Callidus Capital Corporation

Callidus Capital Reports Third Quarter 2017 Results

All amounts in Canadian dollars unless otherwise indicated.

- Growth in loan portfolio continued as Callidus closed and funded a new loan representing approximately $26 million of facilities in the quarter.
- Total revenue of $54.5 million increased 103% ($27.7 million) from second-quarter 2017 and 41% ($16 million) from third-quarter 2016, primarily due to the timing of the consolidation of both Bluberi Gaming Technologies Inc. ("Bluberi") in first-quarter 2017 and Otto Industries North America Inc. ("Otto") in second-quarter 2017.
- Net loss of $17.6 million for third-quarter 2017 compared to net loss of $25.8 million in the prior quarter and net income of $5.2 million in the prior-year period.
- Loss of $0.35 per share (diluted) for third-quarter 2017 compared to loss of $0.51 per share (diluted) in the prior quarter and earnings of $0.10 per share (diluted) for third-quarter 2016.
- As at November 10, 2017, the Company had purchased 2,222,189 Common Shares, or 89% of the total shares eligible, pursuant to the NCIB at a weighted average price of $13.36 per common share.

TORONTO, Nov. 13, 2017 /CNW/ - Callidus Capital Corporation (TSX:CBL) (the "Company" or "Callidus") today announce its unaudited financial and operating results for the third quarter ended September 30, 2017.

Financial Highlights

	For Three Months Ended			For Nine Months Ended	
($ 000s unless otherwise indicated)	**Sept 30, 2017**	Jun 30, 2017	Sept 30, 2016	**Sept 30, 2017**	Sept 30, 2016
Net loans receivable (before derecognition), end of period	**482,896**	472,324	1,074,515	**482,896**	1,074,515
Gross loans receivable (before derecognition), end of period (1)	**1,038,592**	1,028,423	1,268,034	**1,038,592**	1,268,034
Average loan portfolio outstanding (1)	**1,024,383**	1,029,803	1,217,965	**1,090,760**	1,197,390
Gross yield (%) (1)	**10.7%**	11.2%	19.0%	**14.7%**	19.6%
Total revenues (2)	**54,539**	26,884	38,579	**113,002**	120,087
Net (loss) income	**(17,569)**	(25,801)	5,162	**(46,887)**	59,695
Earnings per share (diluted)	**($0.35)**	($0.51)	$0.10	**($0.93)**	$1.18
Unrecognized non-IFRS yield enhancements, end of period (1)	**112,700**	115,800	42,500	**112,700**	42,500
Recognized yield enhancements (3)	**900**	-	2,800	**6,700**	38,100
Leverage ratio (%) (1)	**37.1%**	37.1%	40.3%	**37.1%**	40.3%

(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 Q3-2017: $9.8 million)
and in loss on derivative assets associated with loans (YTD Q3-2017: loss of $3.1 million).
(4) Income statement data is after derecognition, unless otherwise indicated.

Business Update (As at November 10, 2017)

Loan Portfolio – The Company's loan pipeline, measured on a gross basis, is currently approximately $3.3 billion. If presente on a basis consistent with past reporting parameters, the pipeline measure at September 30, 2017 was $1.55 billion, with $428 million in signed-back term sheets; and currently stands at $1.37 billion, with $428 million in signed-back term sheets. 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 term sheets of approximately $428 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.

The Company has observed an increase in the prospects and deal pipeline, an encouraging sign given the goal to re-start growth, however, the Company continues to maintain a cautious approach in reviewing potential prospects. During the quarte Callidus closed and funded a new loan representing approximately $26 million of facilities.

Net loans receivable decreased from year-end due to the repayment of 6 loans totaling $377 million partially offset by the funding of existing loans and the origination of two new loans in the current year. In addition, the Company recognized businesses acquired as a result of loan enforcement proceedings which led to the acquisition of Bluberi Gaming Technologies Inc. in the first quarter of 2017 and Otto Industries North America Inc. in the second quarter of 2017. Upon those acquisitions the associated loans of $221 million were removed from loans receivable and those companies' financial results were consolidated in the Company's financial statements.

<u>Yield Enhancements and Provision for Loan Losses</u> – At September 30, 2017, the total recognized yield enhancements taken into income over the last three quarters totaled approximately $6.7 million (or $0.13 per share).

