

ANNUAL INFORMATION FORM



CALLIDUS CAPITAL CORPORATION

For the year ended December 31, 2016

March 30, 2017

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GLOSSARY OF TERMS

In addition to terms defined elsewhere, the following are defined terms used in this annual information form:

ABL	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - Lending Review Process</i> ”.
Active Portfolio	means, at any time, the new Loan Portfolio in which the Catalyst Funds have a right to participate in the funding at such time.
AIF or Annual Information Form	means this Annual Information Form.
Assignment Agreement	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - General Development of the Business - Funding Arrangements</i> ”.
Audit & Risk Committee	has the meaning ascribed thereto under the heading “ <i>Audit & Risk Committee</i> ”.
Average Loan Portfolio Outstanding	means the figure calculated for annual periods using daily loan balances outstanding.
Board	means the board of directors of Callidus Capital Corporation.
Bridge Facility	has the meaning ascribed thereto under the heading “ <i>Debt Financing</i> ”.
Basel III	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - Growth Strategy - Expansion in the United States</i> ”.
Callidus or the Corporation	means Callidus Capital Corporation.
Catalyst Fund II	means Catalyst Fund Limited Partnership II.
Catalyst Fund II Parallel	means Catalyst Fund II Parallel Limited Partnership.
Catalyst Fund III	means Catalyst Fund Limited Partnership III.
Catalyst Fund IV	means Catalyst Fund Limited Partnership IV.
Catalyst Fund IV Parallel	means Catalyst Fund IV Parallel Limited Partnership.
Catalyst Fund V	means Catalyst Fund Limited Partnership V.
Catalyst Funds	means Catalyst Fund II, Catalyst Fund II Parallel, Catalyst Fund III, Catalyst Fund IV, Catalyst Fund IV Parallel and Catalyst Fund V and any other investment fund established or managed by CCGI after April 23, 2013 that CCGI elects to have participate in the funding of the Loan Portfolio.
CCC Funding Corporation	means CCC Funding Corporation, an Ontario company and wholly-owned subsidiary of Callidus.
CCGI	means The Catalyst Capital Group Inc.
Cerberus	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - Competitive Strengths - Experienced Management</i> ”.
Class A Loans	has the meaning ascribed thereto under the heading “ <i>Debt Financing - New Revolving Credit Facility</i> ”.
Class B Loans	has the meaning ascribed thereto under the heading “ <i>Debt Financing - New Revolving Credit Facility</i> ”.
Common Shares	means the common shares in the capital of the Corporation.
Corporation Contribution	has the meaning ascribed thereto under the heading “ <i>Description of Capital</i> ”.

Common Shares	<i>Structure - Employee Share Purchase Plan</i> ".
Credit Agreement	has the meaning ascribed thereto under the heading " <i>Debt Financing - Credit Agreement</i> ".
Credit Committee	has the meaning ascribed thereto under the heading " <i>Business of the Corporation - Lending Review Process</i> ".
Credit Facilities	means the Credit Agreement, the New Revolving Credit Facility, the New Securitization Facility and the Bridge Facility.
Debenture Repayment Agreement	has the meaning ascribed thereto under the heading " <i>Business of the Corporation - General Development of the Business - Debenture Repayment Agreement</i> ".
Debt Capital	means amounts drawn under the Credit Facilities (or any other credit facilities or debt securities related to the Loan Portfolio from time to time).
Dodd-Frank Act	has the meaning ascribed thereto under the heading " <i>Business of the Corporation - Growth Strategy - Expansion in the United States</i> ".
DRIP	has the meaning ascribed thereto under the heading " <i>Description of Capital Structure - Dividend Reinvestment Plan</i> ".
DSU	has the meaning ascribed thereto under the heading " <i>Description of Capital Structure - Incentive Plan</i> ".
Eligible Person	has the meaning ascribed thereto under the heading " <i>Description of Capital Structure - Incentive Plan</i> ".
ESPP	has the meaning ascribed thereto under the heading " <i>Description of Capital Structure - Employee Share Purchase Plan</i> ".
forward-looking statements	has the meaning ascribed thereto under the heading " <i>Forward-Looking Information</i> ".
Funding Formula	means the funding formula as set out in the Participation Agreement.
Grants	has the meaning ascribed thereto under the heading " <i>Description of Capital Structure - Incentive Plan</i> ".
Gross Yield	means total revenues divided by Average Loan Portfolio Outstanding after adjusting for loans classified as assets acquired from loans.
Gross Loans Receivable	means, without duplication, 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 acquired from loans as they appear on the balance sheet, and (iv) discounts on loan acquisitions.
Growth Capital	means cash held by Callidus for the purpose of expanding the Loan Portfolio including the net proceeds of future issuances of any securities and amounts generated by Callidus from the operation of the business which amounts are not held for the benefit of a Catalyst Fund pursuant to the terms of the Participation Agreement and which, for greater certainty, will not include Debt Capital.
IFRS	means International Financial Reporting Standards.
IPO	means the Corporation's initial public offering that closed April 23, 2014.
Incentive Plan	has the meaning ascribed thereto under the heading " <i>Description of Capital Structure - Stock Options</i> ".
Initial Portfolio	means the portion of the Loan Portfolio existing as at April 23, 2014, together with any replacements, substitutions and additions thereto.

Letter Agreement	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - General Development of the Business - Loan Loss Guarantee</i> ”.
Loan Portfolio	means, collectively, the Initial Portfolio, the Active Portfolio, the Passive Portfolios and any other portfolios of asset-based loans managed by Callidus including additional advances made in respect of such loans and other asset-based loans.
Loans	has the meaning ascribed thereto under the heading “ <i>Debt Financing - New Revolving Credit Facility</i> ”.
Management Services Agreement	has the meaning ascribed thereto under the heading “ <i>Directors and Executive Officers of the Corporation - Management Services Agreement</i> ”.
Material Adverse Effect	means a material adverse effect on Callidus’ business, assets, liabilities, financial condition, results of operations, prospects, cash flows and the value or future trading price of the Common Shares.
Material Breaches	has the meaning ascribed thereto under the heading “ <i>Directors and Executive Officers of the Corporation - Management Services Agreement</i> ”.
MD&A	has the meaning ascribed thereto under the heading “ <i>Non-IFRS Measures</i> ”.
NCIB	has the meaning ascribed thereto under the heading “ <i>Description of Capital Structure - Normal Course Issuer Bid</i> ”.
New Equity Funding	means any incremental capital, other than Debt Capital, required by Callidus in its sole discretion at any given time for the purpose of funding Loan Portfolios.
New Revolving Credit Facility	has the meaning ascribed thereto under the heading “ <i>Debt Financing - New Revolving Credit Facility</i> ”.
New Securitization Facility	has the meaning ascribed thereto under the heading “ <i>Debt Financing - New Securitization Facility</i> ”.
Non-IFRS Measures	has the meaning ascribed thereto under the heading “ <i>Non-IFRS Measures</i> ”.
OBCA	means the <i>Business Corporations Act</i> (Ontario).
Option	means an option to purchase a Common Share.
Participating Debenture	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - General Development of the Business - Debenture Repayment Agreement</i> ”.
Participation Agreement	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - General Development of the Business - Funding Arrangements</i> ”.
Passive Portfolio	means an existing Loan Portfolio after the time a new Loan Portfolio is established.
Personal Contribution Common Shares	has the meaning ascribed thereto under the heading “ <i>Description of Capital Structure - Employee Share Purchase Plan</i> ”.
PIK	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - Current Loan Portfolio</i> ”.
PIK Loan	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - Current Loan Portfolio</i> ”.
Plan Participants	has the meaning ascribed thereto under the heading “ <i>Description of Capital Structure - Employee Share Purchase Plan</i> ”.

