CALLIDUS CAPITAL

Callidus Capital Reports Second Quarter 2018 Results

All amounts in Canadian dollars unless otherwise indicated.

Highlights

- The pipeline of potential borrowers at June 30, 2018 was $1.3 billion, and currently stands at $1.4 billion with three signed back term sheets totaling approximately $260 million.
- Subsequent to June 30, 2018, the Company originated two new loans with commitments totaling $163 million and a gross loans receivable balance as of August 13, 2018 of $139 million before derecognition, or $37 million after derecognition. In addition, the Company received full repayment of one loan, with commitments totaling $26.3 million and a gross loans receivable and net loans receivable balance as of August 13, 2018 of $11.1 million before derecognition, or $2.8 million after derecognition.
- Total revenue of $89.4 million in the second quarter of 2018 increased by $62.6 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.
- Provision for loan losses for Q2-2018 was $21.3 million primarily related to a $12.7 million provision on one specific loan concentrated in the energy sector as a result of a delay in expected future cashflows with the remainder related to foreign exchange. Provision for loan losses for the current year-to-date period of $36.3 million, the majority of which was non-cash, with $14.4 million related to foreign exchange, was recorded in the statements of income for the current year to- date period.
- During Q2-2018, there were indications of impairment at one of the Company's businesses (Otto Industries North America Inc.) that reflected declines in forecasted performance, notwithstanding positive Q2-2018 results, due to market conditions and lower than expected economic performance of certain businesses. As a result, $15.5 million was recorded in the statements of comprehensive income as an impairment of goodwill for the period.
- In Q2-2018 Callidus recognized a recovery in the statements of comprehensive income of $7.4 million under the Catalyst guarantee due to the recognition of specific loan loss provisions and other asset impairments in the current quarter. During the current year-to-date period, the Company recognized a recovery in the statements of comprehensive income of $37.3 million under the Catalyst guarantee due to the recognition of specific loan loss provisions and other asset impairments in the current year and confirmation of coverage of the Catalyst guarantee related to a specific loan.
- Net loss of $40.8 million in Q2-2018 compared to a loss of $25.8 million in the prior year period.
- Loss of $0.75 per share (diluted) for the second quarter of 2018 compared to a loss of $0.51 in the same period in 2017.
- Net loss of $47.8 million for the current year-to-date period compared to a loss of $29.3 million for the first six months of 2017.
- Loss of $0.90 per share (diluted) for the current year-to-date period compared to a loss of $0.58 for the first six months of 2017.

The Company has discontinued disclosure of unrecognized yield enhancements in light of comments expressed by the Ontario Securities Commission. The Ontario Securities Commission has advised the Company that it will continue to name the Company on its Refilings and Errors List for the next following three years.

TORONTO, August 13, 2018 - Callidus Capital Corporation (TSX:CBL) (the "Company" or "Callidus") today announced its unaudited financial and operating results for the quarter ended June 30, 2018.

	For Three Months Ended			**Year to date**	
($ 000s unless otherwise indicated)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**Jun 30, 2018**	Jun 30, 2017
Net loans receivable (before derecognition), end of period (1)	**244,688**	244,709	472,324	**244,688**	472,324
Gross loans receivable (before derecognition), end of period (1)	**1,131,482**	1,106,140	1,028,423	**1,131,482**	1,028,423
Average loan portfolio outstanding (1)	**1,119,327**	1,080,836	1,029,803	**1,100,081**	1,123,948
Gross yield (%) (1)	**6.6%**	6.3%	11.2%	**6.4%**	16.3%
Total revenues(2)	**89,437**	56,248	26,884	**145,685**	58,463
Net interest margin (%) (1)	**-0.5%**	-0.4%	3.5%	**-0.9%**	5.7%
Net (loss) income	**(40,825)**	(7,023)	(25,801)	**(47,848)**	(29,318)
Earnings per share (diluted)	**($0.75)**	($0.13)	($0.51)	**($0.90)**	($0.58)
Recognized yield enhancements(3)	**-**	-	-	**-**	5,800
Leverage ratio (%)(1)	**40.5%**	38.2%	37.3%	**40.5%**	37.3%

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 (YTD Q2-2018 – nil; YTD Q2-2017 - $7.0 million) and in loss on derivative assets associated with loans (YTD Q2-2018 – nil; YTD Q2-2017 - loss of $1.2 million).
(4) Income statement data is after derecognition, unless otherwise indicated.

Business Update (As at August 13, 2018)

Loan Portfolio – The Company's pipeline at June 30, 2018 was $1.3 billion, and currently stands at $1.4 billion with three signed back term sheets totaling approximately $260 million.

As noted earlier in this release, subsequent to the end of the second quarter, the Company originated two new loans with commitments totaling $163 million and a gross loans receivable balance as of August 13, 2018 of $139 million before derecognition, or $37 million after derecognition. In addition, the Company received full repayment of one loan, with commitments totaling $26.3 million and a gross loans receivable and net loans receivable balance as of August 13, 2018 of $11.1 million before derecognition, or $2.8 million after derecognition.

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. The Company continues to maintain a cautious approach in reviewing potential prospects due to increased sectoral liquidity, as it has observed a rising number of deals being signed by competitors at lower yields as credit dollars continue to pour back into the market.

As at June 30, 2018, net loans receivable have remained flat from December 31, 2017 as increased funding was partially offset by higher provisions for loan losses 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–A total of six loans have been removed from loans receivable and consolidated in the financial statements in order to protect collateral in each of those loans.