Provision for loan losses of $9.7 million was recorded in the statement of income for the current quarter. The majority of this provision related to decreases in collateral values across certain loans and is subject to volatility quarter over quarter.

During the current quarter, the Company recognized a recovery of $7.0 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 $15.5 million under the Catalyst guarantee due to the recognition of specific loan loss provisions in the first nine months of 2017.

<u>Normal Course Issuer Bid</u> – 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 September 30, 2017, the Company had purchased 1,887,858 Common Shares pursuant to the NCIB at a weighted average price of $13.88 per common share. The Company intends to continue purchases under the NCIB as long as the common shares of the Company continue to trade at a discount to the Company's view of fair value.

<u>Liquidity and Changes to Credit Facility</u> – 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 approximately 75%, total liquidity as at September 30, 2017 would be able to support approximately $300 million of new loans. In addition, as businesses acquired through loan enforcement proceedings are rehabilitated, we will pursue opportunities to monetize those businesses, particularly when we believe capital may be deployed in opportunities that will generate superior returns. Timing of these monetizations is uncertain and will be assessed on a case by case basis, taking into account performance of each business and the macro-economic conditions impacting the sector in which it operates.

In March 2017, the Company extended the maturity of its senior debt from March 31, 2017 to the earlier of September 30, 2017 and the date when the privatization closes. In September 2017, the Company extended the maturity of its senior debt from September 30, 2017 to the earlier of March 31, 2018 and the date when the privatization transaction closes. All other terms remain substantially unchanged.

In March 2017, the Company extended the maturity of its subordinated bridge facility from April 30, 2017 to October 31, 2017. In October 2017, the Company extended the maturity of its revolving unsecured subordinated bridge facility to the earlier of (i) April 30, 2018 and (ii) the day following the repayment of its senior debt in full. All other terms remain substantially unchanged.

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.

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	Fair value of controlling interest in borrower expected to be recognized into income upon disposition is estimated at $112.7 million as at September 30, 2017.
Assumptions	The valuation technique used a discounted cash flow with the following significant unobservable inputs and estimates: (1) Risk adjusted discount rate: 18.4% (2) Long term growth rate: 8.0% (3) Annual average EBITDA: $44.3 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. (5) A royalty agreement is entered into in early 2018 with a large diversified gaming company. (6) A South American country legislates and creates a regulatory framework for the gaming industry by 2019.
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 secure new business from a large diversified gaming company in Canada; (2) Bluberi'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 cash flows would result in a yield enhancement range between $89.3 million to $136.2 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) Bluberi 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; (9) Bluberi successfully enters into a royalty agreement in early 2018; (10) a 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; (11) 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. Negotiations on the royalty agreement between Bluberi and a gaming company are in an advanced stage.

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 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. 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 September 30, 2017 and December 31, 2016.

($ 000s)	**After Derecognition Sept 30, 2017**	**Before Derecognition Sept 30, 2017**	After Derecognition Dec 31, 2016	Before Derecognition Dec 31, 2016
Loan facilities	**$ 1,064,784**	**$ 1,115,136**	$ 1,176,642	$ 1,421,771
Gross loans receivable	**1,013,585**	**1,038,592**	1,100,304	1,313,994
Less: Discounted facilities	**(7,575)**	**(7,575)**	(7,575)	(7,575)
Less: Allowance for loan losses	**(226,865)**	**(227,564)**	(164,973)	(166,732)
Less: Impairment on goodwill and businesses acquired	**(30,720)**	**(30,720)**	(19,359)	(19,359)
Less: Businesses acquired(1)	**(289,837)**	**(289,837)**	(91,206)	(91,206)
Net loans receivable	**$ 458,588**	**$ 482,896**	$ 817,191	$ 1,029,122

(1) Businesses acquired are presented in the statement 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 fees and interest rate called for 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 be 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 subordinatec 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 third quarter 2017 results on Tuesday, November 14, 2017 at 8 a.m. Eastern Time. The dial in number for the call is (647) 427-7450 or (888) 231-8191 (reference number: 40085315). A taped replay of the call will be available until November 22, 2017 at (416) 849-0833 or (855) 859-2056 (reference number: 40085315).

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