Plan Shares	has the meaning ascribed thereto under the heading “ <i>Description of Capital Structure - Dividend Reinvestment Plan</i> ”.
Privatization Process	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - General Development of the Business - Privatization Process</i> ”.
Prospectus	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - General Development of the Business - Funding Arrangements</i> ”.
Revolving Credit Facility	has the meaning ascribed thereto under the heading “ <i>Debt Financing - Credit Agreement - Revolving Credit Facility</i> ”.
SEDAR	means the System for Electronic Document Analysis and Retrieval.
Special Committee	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - General Development of the Business - Privatization Process</i> ”.
Substantial Issuer Bid	has the meaning ascribed thereto under the heading “ <i>Business of the Corporation - General Development of the Business - Substantial Issuer Bid</i> ”.
TSX	means the Toronto Stock Exchange.
Underwriters	means the underwriters in connection with the IPO, being Canaccord Genuity Corp., CIBC World Markets Inc., TD Securities Inc., National Bank Financial Inc., GMP Securities L.P., Desjardins Securities Inc. and Dundee Securities Ltd.
Underwriting Agreement	means the underwriting agreement by and among the Underwriters, the Corporation, Catalyst Fund II, Catalyst Fund III and Catalyst Fund IV dated April 15, 2014, which was entered into in connection with the IPO.
watch list	means Callidus’ borrowers with a deteriorating financial condition or that otherwise meet certain credit and / or operational criteria warranting closer monitoring and supervision.
Yield enhancement	means an amount that Callidus negotiates over and above the original loan agreement as a result of an accommodation made for a borrower, including but not limited to additional fees, profit participation arrangements and equity and equity like instruments. These amounts may be recognized or unrecognized through the statement of comprehensive income depending on the appropriate accounting treatment under IFRS.

EXPLANATORY NOTES

Unless otherwise stated, the information in this Annual Information Form is stated as of December 31, 2016, and all references to the Corporation’s fiscal year are to the year ended December 31, 2016.

All dollar amounts set forth in this Annual Information Form are in Canadian Dollars, except where otherwise indicated.

Information contained on, or otherwise accessed through, the website of the Corporation, www.calliduscapital.ca, shall not be deemed to be a part of this Annual Information Form and such information is not incorporated by reference herein and should not be relied upon by readers for the purpose of determining whether to invest in the Common Shares or any other securities of the Corporation.

Unless otherwise indicated, all charts, graphs, tables and figures are prepared by the Corporation’s management.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

Statements contained in this Annual Information Form 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**”). This Annual Information Form includes forward-looking statements regarding Callidus and the industries in which it operates, including statements about, among other things, expectations, beliefs, plans, future loans and origination, business and acquisition strategies, opportunities, objectives, prospects, assumptions, including those related to trends and prospects and future events and performance. 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. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Forward-looking statements should not be read as guarantees of future events, future performance or results, and will not necessarily be accurate indicators of the times at, or by which, such events, performance or results will be achieved, if achieved at all. 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 AIF, 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. Readers should be aware that the occurrence of the events described in these risk factors and elsewhere in this Annual Information Form could have a material adverse effect on, among other things, Callidus’ business, prospects, operations, results of operations and financial condition.

Specific forward-looking statements contained in this AIF include, among others, statements, management’s beliefs, expectations or intentions regarding the following:

- Callidus’ expected growth, including:
 - organic growth in the Canadian market;
 - through acquisitions;
 - through the ‘Callidus Lite’ loan product;
 - through expansion into the United States; and
 - the purchase of participation interests in loan assets back from the Catalyst Funds;
- the targeted Gross Yields of the Callidus and ‘Callidus Lite’ loans;
- funding pursuant to the Participation Agreement;
- funding pursuant to the Credit Facilities;
- the relationships between Callidus, CCGI and the Catalyst Funds, including in respect of the Participation Agreement, the Assignment Agreement, the Management Services Agreement and the Bridge Facility;
- the amount of dividends expected to be paid, or the ability to pay any dividends;
- the normal course issuer bid; and
- the Privatization Process.

Readers are cautioned that the foregoing list of forward-looking statements should not be construed as being exhaustive.

In making the forward-looking statements in this AIF, the Corporation has made assumptions regarding, but not limited to the following: general economic conditions, reliance on debt financing, funding pursuant to the Participation Agreement, interest rates, continued lack of ABL regulation in Canada, continued operation of key systems, debt service, the expectation that the number of industry competitors in Callidus' marketplace will continue to decline, that constraints on bank lending to mid-market companies will continue 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 solvency of borrowers, limited loan prepayment, effective use of leverage, recoverability of loans whose collateral is primarily determined by enterprise values, and such other risks or factors described in this AIF 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, 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.

Actual results could differ materially from those anticipated in or implied by any forward-looking statements, including without limitation, as a result of the risk factors, which are described in detail under "*Risk Factors*". The forward-looking statements included in this Annual Information Form are expressly qualified by this cautionary statement and are made as at the date of this AIF or as at December 31, 2016, as applicable. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. If the Corporation does update one or more forward-looking statements, it is not obligated to, and no inference should be drawn that it will, make additional updates with respect thereto or with respect to other forward-looking statements.

NON-IFRS MEASURES

The Corporation discloses a number of financial measures in this Annual Information Form that are calculated and presented using methodologies other than in accordance with IFRS. This Annual Information Form contains references to Gross Yield, Average Loan Portfolio Outstanding, Yield enhancements (recognized and unrecognized) and Gross Loans Receivable (each as defined in the Glossary of Terms and, collectively, the "**Non-IFRS Measures**"), each of which is not a generally accepted accounting measure under IFRS and therefore may differ from definitions of such terms used by other entities.

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 Management's Discussion and Analysis – Year Ended December 31, 2016 (the "**MD&A**"). See "Description of Non-IFRS Measures" in the MD&A at pages 3 to 4, which pages are incorporated by reference into this AIF. The MD&A is also available on SEDAR at www.SEDAR.com.

BACKGROUND AND CORPORATE STRUCTURE

Name, Address and Incorporation

Callidus Capital Corporation was incorporated on October 3, 2003 pursuant to the OBCA. On January 1, 2013, it amalgamated with its wholly-owned subsidiary, Callidus Capital Management Inc., pursuant to the OBCA.

The Corporation completed its IPO of 18,000,000 Common Shares on April 23, 2014 for aggregate gross proceeds of \$252,000,000. In connection with the IPO, on April 16, 2014, the Corporation amended its articles to (i) authorize the issuance of an unlimited number of Preferred Shares, (ii) remove its private company provisions, and (iii) implement a share split on the basis that each common share in the capital of the Corporation existing immediately prior to the share split became approximately 205,739 common shares in the capital of the Corporation. On April 22, 2014, the Corporation amended its articles to consolidate the common shares in the capital of the

Corporation on the basis of approximately one post-consolidation common share for every 1.0025 pre-consolidation common shares. On May 8, 2014, 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 IPO for aggregate gross proceeds of \$37,800,000.

The Corporation's head and registered office is at 4620 - 181 Bay Street, P.O. Box 792, Bay Wellington Tower, Brookfield Place, Toronto, Ontario M5J 2T3. Callidus is registered as an exempt market dealer in Ontario, Alberta, British Columbia and Québec, and as an investment fund manager in Ontario, Québec and Newfoundland and Labrador. The Corporation has a team of 35 professionals.

Intercorporate Relationships

CCC Funding Corporation, a wholly-owned subsidiary of Callidus was incorporated in the Province of Ontario on March 28, 2014 as the borrower under the New Revolving Credit Facility. Callidus ABL Corporation, a wholly-owned subsidiary of Callidus was incorporated in the Province of Ontario on November 8, 2016 as the borrower under the New Securitization Facility.

BUSINESS OF THE CORPORATION

General Description of the Business

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% (excluding 'Callidus Lite' loans). Callidus typically offers loans ranging in size from \$15 million to \$100 million, but may also accommodate larger commitments where exposure to identifiable asset groups can be compartmentalized. The largest loan commitment provided by the Corporation to date is approximately \$270 million.

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 provided the borrowers perform as expected. When borrowers do not perform and the Corporation makes an accommodation, Yield enhancements may be granted to the Corporation. Yield enhancements can take many forms, including revenue royalty streams, periodic fee arrangements, warrants and limited equity participations. 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, controlled 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, inventory, fixed assets, and enterprise value, 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.

As at December 31, 2016, and March 28, 2017, Callidus' gross loans receivable before derecognition were \$1,314 million and \$1,281 million, respectively, with an aggregate committed amount of \$1,422 million and \$1,490 million, respectively. As a result of ongoing, continuous process changes and improvements, we have revised our measure of growth prospects, referred to as our pipeline of potential borrowers, to capture a broader range of deals to better reflect the opportunities we are pursuing. This pipeline measure on a gross basis is currently approximately \$1.4 billion. If presented on a basis consistent with past reporting parameters, the pipeline measure at year-end was

\$630 million, and currently stands at \$764 million, with \$145 million in signed back term sheets. The Corporation recognizes that not all of these potential loans will close.