Total non-interest revenues for these acquired subsidiary companies: (i) for the second quarter of 2018 was $90.8 million, an increase of $72.7 million or 402% from the same quarter last year and (ii) for the current year-to-date period was $148.1 million, an increase of $121.5 million or 457% from the same year-to-date period last year, primarily due to the consolidation and recognition, for accounting purposes, of non-interest revenues of the injection molding, forest products, and paving businesses since June 2017, November 2017 and January 2018 respectively.

Total gross margin for these acquired subsidiary companies for the second quarter of 2018 was 15.6%, an increase of 1.5 percentage points from 14.1% in the same quarter last year due primarily to: (i) the consolidation of the forest products business in November 2017, for which gross margins were 24% in the second quarter of 2018 and (ii) 2 percentage point increase in gross margin for the gaming business to 58% in the second quarter of 2018. Gross margin for the current year-to-date period was 12.6%, a decrease of 2.9 percentage points from 15.5% in the same year-to-date period last year due primarily to: (i) the aluminum castings and paving businesses experiencing more negative gross margins in the period and (ii) 2 percentage point decrease in gross margin for the injection molding business to 4% in the current year-to-date period.

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 $21.3 million was recorded in the statements of income for the second quarter of 2018. This primarily related to a $12.7 million provision on one specific loan concentrated in the energy sector as a result of a delay in expected future cashflows with the remainder related to foreign exchange. Provision for loan losses of $36.3 million was recorded in the statements of income for the current year to- date period. Of this total year-to-date provision, approximately $14.4 million is related to foreign exchange with the remainder primarily attributed to a $14.3 million provision on one specific loan concentrated in the energy sector as a result of a delay in future expected cashflows.

During the second quarter of 2018 Callidus recognized a recovery in the statements of comprehensive income of $7.4 million under the Catalyst guarantee due to the recognition of specific loan loss provisions and other asset impairments in the current quarter. During the current year-to-date period, the Company recognized a recovery in the statements of comprehensive income of $37.3 million under the Catalyst guarantee due to the recognition of specific loan loss provisions, other asset impairments and confirmation of coverage of the Catalyst guarantee related to a specific loan.

Normal Course Issuer Bid – 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.

No purchases have been made to date under the current Normal Course Issuer Bid. As the Company continues to pursue a potential privatization transaction, it is maintaining a trading blackout and purchases under the Normal Course Issuer Bid may only be effected when that blackout ceases.

Liquidity and Changes to Credit Facility – The Company's primary sources of short-term liquidity are cash and cash equivalents and undrawn credit facilities. Assuming a participation rate for Catalyst Fund Limited Partnership V of approximately 75%, total liquidity as at June 30, 2018 would be able to support in excess of $345 million of new loans. In addition, as business acquisitions are rehabilitated, we will pursue opportunities to monetize these investments where and when we believe, capital may be deployed in opportunities that generate superior returns. Timing of these divestitures is uncertain and will be assessed on a case by case basis, taking into account performance of the investment and the macro-economic conditions impacting the sector of the investment.

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

Strategy for restoring and building shareholder value - Callidus reaffirmed its previously announced six strategies for restoring and building shareholder value, the first of which is prudently growing the loan portfolio, which management believes it is moving forward with, as indicated in this press release. The other strategies the Company continues to pursue and remains committed to are: actively managing the loan portfolio to minimize realized losses and with a goal of maximizing recovery of the loan loss provisions recorded to date; maximizing the cash-flow and value of businesses consolidated; prudently increasing leverage, including seeking external sources of financing at the subsidiary level; enhancing the management team as appropriate; and considering other transactions that could support and / or benefit the Corporation.

IFRS and non-IFRS Measures - 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 Company 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 June 30, 2018**	**Before Derecognition June 30, 2018**	After Derecognition December 31, 2017	Before Derecognition December 31, 2017
Loan facilities	**$ 1,162,720**	**1,214,466**	$ 1,096,888	$ 1,162,483
Gross loans receivable	**1,108,383**	**1,131,482**	1,022,193	1,046,983
Less: Discounted facilities	**(7,575)**	**(7,575)**	(7,575)	(7,575)
Less: Allowance for loan losses	**(339,946)**	**(342,294)**	(358,217)	(359,079)
Less: Cumulative change in fair value of financial instruments(1)	**(47,507)**	**(47,507)**	-	-
Less: Impairment on goodwill and businesses acquired(2)	**(86,584)**	**(86,584)**	(57,421)	(57,421)
Less: Businesses acquired(2)	**(402,835)**	**(402,834)**	(375,602)	(375,602)
Net loans receivable	**$ 223,936**	**244,688**	$ 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 relating to controlling interests, depending on the appropriate accounting treatment under IFRS. The Company has discontinued disclosure of unrecognized yield enhancements in light of comments expressed by the Ontario Securities Commission.

Total gross margin is defined as total non-interest revenues less cost of total cost of sales, divided by total noninterest revenues, expressed as a percentage.

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 Company's performance and should not be considered in isolation from, or as a substitute for, analysis of the Company'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. Further information is available on our website, www.calliduscapital.ca.

Conference Call

Callidus will host a conference call to discuss the second quarter 2018 results on Tuesday, August 14, 2018 at 1:00 p.m. Eastern Time. The dial in number for the call is (647) 427-7450 or (888) 231-8191 (Conference ID: 2592555). A taped replay of the call will be available until August 21, 2018 at (416) 849-0833 or (855) 859-2056.

For further information, please contact:
Investor Relations | (416) 945-3240 | investor@calliduscapital.ca