Callidus Capital Corporation

Callidus Capital Reports Second Quarter 2017 Results

All amounts in Canadian dollars unless otherwise indicated.

- Growth in loan portfolio resumes with the addition of new $30 million facility in the quarter.
- Total revenue of $26.9 million decreased 15% ($4.7 million) from first-quarter 2017 and 31% ($11.9 million) from second-quarter 2016, primarily due to consolidation of Bluberi Gaming Technologies Inc. ("Bluberi") in first-quarter 2017 and Otto Industries North America Inc. ("Otto") in second-quarter 2017.
- Net loss of $25.8 million for second-quarter 2017 (including the $28 million non-cash impact of a present value calculation update associated with the future disposition of collateral) compared to net loss of $3.5 million in the prior quarter and net income of $37.5 million in the prior-year period.
- Loss of $0.51 per share (diluted) for second-quarter 2017 compared to loss of $0.07 per share (diluted) in the prior quarter and earnings o $0.73 per share (diluted) for second-quarter 2016.
- As at August 9, 2017, the Company had purchased 1,259,730 Common Shares pursuant to the NCIB at a weighted average price of $15.33 per common share.

TORONTO, Aug. 10, 2017 /CNW/ - Callidus Capital Corporation (TSX:CBL) (the "Company" or "Callidus") today announced its unaudited financial and operating results for the second quarter ended June 30, 2017.

Financial Highlights

	For Three Months Ended			For Six Months Ended	
($ 000s unless otherwise indicated)	**Jun 30, 2017**	Mar 31, 2017	Jun 30, 2016	**Jun 30, 2017**	Jun 30, 2016
Net loans receivable (before derecognition), end of period	**472,324**	581,134	997,006	**472,324**	997,006
Gross loans receivable (before derecognition), end of period(1)	**1,028,423**	1,016,135	1,171,985	**1,028,423**	1,171,985
Average loan portfolio outstanding (1)	**997,006**	1,218,125	1,147,323	**1,123,948**	1,187,102
Gross yield (%)(1)	**11.2%**	20.2%	20.0%	**16.3%**	19.7%
Total revenues(2)	**26,884**	31,579	38,812	**58,463**	81,508
Net interest margin (%)(1)	**3.5%**	7.7%	12.5%	**5.7%**	12.5%
Net (loss) income	**(25,801)**	(3,518)	37,461	**(29,318)**	54,533
Earnings per share (diluted)	**$(0.51)**	$(0.07)	$0.73	**$(0.58)**	$1.08
ROE (%)	**(25.3)%**	(3.3)%	29.2%	**(14.1)%**	21.6%
Unrecognized non-IFRS yield enhancements, end of period(1)	**115,800**	110,400	22,200	**115,800**	22,200
Recognized yield enhancements(3)	**-**	5,800	34,800	**5,800**	34,800
Leverage ratio (%)(1)	**37.1%**	39.9%	38.5%	**37.1%**	38.5%

(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 statement of income before derecognition in total revenues (YTD Q2-2017: $7.0 million) and in loss on derivative assets associated with loans (YTD Q2-2017: loss of $1.2 million).
(4) Income statement data is after derecognition, unless otherwise indicated.

Business Update (As at August 8, 2017)

Privatization Process – Consistent with previous disclosure, the Company is continuing the process of soliciting proposals intended to lead to th privatization of Callidus. The complexity and diversity of the structures that have been proposed, has unfortunately resulted in the process taking longer than originally expected. As part of the formal privatization process, and as an alternative to proposals received, the Company ha retained the services of a placement agent and advisory firm with experienced personnel dedicated to raising capital for alternative investments, including "private debt funds". The potential pursuit of a private debt fund as a competitor in the privatization process is specifically being explored because it may result in greater value to the Company's public shareholders than the proposals otherwise available to the Company. Should it be determined that the "private debt fund" is the preferred privatization alternative, Catalyst Capital Group Inc. ("CCGI") has advised that funds it manages would most likely participate and would do so on the same economic terms as the public shareholders. There can be no certainty regarding whether such a private debt fund transaction will be effected, its timing or the amounts that may be raised, if any. No proposal for any private debt fund has been received nor has this alternative been reviewed by the Special Committee of the Board of Directors established in connection with the privatization process.

As is typical of any process prior to final and definitive agreement, there can be no certainty that a transaction will be concluded or as to what price may be offered or accepted. CCGI, which manages funds that own approximately 68% of the issued and outstanding shares of Callidus, remains committed to completing a transaction on terms consistent with the previously published valuation range of $18 to $22 per share.