General Development of the Business

Initial Public Offering

The Corporation closed its IPO on April 23, 2014. Including the full exercise of the over-allotment option granted to the Underwriters, the aggregate gross proceeds from the IPO were \$289,800,000 from the issuance of an aggregate of 20,700,000 Common Shares taken up by the Underwriters at \$14.00 per share pursuant to the Underwriting Agreement. In consideration for the services provided in connection with the IPO, the Underwriters were paid a fee of \$0.805 per Common Share offered, or an aggregate amount of \$16,663,500 (including the fee in connection with the over-allotment option). Pursuant to the Underwriting Agreement, each of the Corporation CCGI, and the Catalyst Funds entered certain lock-up arrangements, certain provisions of which are still in force. See “*Securities Subject to Contractual Restrictions on Transfer*”.

Debenture Repayment Agreement

Prior to the IPO, the Loan Portfolio was primarily funded through a participating secured grid debenture dated as of July 1, 2012, issued by Callidus in favour of Catalyst Fund III and Catalyst Fund IV (the “**Participating Debenture**”). In connection with the IPO, the Corporation entered into a debenture repayment agreement on April 23, 2014 (the “**Debenture Repayment Agreement**”) with Catalyst Fund III and Catalyst Fund IV pursuant to which the Corporation repaid to Catalyst Fund III and Catalyst Fund IV an aggregate of approximately \$389 million, representing all of the principal plus accrued but unpaid interest and fees owing to Catalyst Fund III and Catalyst Fund IV under the Participating Debenture. In connection with the Debenture Repayment Agreement, the Catalyst Funds provide a guarantee with respect to losses incurred by Callidus on certain loans in the Loan Portfolio at the time of the IPO. The guarantee covers any loss on principal incurred on loans that were on the Corporation’s watch list at the time of the IPO in perpetuity. All other loans in the Loan Portfolio at the time of the IPO were also guaranteed for any losses of principal until such time as the loan was renewed by Callidus at the next scheduled credit review.

The repayment of the Participating Debenture was satisfied as follows: (i) as to approximately \$105 million, by the issuance of 5,939,431 Common Shares to Catalyst Fund III and 1,529,371 Common Shares to Catalyst Fund IV at \$14.00 per Common Share; (ii) as to \$50 million, by granting to Catalyst Fund IV an approximately 18% undivided participation interest in the Initial Portfolio in accordance with the Participation Agreement, as such participation interest may be adjusted in accordance with the terms of the Participation Agreement; (iii) as to approximately \$125 million, by issuance of promissory notes of approximately \$67 million to Catalyst Fund III and approximately \$58 million to Catalyst Fund IV (such promissory notes were then repaid from the proceeds of the IPO); and (iv) as to the balance of approximately \$109 million, by payment of approximately \$50 million to Catalyst Fund III and approximately \$59 million to Catalyst Fund IV from cash on hand and funding pursuant to the New Revolving Credit Facility.

Substantial Issuer Bid

On March 30, 2016, Callidus announced a substantial issuer bid (“**Substantial Issuer Bid**”). The Substantial Issuer Bid expired on December 29, 2016. Callidus took up and paid for a total of 2,849,604 Common Shares under the Substantial Issuer Bid at \$16.50 per Common Share, or \$47,018,466.

Privatization Process

On September 30, 2016, Callidus announced the Board has determined to commence the process of soliciting privatization proposals (the “**Privatization Process**”) and to engage external advisors to assist with the Privatization Process.

On October 31, 2016, Callidus announced the selection of Goldman, Sachs & Co. as financial advisor to lead the Privatization Process.

On December 29, 2016, Callidus announced that it has formed a special committee of independent members of the Board of the Corporation (the “**Special Committee**”) in connection with the Privatization Process. The Special Committee is not in response to any specific proposal received by the Corporation or an approach by a third party. While the Privatization Process is in a very preliminary stage, the Board unanimously agreed that it was appropriate to establish the Special Committee at this time to avoid any perceived conflict of interest in any development or outcome of the Privatization Process.

Funding Arrangements

Pursuant to a participation agreement (the “**Participation Agreement**”) dated April 23, 2014 among the Corporation, CCC Funding Corporation, Catalyst Fund IV and CCGI, the Catalyst Funds are entitled to participate in the growth of new Loan Portfolios established going forward by funding new loans pursuant to the Participation Agreement thereby acquiring a participation interest in that Loan Portfolio. Callidus agreed to establish and maintain a number of different loan portfolios, creating a new loan portfolio concurrent with the establishment of a new Catalyst Fund.

Catalyst Fund V completed the first closing of offering of limited partnership units on March 27, 2015. Effective April 2015, Catalyst Fund V began to participate in the funding of new loans originated by Callidus. On November 4, 2015, CCGI announced that Catalyst Fund V had completed its final closing and had received capital commitments in excess of US \$1.5 billion.

The participation interest represents an undivided beneficial ownership interest in the principal and income of each of the loans in that Loan Portfolio and the applicable Catalyst Fund will assume all of the risks and rewards in connection with its participation interest. The Loan Portfolio is derecognized from Callidus’ balance sheet for the purposes of IFRS to the extent of the Catalyst Funds’ interest therein.

A new loan portfolio is established on each date of the first closing of the offering of securities of a new Catalyst Fund. Once a new loan portfolio is established it will be the Active Portfolio and any then existing loan portfolio will be considered a Passive Portfolio. Subject to certain exceptions, no further growth will be permitted in a Passive Portfolio.

Pursuant to the Participation Agreement, the Corporation will determine, in its sole discretion, whether any additional funding required in the Loan Portfolio will be financed through Debt Capital or through New Equity Funding. In the event that Callidus determines to finance all or a portion of the financing required with New Equity Funding, until the Management Services Agreement has been terminated, Callidus must offer the Catalyst Funds an opportunity to fund a portion of the growth pursuant to the Participation Agreement. The extent of the Catalyst Funds’ entitlement to fund the growth of the Active Portfolio will be based on the available capital of each of Callidus and the applicable Catalyst Fund determined in accordance with the Funding Formula and the amount of leverage that the applicable Catalyst Fund elects to allocate to its participation interest.

In accordance with the terms of the Participation Agreement, Catalyst Fund V is now entitled to participate in the funding of new loans originated by Callidus.

As new Catalyst Funds are raised and capital is committed to such funds, the Catalyst Funds’ entitlement to fund the growth in a Loan Portfolio could be as high as 75% of the growth in a Loan Portfolio at any particular time, with the result that Callidus may only be entitled to fund 25% of such growth and would therefore only receive 25% of the benefit of such growth. Accordingly, the proportion of loans to new borrowers funded by the Catalyst Funds may increase and Callidus’ aggregate funded amount in the Loan Portfolio could decrease which may have an adverse effect on net income to Callidus. In the event of a proposed sale of a Catalyst Fund’s participation interest in a Loan Portfolio, the Catalyst Funds have granted Callidus an option to acquire that Catalyst Fund’s interest in the Loan Portfolio based on the funded amount of the interest in the Loan Portfolio being sold, thereby allowing Callidus to recapture that growth from the Catalyst Funds. See “*Risk Factors – Callidus’ Equity Participation in the Loan Portfolio May Decrease as the Size of the Loan Portfolio Increases*”.

The actual amount of growth to be funded by the Catalyst Funds is subject to the limitation that the aggregate capital invested in the Loan Portfolio by all Catalyst Funds taken together cannot be greater than \$300 million and Callidus’ right to provide 100% of New Equity Funding to an aggregate investment in the Loan Portfolio of \$230 million with the result that the Catalyst Funds’ proportion of the overall funding of the Loan

Portfolio will not exceed 57%. The amount that may be funded by the Catalyst Funds is further limited by the requirement that the leverage allocated by the Catalyst Funds to a particular Loan Portfolio may not exceed the leverage allocated to that portfolio by Callidus and the further restriction that, with respect to any particular funding of growth, the leverage allocated by the Catalyst Funds may not exceed the leverage allocated to that funding by Callidus without Callidus' consent.

If (i) the dollar amount of Callidus' participation interest in the Active Portfolio at the end of any particular quarter is lower than it was at the end of the immediately preceding quarter as a result of repayments and funding of new loans; or (ii) the Audit & Risk Committee reasonably expects the dollar amount of Callidus' participation interest to decline in the then current quarter as compared to the end of the most recently completed quarter, Callidus will limit the leverage applied to the portion of loans funded by the Catalyst Funds' New Equity Funding to 25% of the amount to be funded by the Catalyst Fund.

