

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

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

Yield enhancement is defined as a component of a lending arrangement that Callidus negotiates in addition to the original loan agreement including additional fees, profit participation arrangements and equity and equity like instruments. Should a value be determined for the enhancement and depending on its contractual nature, the related amount may be recognized in the statements of comprehensive income as a part of interest income, fee income or as a financial instrument at fair value through profit or loss ("recognized yield enhancements"), or, may be unrecognized, which includes yield enhancements related to controlling interests ("unrecognized non-IFRS yield enhancements"), depending on the appropriate accounting treatment under IFRS.

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

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.

About Callidus Capital Corporation

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 who 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 borrower's assets, its enterprise value and borrowing needs. Callidus employs a proprietary system of monitoring collateral and exercising control over the cash inflows and outflows of each borrower, enabling Callidus to very effectively manage risk of loss. Further information is available on our website, www.calliduscapital.ca.

Conference Call

Callidus will host a conference call to discuss the first quarter 2018 results on Wednesday, May 16, 2018 at 8:30 a.m. Eastern Time. The dial in number for the call is (647) 427-7450 or (888) 231-8191 (reference number: 4765977). A taped replay of the call will be available until May 22, 2018 at (416) 849-0833 or (855) 859-2056 (reference number: 4765977).

For further information, please contact:
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