Loan Portfolio – As a result of ongoing, continuous process changes and improvements, the Corporation revised its measure of growth prospect referred to as its pipeline of potential borrowers, to include what was internally categorized as lower probability in order to present what Management believes is a more accurate measure of opportunities being pursued and a better reflection of the size of the addressable market. The Corporation included this category as there have been instances of migration of opportunities within the pipeline from lower to higher probability categories.

This pipeline, measured on a gross basis is currently approximately $2.3 billion, with a US$255 million signed-back term sheet. If presented on basis consistent with past reporting parameters, the pipeline measure at June 30, 2017 was $1,150 million, and currently stands at $810 million. The Corporation has observed an increase in the prospects and deal pipeline, an encouraging sign given the goal to re-start growth. As noted previously, the Corporation closed and funded a new loan during the quarter. The Corporation continues to maintain a cautious approach in reviewing potential prospects as it has observed a rising number of deals being signed by competitors as credit dollars continue to pour back int the market.

During the quarter, Callidus closed and funded a new loan representing approximately $30 million (US$22.8 million) of facilities. As previousl disclosed, the Company has a term sheet of approximately $330 million (US$255 million) signed back by a prospective borrower which is included in the estimated pipeline number and is the subject of ongoing due diligence. If due diligence is satisfactory, the term sheet is expecte to convert into new loan facilities near the end of the third quarter. As previously disclosed, Callidus undertakes extensive due diligence before closing on a loan transaction and has historically closed on between 60% and 80% of signed back term sheets. There can be no assurance that the results of the due diligence will be satisfactory to Callidus.

Net loans receivable decreased from the year end primarily due to the recognition of businesses acquired as a result of the acquisition of Bluber in first-quarter 2017 (valued at approximately $127 million) and Otto in second-quarter 2017 (valued at approximately $92 million).

Yield Enhancements and Provision for Loan Losses – At June 30, 2017, the total recognized yield enhancements taken into income over the las two quarters totaled approximately $5.8 million (or $0.12 per share).

Provision for loan losses of $35.0 million was recorded in the statement of income for the current quarter. The majority (approximately $28 million or 80%) of this provision related to the present value impact associated with the disposition of collateral that is expected to be fully realized over a longer period of time.

During the current quarter, the Company recognized a recovery of $6.9 million under the Catalyst guarantee due to the recognition of specific loan loss provisions in the quarter. During the current year-to-date period, the Company recognized a recovery of $8.5 million under the Catalyst guarantee due to the recognition of specific loan loss provisions in the first six months of 2017.

Normal Course Issuer Bid – In January 2017, Callidus commenced a normal course issuer bid ("NCIB") with respect to the common shares (see news release dated January 25, 2017). As at August 9, 2017, the Company had purchased 1,259,730 Common Shares pursuant to the NCIB at a weighted average price of $15.33 per common share.The Company intends to continue purchases under the NCIB as long as the common share of the Company continue to trade at a discount to the Company's view of fair value.

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 participation rate for Catalyst Fund V of 75% and continued usual increases in our senior debt facilities, total liquidity as at June 30, 2017 would be able to support approximately $300 million of new loans.

The revolving credit facility was terminated on July 17, 2017 as there was $nil outstanding at the end of the revolving period and beginning of the amortization period. As loan growth is restarted, discussions with potential lenders about a warehouse facility continue, with the objective c finding a replacement, flexible warehouse facility given the Corporation's actively managed loan portfolio. Management believes it will be successful in obtaining an appropriate warehouse facility. The Company has two facilities maturing in the next three months. Management believes that these facilities will either be extended or replaced.

Callidus Response to False Allegations Published by the Wall Street Journal – On August 9, 2017, Callidus issued a statement regarding false allegations by supposedly "independent" individuals abusing the OSC whistleblower process. The allegations about the Company and its majority shareholder, The Catalyst Capital Group Inc., were irresponsibly published by the Wall Street Journal even after a comprehensive briefing held with Wall Street Journal reporters on August 8, 2017. For example, as part of that meeting it was made clear that the treatment of the Catalyst guarantee for Callidus loans made to Xchange Technology Group was in accordance with all applicable accounting requirements. As well, full disclosure was contained in both Catalyst's financial reports to its limited partners and through Callidus' public disclosures on an ongoing basis. The accounting treatment and disclosure were entirely appropriate and there is no basis for allegations to the contrary, facts the Wall Street Journal chose to ignore.

These allegations presented are primarily based on anonymous sources and are believed to have been initiated by individuals against whom Callidus has current litigation relating to the enforcement of guaranties. Those individuals have already had the opportunity to present their allegations in court without success. That is because the allegations are false.