Decisions with respect to funding of the Loan Portfolio will be made by CCGI on behalf of the Catalyst Funds subject to the Funding Formula. Newton Glassman, the Executive Chairman and Chief Executive Officer of Callidus, is also the Managing Partner of CCGI. In some cases, the interests of CCGI and the Catalyst Funds may not be the same as those of the Corporation's other shareholders, and conflicts of interest may arise from time to time that may be resolved in a manner detrimental to the Corporation or its other shareholders.

Pursuant to the Participation Agreement, in the event of a proposed sale of a Catalyst Fund's participation interest in a Loan Portfolio, the Catalyst Funds granted Callidus an option to acquire that Catalyst Fund's interest in the Loan Portfolio based on the funded amount of the interest in the Loan Portfolio being sold plus such Catalyst Fund's entitlement to undistributed interest and fees on the applicable Loan Portfolio, thereby allowing Callidus to recapture that growth from the Catalyst Funds.

On August 1, 2014, Callidus filed a preliminary short form base shelf prospectus and on August 18, 2014, Callidus filed a (final) short form base shelf prospectus (the "**Prospectus**") with the securities regulatory authorities in each of the provinces and territories of Canada. These filings allow the Corporation and/or certain selling shareholders to make offerings of Common Shares up to an aggregate initial offering price of \$600,000,000 during the 25-month period that the Prospectus, including any amendments thereto, remains effective. Common Shares may be offered in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying shelf prospectus supplement and, subject to applicable regulations, may include "at-the-market" transactions, private placements, public offerings or strategic investments. Unless otherwise specified in a shelf prospectus supplement, the net proceeds from the sale of the Common Shares will be used for will be used for general working capital purposes and to finance additional loans in the Corporation's loan portfolio.

On December 31, 2014, Callidus agreed to acquire the Catalyst Funds' participation interest in the Initial Portfolio for a purchase price of \$50 million, being the book value of the participation interest, pursuant to a participation interest assignment agreement (the "**Assignment Agreement**") between the Corporation and Catalyst Fund IV. The acquisition resulted in approximately \$81 million of loans that were derecognized coming on to Callidus' balance sheet and management determined that the acquisition of the participation interest was accretive to earnings per share. The purchase price under the Assignment Agreement was satisfied by Callidus issuing 2,335,357 Common Shares to Catalyst Fund IV at an issue price of \$21.41 per Common Share, being the closing price of the Corporation's common shares on the TSX on December 3, 2014, the last trading day before the date on which it was first announced that the Catalyst Funds had offered to sell the participation interest in the Initial Portfolio to Callidus for Common Shares, plus a cash payment of \$821,000 as a post-closing adjustment for foreign exchange. The acquisition of the participation interest and the issuance of Common Shares as consideration was approved by the independent directors of the Board.

In December 2014, the Corporation obtained a US\$200 million unsecured subordinated bridge facility extended by funds managed by CCGI. The facility carries an interest rate of 8% per annum, 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 pre-payable by the Corporation at any time without penalty. The facility was approved by the independent directors of the Board. In September 2015, the Company increased the amount of its revolving unsecured subordinated bridge facility from Catalyst by US\$50 million to US\$250 million. See "*Debt Financing - Bridge Facility*".

In connection with the IPO that closed on April 23, 2014, the Corporation entered into a new loan financing and servicing agreement, which provided a revolving credit facility for up to US\$200 million. In January 2015, the Corporation 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. In April 2015, the Company increased the amount of its existing Revolving Credit Facility by US\$37.5 million to US\$300 million in the aggregate. Availability under our Revolving Credit Facility increases as new loans are funded and subsequently added to the borrowing base, subject to lender approval. See “*Debt Financing - New Revolving Credit Facility*”.

In December 2016, the Corporation closed the New Securitization Facility. See “*Debt Financing - New Securitization Facility*”.

Loan Loss Guarantee

In connection with both the Debenture Repayment Agreement and the Participation Agreement, on February 16, 2015, the Corporation clarified the terms of the guarantee and indemnity obligations of (i) Catalyst Fund III and Catalyst Fund IV under the Debenture Repayment Agreement and (ii) Catalyst Fund IV under the Participation Agreement pursuant to a letter agreement from the Corporation to Catalyst Fund III, Catalyst Fund IV, CCGI and CCC Funding Corporation (the “**Letter Agreement**”). The Letter Agreement sets out that the guarantee given at the time of the IPO covers all losses of principal on certain specified loans up to the previously authorized amount of same (as adjusted from time to time by the Credit Committee so long as Newton Glassman is a member of the Credit Committee and is in favour) even if advanced subsequent to the IPO including the loan loss provision of \$18.3 million recorded on Callidus’ books as at September 30, 2014. Subject to the foregoing, the guarantee does not apply to other amounts such as advances to pay interest or fees (subject to one non-material exception). The guarantee will remain in effect for loans that were not on the Watch List at the time of the IPO until they are renewed at the next scheduled credit review following the IPO. The guarantee will also remain in effect permanently for loans on the Watch List at the time of the IPO and loans that become subject to realization proceedings prior to that next scheduled review so long as those loans remain outstanding.

Catalyst Fund IV’s guarantee in relation to the sale of the \$50 million of loan participations covers the applicable Catalyst Funds’ percentage ownership interest in the relevant loans at the time of sale to Callidus of all losses of principal experienced on the relevant loans up to the previously authorized amount of same (as adjusted from time to time by the Credit Committee so long as Newton Glassman is a member of the Credit Committee and is in favour) even if advanced subsequent to the sale to Callidus. The guarantee will not apply to other amounts such as advances to pay interest or fees. The guarantee will remain in effect for loans that are not on the Watch List at the time of purchase of the loan participations until the relevant loans are renewed at the next scheduled credit review. The guarantee will also will remain in effect for loans on the watch list at the time of purchase of the loan participations or loans that become subject to realization proceedings prior to their next scheduled review so long as those loans remain outstanding.

Neither guarantee applies to accrued and unpaid interest (subject to one non-material exception). Callidus normally requires that its borrowers agree to a cash sweep arrangement so that their cash will typically be subject to Callidus control. In connection with clarifying the Catalyst guarantee arrangements, pursuant to the Letter Agreement, Callidus and CCGI agreed as between themselves that Callidus will operate the cash sweep internally so that first application of a borrower’s cash will be to currently due accrued and unpaid interest and fees and the second application of cash will be to principal and other amounts that are due. These cash sweep arrangements should generally serve to minimize losses in relation to interest and fees even in circumstances where Callidus would need to rely upon a CCGI guarantee in order to avoid a loss of principal.

Overview of the Corporation

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% (excluding ‘Callidus Lite’ loans).

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 provided the borrowers perform as expected. When borrowers do not perform and the Corporation makes an accommodation, Yield enhancements may be granted to the Corporation. Yield enhancements can take many forms, including revenue royalty streams, periodic fee arrangements, warrants and limited equity participations. 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.

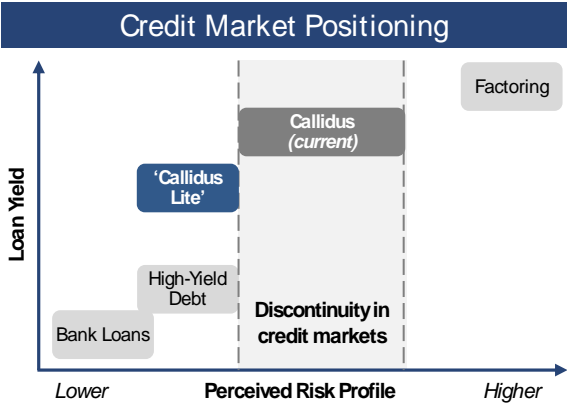
The Corporation believes that its expertise in assessing the quality of each prospective borrower, and its ability to complete timely detailed due diligence, enables Callidus to identify opportunities for significant returns in situations where risks can be assessed, controlled and managed. As part of 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, inventory, fixed assets, and enterprise value 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.

Credit Markets

Callidus targets a market with borrowers whose perceived risk is too high for the lending criteria of traditional lenders, and whose capital requirements are too small to access high yield markets. Callidus believes that the already small number of industry competitors in the Canadian market will continue to decline. See “Asset-Based Lending Industry”. Through flexible and innovative loan structuring, the Corporation seeks to fill this gap in the lending market.

Credit Market Positioning

There are currently few competitors in the Canadian market in which Callidus operates. Callidus faces more competition in the US market. Many traditional lenders have lending criteria that are not met by the credit profile of the borrowers in the Corporation’s target market and such lenders are generally unwilling to commit the time and resources necessary to monitor each loan effectively. Ongoing credit assessment and monitoring requires proactive management of the Loan Portfolio and is different from the approach traditional lenders employ to increase the size of their loan portfolios. Callidus believes it generates a higher return relative to the perceived risk profile of its loans due to its unique approach to lending. Callidus effectively manages the risk of its portfolio by prudent collateral-backed lending and through active management of its loans. The following chart illustrates the market in which Callidus operates:



Loan Size

Callidus generally commits to loans ranging in size from \$15 million to \$100 million. Management believes there is a general lack of credit available in the market at these loan sizes for borrowers with the same risk profile as a typical Callidus borrower. Callidus loans are generally larger than those of factoring companies, which typically provide loans of \$5 million or less, and are generally smaller than those of high yield lenders, which typically provide loans of \$100 million or more. While banks provide loans of all sizes, these loans are not generally available to borrowers with the same risk profile as a typical Callidus borrower.

Approach to Lending

Callidus takes a disciplined approach to each loan that it considers by completing financial and business due diligence before committing to make loans. This approach assists the Corporation in identifying opportunities for significant returns in situations where risks can be controlled and managed. Callidus focuses its due diligence on a borrower's collateral value (particularly inventory, receivables and tangible fixed assets), and uses liquidation analysis to determine advance rates. The Corporation also uses third-party appraisal and third-party enterprise valuations and field audit firms to assess collateral value and acceptable financial controls. As part of its security package, Callidus commonly obtains personal guarantees and a pledge of personal assets from the owner of a borrower.

Callidus works directly with each borrower to develop financing solutions that support each borrower's specific needs to achieve its strategic goals. If Callidus is satisfied that a borrower has appropriate management and a viable business model, it will ensure that the borrower has sufficient funding to meet working capital requirements in order to execute its business plan. In structuring loans in these situations, Callidus relies on the inventory, receivables and fixed asset values, and on enterprise value and other non-working capital assets, such as intellectual property of the borrower.

Once loans are granted, the Corporation's team of finance professionals performs detailed and comprehensive analyses to monitor the borrower during the term of the loan. The team also monitors loans and collateral on a periodic basis, as appropriate depending on the risk profile of the borrower and the nature of its collateral, and performs quarterly field audits. Results are regularly monitored relative to the borrower's business plan and Callidus also meets frequently with the borrower's management. The Corporation may also use third party appraisers to assess asset values as required, on an ongoing basis. Callidus also maintains control over a borrower's cash through the use of blocked accounts, from which funds may only be released with Callidus' approval.

In connection with managing and monitoring the Loan Portfolio, Callidus establishes a "watch list" system whereby borrowers with a deteriorating financial condition, or that otherwise meet certain criteria, are closely monitored by Callidus with a view to Callidus taking a proactive approach to ensuring the borrower's compliance with the terms and obligations of its loan and managing the risk of default. See "Risk Factors – Monitoring, Enforcement and Liquidation Procedures".

Callidus typically offers loans ranging in size from \$15 million to \$100 million, but may also accommodate larger commitments where exposure to identifiable asset groups can be compartmentalized. The largest loan commitment provided by the Corporation to date is approximately \$270 million.

While the Corporation is open to lending to most industries, its borrowers tend to have identifiable and liquid working capital assets and often operate in out-of-favour sectors. Prospective borrowers are typically referred to Callidus from the special loans groups of traditional lenders through intermediaries such as accounting firms and consultants. Loans are assigned to special loans groups when borrowers fail to meet the lending criteria originally established for them. Special loans groups will typically take the necessary steps to limit their exposure to these loans and will look to third party lenders like Callidus to provide an alternative lending solution to the borrower. These loans can also carry capital charges for regulated entities. Callidus is willing to provide loans to this type of borrower as a result of its expertise in assessing, monitoring and managing credit risk; traditional lenders are less willing to dedicate the requisite time and resources to mitigate the perceived risk of such loans. Ongoing credit assessment and monitoring requires proactive management of the Loan Portfolio and is different from the approach traditional lenders employ to manage loan portfolios.

In order to extend the Corporation's lending market, the Corporation will extend 'Callidus Lite', a lower-priced loan product for relatively lower-risk borrowers with a target Gross Yields of between 12% and 14%. These borrowers may have traditional lending alternatives available to them; however, management believes many borrowers will accept the higher pricing of the 'Callidus Lite' product in exchange for more flexible and innovative loan structuring with limited or no covenants. "See Description of the Business – Growth Strategy – Expansion of Loan Product".

Lending Principles

The Corporation's strategy is to seek out, structure and underwrite senior secured asset-based loans that will generate attractive risk-adjusted returns. The Corporation achieves this strategy by operating on and utilizing the following core lending principles:

1. **Value-Based Lending** – Callidus achieves downside protection by lending on collateral values which are based on a prudent liquidation analysis, with, in some cases, the benefit of in-house or third party valuation input. Callidus monitors and assesses each borrower's loan base on a daily, weekly, or monthly basis as appropriate.
2. **Underwriting Flexibility** – Callidus provides flexible and innovative loan structuring tailored to the borrower's needs. The Corporation's loans contain limited or no covenants but are generally structured as demand loans. Payment in kind (a loan where principal accretes in lieu of cash debt service payments) may be considered in appropriate circumstances. Similarly, required principal amortization payments may be subject to a more flexible structure.
3. **Security** – Callidus loans are generally structured as first secured on inventory, receivables, and fixed assets and may have additional security.
4. **Control** – Callidus actively monitors loans issued by the Corporation and the associated collateral on an on-going basis and reassesses borrowing base typically on a weekly basis. Callidus generally maintains control over borrowers' cash receipts through the use of blocked accounts.
5. **Target Term** – Loans are initially provided for a 12-month period and are typically outstanding for 18 to 36 months. Extensions are subject to a new credit approval and a renewal fee of typically 1% to 2%.
6. **Target Rates** – Callidus offers fixed rate Canadian dollar or United States dollar denominated loans. Callidus currently targets a 18% interest rate, with fees that typically result in targeted Gross Yields of approximately 20% (excluding 'Callidus Lite' loans).
7. **Transitional Pricing** - Callidus has also developed "Callidus Lite", a lower-priced loan product for relatively lower-risk borrowers with a target Gross Yields of between 12% and 14%, and offers different pricing for borrowers who may be transitioning to "Callidus Lite" but do not yet meet the criteria for that type of loan.
8. **Target Loan Size** – Callidus targets loans between \$15 million to and \$100 million.
9. **Borrowers.** Callidus enables borrowers to regain financial stability by funding asset growth, including accounts receivable, inventory and property and equipment growth. Callidus has, to date, liquidated only two businesses and has otherwise achieved a repayment for the remainder of its loans through a going concern solution.

Lending Review Process

Asset-based lending ("ABL") requires the commitment of people and systems to provide an effective risk management tool for a loan portfolio. An asset-based lender must employ sufficient people to perform specific roles in both the pre-loan closing and post-loan closing processes. An extensive review of a borrower, its assets and liabilities and customers must be undertaken in order to determine the appropriate borrowing base before a loan is

offered. After the loan closing, the review of financial reports and the monitoring of assets and general financial performance of the borrower continue until the loan is repaid.

Callidus currently has an experienced team of 35 professionals, including Newton Glassman, Executive Chairman and Chief Executive Officer, David Reese, President and Chief Operating Officer, Dan Nohdomi, Chief Financial Officer, Jay Rogers, Chief Credit Officer and Jim Riley, Secretary.

Loans are originated by four dedicated originators, two located in Toronto, Ontario, with originators also located in Montreal, Quebec, and Seattle, Washington. Loan originators initially review each prospective borrower and its suitability for a loan from Callidus. Internal or external field examiners initially, and then periodically, review the collateral and the books and records of each prospective borrower to provide information regarding its assets and performance, including the quality and value of accounts receivable and inventory. Callidus currently employs two field examiners to conduct and manage ongoing field examinations. If the originator makes a determination to proceed, they will propose a credit to one of the Corporation's loan underwriters. Callidus believes part of its success is based on an effective origination team that is well-known to the Canadian market.

The Corporation has five senior loan underwriters, located in Toronto, Ontario, who are responsible for a detailed analysis of the proposed borrower and for determining any additional credit terms that may be required. The underwriters interpret information and present the recommended structure and parameters of the proposed loan by way of a detailed credit memo. The detailed credit memo, which includes details of the borrower's business, financial results and collateral values, is submitted to the Corporation's credit committee (the "**Credit Committee**") for approval.