The Company knows of no legitimate basis for any whistleblower complaint. In fact, It is extraordinary that the media has been given copies o confidential whistleblower reports that neither Callidus nor Catalyst has ever seen. Callidus believes that those individuals, having failed in court, are filing deliberately misleading whistleblower reports with the Ontario Securities Commission so that they can then leak them to the press in the hope that the press will publish the allegations. As a result, the media and public markets are misled and the legitimate OSC 'whistleblower' process is exploited for personal advantage, and to do damage to the market value of Callidus, and to the reputation, operations and investments of its majority shareholder, Catalyst.

Any abuse of the 'whistleblower' process is a very serious matter that has significant consequences. For that reason, Callidus believes that it is the actions of those individuals that warrants investigation.

<u>Changes to the Management Team</u> – The Company remains committed to the goal of doubling the loan portfolio over the next two to three years. In support of that goal, the Company has added an additional senior Underwriter and Originator to the Management team.

Geoffrey Zbikowski has joined Callidus as Vice President, Head of Originations - Western Region. Geoffrey was previously a Managing Director with White Oak Global Advisors, LLC's Origination team. He is currently based in California and will primarily cover the US market. Geoffrey began his career in the Financial Restructuring Group at CIBC World Markets.

Michael Pisani has joined Callidus as Vice President, Portfolio/Underwriting. Michael has broad experience across lending platforms and industries including asset-based, cash flow, franchise, manufacturing, transportation, aircraft, debtor-in-possession and real estate. He most recently served as Senior Vice President and Workout Leader for Wells Fargo Equipment Finance. Prior to that he was Vice President, Corporate Finance at GE Capital, and Assistant Vice President for CIT Business Credit Canada.

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.

As previously announced, the Company is subject to an Ontario Securities Commission continuous disclosure review. As a result, it is continuing to revise its disclosure and approach and is providing additional disclosure with respect to material assumptions used in connection with reporting in relation to unrecognized yield enhancements as well as risk factors and significant future events and milestone assumptions in relation to valuations.

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	The fair value of the derivative asset associated with loans represents a warrant to acquire a 10% equity interest in a borrower with a total value of $1.9 million on June 30, 2017.
Assumptions	The valuation technique primarily used a discounted cash flow on an anticipated project that the borrower expects to secure with the following significant unobservable inputs and estimates: (1) Risk adjusted discount rate (contract): 16% (2) Risk adjusted discount rate (terminal): 20% (3) Annual average EBITDA (EBITDA margin): US$79.0 million (21%) (4) Contract probability: 95% (5) Capital injection of US$32 million assumed to occur in 2017
Risk Factors	Significant risk factors that could cause actual results to differ materially from the estimates used in the valuation of the warrant include: (1) the borrower's ability to secure the project contract; (2) the borrower's ability to complete an equity transaction; (3) the borrowers' ability to achieve the forecasted EBITDA targets; (4) unexpected changes in working capital requirements; (5) political risk associated with the country of operations; (6) competitor risk; and (7) execution risk. A 10% decrease or increase in the cashflows would result in a valuation range between $0.4 million to $3.4 million.
Significant Future Events/Milestone Assumptions to Support the Top End of the Valuations	(1) borrower finalizes contract documentation without material delays; (2) borrower completes capital injection transaction in 2017; (3) borrower is able to execute project and achieve forecasted results; and (4) political risk does not materially disrupt contract cashflows
Updates for the Current Year	-
Forward-looking Statement	Fair value of controlling interest in borrower expected to be recognized as income upon disposition is estimated at $115.8 million on June 30, 2017.
Assumptions	The valuation technique used a discounted cash flow with the following significant unobservable inputs and estimates: (1) Risk adjusted discount rate: 16.5% (2) Long term growth rate: 10.0% (3) Annual average EBITDA: $30.0 million (4) Significant new business from a large diversified gaming company in Canada that is controlled in common with the Company by The Catalyst Capital Group Inc., including the deployment of 7,000 slot