The Credit Committee is comprised of Newton Glassman (Chairman), David Reese, Jay Rogers, and Jim Riley. The Credit Committee may require additional information or specify additional terms prior to approval, and has the discretion to approve or decline any loan. Unanimous approval of the Credit Committee is required for each loan.

Callidus typically engages professional third parties to appraise the value of a borrower's inventory, fixed assets and real property forming a part of its collateral. Typically, those appraisals are based on forced liquidation value which Callidus then discounts. Callidus also engages third parties to assess the reasonableness of valuations in instances where enterprise values support a material portion of a loan. In addition, Callidus has a dedicated team of six collateral analysts who process each borrower's collateral reporting and monitor its business on an ongoing basis.

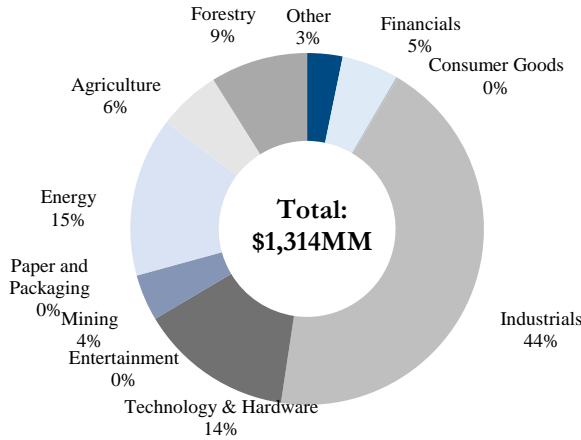
Typically the loan underwriters carry out the day-to-day management of the borrower's account. Ongoing monitoring by loan underwriters enables rapid identification of a deteriorating credit.

Current Loan Portfolio

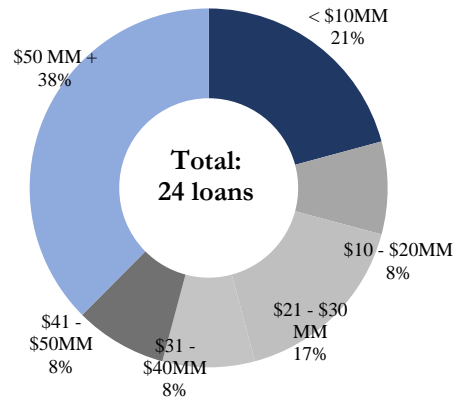
As of December 31, 2016, the Loan Portfolio consisted of 24 loans with an aggregate Gross Loans Receivable amount outstanding of \$1,314 million. The largest loan facility is approximately \$270 million and the smallest loan facility is approximately \$2 million. The Corporation's loans are diversified across a variety of industries, with the technology and hardware industry and the industrials industry comprising the largest segments. 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. The loans in the Loan Portfolio are generally structured as first secured on inventory, receivables, and fixed assets and many have additional security.

Loan Portfolio as at December 31, 2016

Gross Loans Receivable by Borrower Sector



Loan Portfolio by Amount Funded



Note: As at December 31, 2016, the Gross Loans Receivable consisted of \$1,314 million loans receivable, \$79.7 million loan loss provision, and \$8 million in discounts on loan acquisitions.

As at December 31, 2016, the average amount funded per loan was approximately \$55 million, an increase of \$24 million from December 31, 2015. The original commitment term is typically 12 months, with extensions permitted subject to credit re-approval and renewal fees. The average period of time a loan and its renewal is outstanding typically ranges from 18 to 36 months.

Payment In Kind Loans

Some of the loans in the Loan Portfolio contain a partial payment-in-kind (“**PIK**”) interest provision (each, a “**PIK Loan**”). Unless a portion of a PIK Loan is sold, the Corporation will not receive cash in respect of such PIK Loan until such time as cash payment is due. If the borrower defaults, Callidus may obtain no return on its investment. A PIK Loan would be in default if the Corporation demanded repayment and the borrower failed to pay the principal of the loan, plus accrued interest (whether in cash or PIK). Similarly, default could occur if the cash component of interest owing was not paid on time. All PIK Loans also contain cash payment of interest options.

A loan with a combination of cash pay and PIK interest permits a borrower to manage its cash flow by choosing between payment of interest or for other operating expenses. Callidus carefully considers, in connection with the borrower’s credit approval, the cash flow of a borrower and will consider providing a PIK Loan if this structure will help meet the borrower’s anticipated cash needs without undue risk or exposure to Callidus.

Although there is reduced competition in the Canadian ABL market, the competition that does exist requires Callidus to be responsive to competitive pricing, including by offering partial PIK Loans to certain borrowers.

Growth Strategy

Callidus believes its Loan Portfolio will grow in the following ways:

Organic Growth in Canada

Management estimates that Callidus’ addressable market size in Canada for its core product is well in excess of \$1 billion. Callidus believes it is well positioned to capture a significant share of this under-served market given the Corporation’s flexible and innovative approach to lending, the Corporation’s extensive in-house team and proprietary systems, management’s significant ABL experience and workout expertise, the presence of relatively few known competitors in the Bridge or Distressed ABL Providers market segment, and the Corporation’s

access to capital from both public and private markets and the Catalyst Funds. Callidus has historically served primarily Ontario and Québec based borrowers; however, more recent growth reflects lending opportunities across Canada and in the US. Callidus intends to expand its geographical reach by increasing the number of loan officers and originators outside of Ontario and leveraging the originators based in Montreal, Quebec and Seattle, Washington that were hired in 2014. In addition, Callidus is increasingly providing larger loans and expects to further increase its average loan size.

As at March 28, 2017, the Corporation was considering potential new loans totalling approximately **\$1,300** million. As part of its overall strategy to grow the Loan Portfolio, the Corporation targets \$50 million to \$150 million of net new loans for each loan originator per year. However, there can be no assurance that Callidus will be able to grow its Loan Portfolio as anticipated.

Expansion of Loan Product

In order to extend the Corporation's lending market, the Corporation extends 'Callidus Lite' loans, a lower-priced loan product for relatively lower-risk borrowers. Management expects that 'Callidus Lite' loans will target Gross Yields of between 12% and 14%. Certain of the borrowers in this market may have traditional lending alternatives available to them; however management believes these borrowers may accept the higher pricing of the 'Callidus Lite' product in exchange for flexible and innovative loan structuring along with limited or no covenants. Management believes that the 'Callidus Lite' product represents an incremental market opportunity that is distinct from the market for its current loans and that 'Callidus Lite' will allow Callidus to extend its potential lending market and loan duration, while preserving attractive returns.

The Corporation also offers different pricing for borrowers who may be transitioning to "Callidus Lite" but do not yet meet the criteria for that type of loan.

Expansion in the United States

Management believes that the United States market presents a significantly larger opportunity than the Canadian market. Regulatory standards in the United States such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") combined with Basel III Accord ("**Basel III**") place constraints on commercial lenders that do not apply to Callidus. Although the United States is a different lending market, management has extensive experience in successfully originating and underwriting debt transactions in the United States. The Corporation's existing loan products have been made available in the United States on a situational basis through existing borrower relationships. Callidus demonstrated the flexibility of its systems, back office and procedures through 13 U.S. based transactions from 2011 to 2016.

Growth through Acquisitions of Loan Portfolios

Management believes that there will be opportunities to acquire asset-based loan portfolio assets from other lenders in Canada and the United States on an opportunistic basis, at discounted values. Callidus has successfully acquired and managed loan portfolios from lenders seeking to exit challenging situations in the past.

Purchase of Participation Interest in Loan Assets from the Catalyst Funds

Following completion of the IPO, the Catalyst Funds continued to have an interest in the Loan Portfolio. On December 31, 2014, Callidus exercised its right to purchase the \$50 million participation interest in the Initial Portfolio from Catalyst Fund IV pursuant to the Participation Agreement and the Assignment Agreement. Catalyst Fund IV provided a principal guarantee related to the sale of the loan participations.

Any Catalyst Fund established on a going-forward basis will be entitled to invest in interests in the Loan Portfolio. Such investment creates a mutual interest in the performance of the Loan Portfolio as between the Corporation and the Catalyst Funds and further provides another source of financing for growth in Callidus' loan assets.

Competitive Strengths

Management of Callidus believes that the Corporation has material competitive strengths compared to its competitors. Management believes that competitors manage smaller loan portfolios than the Corporation and that the lack of scale and limited access to capital has provided a challenging environment for its competitors. In contrast, Callidus has benefitted from access to the equity capital markets, capital from the Catalyst Funds, a major Canadian insurance company, a large international bank, as well as two Schedule I Banks, providing ample capital to grow its business to date and has been able to reach a size where access to attractive leverage alternatives has provided additional sources of capital. The experienced management team and effective collateral monitoring system that Callidus has built since its inception has facilitated the increase in the size the Loan Portfolio while still maintaining the ability to keep a proactive relationship with borrowers that management believes is critical to success in the markets in which the Corporation operates.

Strong Track Record

Callidus is a successful asset-based lender with a history of consistently generating significant returns. Since 2006, Callidus has advanced 101 loans representing total credit facilities of \$2.2 billion of which 83 loans have been fully repaid or realized. Of the 83 loans, 8 resulted in an aggregate loss of \$37 million. In addition, of the 83 loans, 6 went through a form of restructuring and were fully repaid. The balance of the 69 loans were fully repaid in the normal course.

Unique and Differentiated Business Model

Speed of Execution

Callidus has a streamlined credit approval process that provides for rapid decision making, with the Credit Committee involved in the approval process from an early stage. All loans are subject to unanimous Credit Committee approval. The Credit Committee consists of four members of the executive team.

Structural Flexibility

Callidus provides practical solutions to its borrowers through flexible and innovative loan structuring. Callidus can provide flexible solutions to meet the needs of borrowers, including, but not limited to, providing loans margined against accounts receivable and inventory, and term loans margined against other assets, including equipment, real estate and manufacturing facilities. Payments in kind and longer amortizations may also be considered in appropriate circumstances. Callidus' loans typically have limited or no covenants, as loans are generally payable on demand.

Ongoing Relationships with Borrowers

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. In most cases, Callidus maintains control of the borrower's deposit account through the use of blocked accounts, which facilitates loan repayment and reduces fraud. 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 inventory and fixed asset values and third party valuation firms assess the reasonableness of valuations in instances where enterprise values form a material part of the collateral support and professional restructuring advisors are involved, as necessary. This extensive 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.

Support from CCGI

CCGI is a Toronto-based private equity investment management firm with over \$7 billion in assets under management. CCGI supports Callidus by providing funding through the Catalyst Funds and the involvement of senior executives in the Corporation's business.

CCGI, as manager of the Catalyst Funds (existing and future) will continue to have the ability to deploy funds from new Catalyst Funds directly into the Active Portfolio thereby providing a source of financing for growth in Callidus' loan assets.

Any new Catalyst Funds investing in the growth of future Loan Portfolios will be entitled to a participation interest in the Loan Portfolio, and will bear the debt service costs associated with Callidus' leverage allocated to its interest in the Loan Portfolio and a *pro rata* share of all expenses relating to the management of the Loan Portfolio based on its participation interest in the Loan Portfolio. Each of Callidus and the Catalyst Funds with a participation interest in the Loan Portfolio have a mutual interest in the performance of the Loan Portfolio.

CCGI agreed that for a period ending on the later of (a) five years from the closing date of the IPO, and (b) two years after the termination of the Management Services Agreement, neither CCGI nor its affiliates will (i) engage in; (ii) establish or manage any fund or other entity that engages in; or (iii) invest in any other fund or entity that engages principally in the asset-based lending business as carried on by Callidus. In addition, CCGI agreed that any opportunities within such business description that are made available to CCGI or its affiliates will first be offered to Callidus.

Pursuant to the Management Services Agreement, CCGI provides the services of Mr. Glassman (founder and Managing Partner of CCGI) as Executive Chairman and Chief Executive Officer of Callidus, and Mr. Riley (Managing Director and Chief Operating Officer of CCGI) as Secretary of Callidus. In addition, the Management Services Agreement provides Callidus with access to CCGI's senior management, analysts and research library, as required. CCGI's senior management have proven experience in distressed investing and restructuring, which facilitates the efficient evaluation and execution of complex transactions and allows Callidus to focus on going concern solutions when credit issues arise.

Experienced Management

The members of the Callidus management team have significant experience in the Canadian asset-based financing market (as set out in the table below) and have close strategic relationships with various professional groups, including accountants, restructuring professionals and appraisers. The Corporation's management team and the Credit Committee also have extensive expertise across various sectors. This experience and expertise, combined with the Corporation's disciplined approach to evaluating potential borrowers, assists Callidus in identifying high return lending opportunities where risks can be controlled and managed to ensure minimal portfolio losses.

Management	Profile
Newton Glassman <i>Executive Chairman and Chief Executive Officer</i>	<ul style="list-style-type: none"> ■ Over 23 years of experience in private equity, distressed, ABL and under-valued situations in Canada and the United States ■ Before founding CCGI, was a managing director at Cerberus Capital Management LLC (“Cerberus”, which in turn owned Ableco Finance) ■ Prior to Cerberus, held operational, strategic, and financial roles at a number of different entities ■ Holds an MBA from the Wharton School of Business and undergraduate and law degrees from the University of Toronto
Jim Riley <i>Secretary</i>	<ul style="list-style-type: none"> ■ Managing Director and Chief Operating Officer of CCGI ■ Prior to joining CCGI in 2011, was a partner and co-chair of the Banking and Finance Law Group at Goodmans LLP where his practice focused on corporate finance and restructuring ■ Before Goodmans, was a founding partner of the Toronto office of Ogilvy Renault (now Norton Rose Fulbright)
David Reese <i>President and Chief Operating Officer</i>	<ul style="list-style-type: none"> ■ 33 years of experience in managing and building teams focused on providing structured debt solutions for clients (ABL, LBOs, private placements and securitizations) across a wide variety of industries ■ Worked in both corporate and investment banking with several Canadian and international financial institutions, including a structured credit boutique that Mr. Reese co-founded
Jay Rogers <i>Chief Credit Officer</i>	<ul style="list-style-type: none"> ■ Prior to joining Callidus in 2016, served as a Managing Director at Cerberus Capital Management, LP and its finance company Cerberus Business Finance LLC, which specializes in distressed lending ■ Prior to Cerberus, worked as a Senior Analyst and Portfolio Manager at Fursa Alternative Strategies; Vice President, Special Situations Group at GE Capital; and a restructuring consultant at LoftusGroup LLC ■ Holds an MBA from Georgetown University and a BA from the University of Colorado
Dan Nohdomi <i>Chief Financial Officer</i>	<ul style="list-style-type: none"> ■ Former Chief Financial Officer of Greypoint Capital, a private debt fund based in Toronto, which he assisted in launching and founding

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- Former Corporate Treasurer of Western Forest Products, a publicly traded, previously a Brookfield Asset Management portfolio company, operating in British Columbia
 - Former member of Brookfield's Special Situations and Specialty Funds Group
 - Holds an MBA from Cornell University and BA from Trinity Western University and is also a Chartered Accountant
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The Catalyst Capital Group Inc.

Overview

Founded in 2002, CCGI is a Toronto-based private equity investment management firm that specializes in control and influence investments in distressed and under-valued opportunities in Canada. CCGI has over \$7 billion in assets under management.

CCGI was founded by Mr. Glassman, who is the Managing Partner of CCGI (and who is the Executive Chairman and Chief Executive Officer of Callidus). Mr. Glassman was previously a managing director at Cerberus, where he was responsible for, among other things, the firm's involvement in Canadian-based opportunities. Gabriel de Alba, Managing Director and Partner, joined CCGI in 2002 and previously served in investment and operational roles in various distressed situations at several U.S. entities. Mr. Riley, Managing Director and Chief Operating Officer of CCGI, joined CCGI in 2011 and was formerly a senior partner at a major Canadian law firm with a practice focused on corporate finance and restructuring. Messrs. Glassman, de Alba and Riley, and the balance of the CCGI management team, collectively possess more than 110 years of experience in restructuring, credit markets and merchant and investment banking in Canada and the United States.

The CCGI management team has significant expertise with regard to the Canadian legislative, financial and restructuring regimes, as well as substantial experience coordinating multi-jurisdictional bankruptcies, restructurings and legal processes.

The Catalyst Funds

CCGI has established and managed the following focused private equity funds: Catalyst Fund Limited Partnership I ("**Catalyst Fund I**"), Catalyst Fund Limited Partnership II (together with a parallel fund, "**Catalyst Fund II**"), Catalyst Fund Limited Partnership III ("**Catalyst Fund III**") Catalyst Fund Limited Partnership IV (together with a parallel fund, "**Catalyst Fund IV**") and Catalyst Fund Limited Partnership V ("**Catalyst Fund V**") as follows:

- Catalyst Fund I was established in 2002 with approximately US\$185 million in committed capital.
- Catalyst Fund II (including a parallel fund) was established in 2005 with approximately US\$635 million in committed capital.
- Catalyst Fund III was established in 2009 with approximately US\$1.0 billion in committed capital.
- Catalyst Fund IV (including a parallel fund) was established in 2012 with approximately US\$1.0 billion in committed capital.
- Catalyst Fund V was established in 2015 with approximately US\$1.5 billion in committed capital.