	machines.
Risk Factors	Significant risk factors that could cause actual results to differ materially from the estimates used in the valuation include: (1) the borrower's ability to secure new business from a large diversified gaming company in Canada; (2) the borrower's ability to achieve the forecasted EBITDA targets; (3) competitor risk and unexpected changes in working capital requirements; (4) the possibility that Bluberi may not receive the regulatory approval required to sell games into the provinces in which the large diversified gaming company operates; (5) the absence of a term sheet or agreement with the large diversified gaming company - while terms to acquire games from Bluberi have been discussed, there currently is no agreement between Bluberi and the large diversified gaming company detailing any prospective transaction between the parties; (6) the risk that the large diversified gaming company may not require the 7,000 slot machines; and (7) the risk that Bluberi may not be able to reach the production demands that would be required to sell 7,000 slot machines as it has, historically, never sold games at this volume or of this type. A 10% decrease or increase in the cashflows would result in a yield enhancement range between $92.5 million to $139.0 million.
Significant Future Events/Milestone Assumptions to Support the Top End of the Valuations	(1) Callidus and a commonly controlled enterprise are able to reach an agreement for deployment of 7,000 slot machines; (2) borrower is able to achieve forecasted results; (3) regulatory approval by the provinces of Ontario, British Columbia and Alberta for the deployment of the 7,000 slot machines occurs within 3 - 6 months from the start of the application process, which has yet to commence; (4) Bluberi is able to successfully procure contract manufacturing to meet demand; (5) working capital to meet demand is funded by Callidus; (6) the slot machines to be deployed meet the standards of the large diversified gaming company; (8) the 7,000 slot machines are deployed over 3 years; and (9) the business is sold three years after the start of the deployment of the 7,000 machines at which time, the unrecognized yield enhancement would be realized.
Updates for the Current Year	(1) Callidus obtained control of the underlying borrower; and (2) The ultimate controlling shareholder of the Company, of Bluberi and of a large diversified gaming company ("the gaming company") are funds managed by The Catalyst Capital Group Inc. On March 30, 2017, it wrote a letter setting forth the mutual understanding of Catalyst, Bluberi and the gaming company with respect to Bluberi selling to the gaming company 7,000 electronic gaming machines (slot machines) before December 31, 2019. That sale would be subject to, among other things, Bluberi receiving the necessary licensing as well as a definitive purchase agreement being entered into. The gaming company has 11 locations slated for expansion and growth in Ontario over the next few years and will control up to 5,500 slot machines. In addition, the gaming company is continuing to bid on other gaming opportunities and, if successful, could control over 15,000 slot machines in Ontario. On July 13, 2017, the President of the gaming company confirmed its potential to purchase up to 7,000 slot machines from Bluberi but advised that the timing would be over the following three years subject to, among other things, regulatory and board approval and regulatory approval has yet to be applied for. The Company had previously disclosed during a public analyst call following issuance of its first quarter results that the unrecognized yield enhancement related to Bluberi had been valued by third parties and that those valuations had taken into account the order for 7,000 slot machines. Those third party valuations pertained to the absence of any loan impairment in relation to Bluberi and did not take into account the order for up to the 7,000 slot machines or any excess value relating to any such orders.

Management uses both IFRS and non-IFRS measures to monitor and assess the operating performance of the Corporation'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 loan portfolio outstanding after adjusting for loans classifie 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. The following is a reconciliation, before and after derecognition, of gross loans receivable to net loans receivable in the Statement of Financial Position and a summary of gross loans receivable as at June 30, 2017 and December 31, 2016.

($ 000s)	**After Derecognition Jun 30, 2017**	**Before Derecognition Jun 30, 2017**	After Derecognition Dec 31, 2016	Before Derecognition Dec 31, 2016

Loan facilities	**$ 1,034,694**	**$1,067,131**	$ 1,176,642	$ 1,421,771
Gross loans receivable	**1,012,411**	**1,028,423**	1,100,304	1,313,994
Less: Discounted facilities	**(7,575)**	**(7,575)**	(7,575)	(7,575)
Less: Allowance for loan losses	**(217,134)**	**(217,473)**	(164,973)	(166,732)
Less: Impairment on goodwill and businesses acquired	**(26,409)**	**(26,409)**	(19,359)	(19,359)
Less: Businesses acquired(1)	**(304,642)**	**(304,642)**	(91,206)	(91,206)
Net loans receivable	**$ 456,651**	**$ 472,324**	$ 817,191	$ 1,029,122

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

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

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 fees and interest rate called fo in the original loan agreement including but not limited to 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 statement of comprehensive income as a part of interest income, fee income or gain/loss on derivative assets associated with loans, may b recognized as an available-for-sale equity interest with value changes recorded in other comprehensive income/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 isolatio 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 o 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 second quarter 2017 results on Friday, August 11, 2017 at 11:00 a.m. Eastern Time. The dial in number for the call is (647) 427-7450 or (888) 231-8191 (reference number: 40047945). A taped replay of the call will be available until Augus 18, 2017 at (416) 849-0833 or (855) 859-2056 (reference number: 40047945).

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