The CCGI team has generated strong investment performance since inception.

Currently, CCGI expects that the terms of Catalyst Fund II, Catalyst Fund III, Catalyst Fund IV, and Catalyst Fund V will expire in November 2017, December 2019, June 2022, and March 2025 subject to further extension.

ASSET-BASED LENDING INDUSTRY

The information contained in the Annual Information Form with respect to the ABL industry, including market expectations, market position, market opportunity, market share and other estimates, is based solely on

management's current understanding and knowledge of the ABL industry and is not based on any independent publicly available source. Such information cannot be and has not been independently verified.

Overview

ABL encompasses a number of financing alternatives, including commercial finance, factoring, equipment loans, leasing, mortgages, floor-plan finance, trade finance and purchase order finance, but typically refers to commercial finance where loans are secured by assets (often the most liquid assets of the borrower) and subject to a borrowing base. Callidus operates within this definition of commercial finance asset-based loans, lending to corporate businesses and taking security against the assessed or appraised value of working capital and an identifiable portfolio of assets.

Asset-based lenders manage their risk and exposure by carefully assessing the values of secured assets, receiving periodic reports on collateral value and the status of those assets, and tracking financial performance of borrowers. These procedures and their implementation differentiate ABL from commercial or corporate lending. Typical characteristics of an asset-based borrower include unpredictable cash flow, losses, high leverage, fast growth, recent or proposed acquisitions, mergers, leveraged buyouts or bankruptcy reorganization. Asset-based loans allow borrowers with working capital needs to borrow amounts supported by an asset base, when traditional credit may otherwise be unavailable to them.

The key benefit of ABL is that it is not earnings dependent and, as a result, asset-based loans are still available when a borrower's earnings are insufficient to support a traditional bank loan. The typical borrower of an asset-based loan is a medium-sized business that is involved in a cyclical industry or which has low operating margins. Asset-based loans can provide capital to finance growth, inventory expansion or acquisition financing and are also used to refinance existing debt.

Asset-based loans provide borrowers with increased operating flexibility compared to earnings-based financing, generally with fewer financial covenants. Callidus is generally able to structure loans at higher advance rates than traditional financial institutions, which permits growth and increased earnings in the borrower's business. These increased earnings may offset higher lending rates, in whole or in part, while allowing a borrower to retain operational upside and avoid ownership dilution.

Management believes that the Canadian ABL market is comprised of the following types of lenders:

1. **ABL Groups of Large Financial Institutions** – these groups will make credit available based on assets, as well as more traditional profitability metrics and cash flow. They currently tend to offer interest rates at a spread of 3% to 6% over LIBOR, and require extensive performance covenants. Loan sizes will vary, and are generally up to \$100 million. Callidus believes that there are approximately 10 active participants in this category.
2. **Alternative Debt Finance, Business Development Corporations, Bridge or Distressed ABL Providers** – these providers include Callidus and its competitors, and typically lend money at an interest rate of 10% to 18% through committed and demand loans with limited or no covenant requirements. These lenders will generally provide loans of up to \$30 million, and can occasionally lend up to \$100 million. Callidus believes that there are approximately seven to ten competitors in this category, with an addressable market size for the Corporation in excess of \$1 billion in loans.
3. **Factoring Companies** – these companies will purchase receivables at a significant discount, which generally corresponds to implied interest rates above 20%. Loan sizes for these lenders typically range between \$1 million and \$5 million, and can occasionally reach up to \$10 million. Callidus believes that there are a small number of larger factoring companies and many small regional participants. The Corporation does not engage in factoring and does not view factoring companies as direct competitors.

Canadian Asset-Based Lending

	Summary Terms	Deal Size	Scope of Canadian Market
ABL Groups of Large Financial Institutions	<ul style="list-style-type: none"> ■ Interest rates: 3% - 6% spread above LIBOR ■ Performance covenant requirements 	<ul style="list-style-type: none"> ■ \$5 million to \$100 million 	<ul style="list-style-type: none"> ■ Approximately 10 active participants
Bridge or Distressed ABL Providers (including Callidus)	<ul style="list-style-type: none"> ■ Interest rates: 20% range ■ Demand loans ■ Covenant light 	<ul style="list-style-type: none"> ■ \$10 million to \$100 million 	<ul style="list-style-type: none"> ■ 4 known competitors ■ Current estimated addressable market by Callidus: over \$1 billion
Factoring Companies	<ul style="list-style-type: none"> ■ “Purchase discount” – interest rate over 20% 	<ul style="list-style-type: none"> ■ \$1 million to \$5 million; occasionally to \$10 million 	<ul style="list-style-type: none"> ■ Smaller number of larger factoring companies and many smaller regional factors

Competitive Dynamics

Management believes that the current market for asset-based lenders in Canada, particularly for asset-based lenders such as Callidus that operate independently of Canadian chartered banks and other financial institutions, is robust. As a result of increased regulation and global financial difficulties, several foreign participants in the ABL market have either reduced or shut down their Canadian ABL operations. U.S. lenders in particular have faced pressure to reduce their capital exposure due to financial regulations imposed following the credit crisis in 2008. Additionally, several foreign bank-owned lenders have noticeably reduced their presence in the Canadian ABL market due to capital constraints, regulatory issues, losses or a combination thereof.

Mid-market companies, which management defines as those with borrowing requirements of \$5 million to \$100 million, have fewer credit options. The recent credit crisis and continuation of a generally poor economic environment have combined to limit the willingness of Canadian lenders to extend credit to smaller borrowers; particularly those that do not meet the typical credit requirements. Callidus believes that there are a number of other factors that have resulted in the limited competition in the Canadian ABL market, including, but not limited to the following:

Reduced Credit Supply to Mid-Market Companies from Non-Bank Lenders

The Corporation believes credit to mid-market companies from non-bank lenders will also be constrained, as many of those lenders have either gone out of business, exited the market, or wound down. Some non-bank lenders exited the lending industry due to balance sheet pressures following the credit crisis of 2008 and subsequent regulatory changes. Together with the constraints in bank lending, a promising environment is created in which loans may be offered to mid-market companies by providers such as Callidus. The Corporation cannot, however, provide any assurance as to how long this tight credit supply will persist.

Regulatory Environment in Canada

There are currently no capital adequacy or other regulatory capital requirements on asset-based lenders like Callidus that would impede their ability to extend credit. The major Canadian commercial banks, however, are subject to capital adequacy rules under the *Bank Act* (Canada) and Basel III that require them to maintain capital on hand in connection with each loan advanced. These rules reduce profitability of non-traditional financing, as the amount of capital required to be maintained by the lender tends to be higher for these loans compared to conventional loans.

Basel III and related banking regulations also require Canadian commercial banks to mitigate and minimize risk while preserving regulatory capital and liquidity, which have made Canadian commercial banks even less likely to lend outside of their traditional lines of business.

Concentration of Canadian Commercial Banks

In Canada, commercial lending has been dominated by the six leading commercial banks. While these banks do provide asset-based loans, such loans remain a relatively small portion of the financing that they offer due to the aggregate size of the potential market and the relatively high operational oversight such loans require. The traditional form of financing favoured by these banks has been cash flow and earnings-based, as opposed to collateral-based financing.

Regulatory Environment in the United States

Recent regulatory changes, including the enactment of the Dodd–Frank Act in the United States, the introduction of new international capital and liquidity requirements under Basel III, and the continued ownership of legacy non-performing assets have significantly curtailed banks’ lending capacity and willingness to lend in the ABL market. In response, the Corporation believes that many U.S. commercial banks have de-emphasized their service and product offerings to mid-market companies in favour of lending, managing capital markets transactions and providing other non-credit services to their larger customers who require less extensive oversight. Callidus expects bank lending to mid-market companies to continue to be constrained for at least several years, as Basel III rules are phased in and rules and regulations are approved and interpreted under the Dodd-Frank Act.

RISK FACTORS

The following sets forth certain risks and uncertainties that could have a material adverse effect on Callidus’ business, financial condition and/or results of operations and the trading price of the Common Shares. Additional risks and uncertainties that the Corporation does not presently know or that it currently deems to be immaterial also may impair the Corporation’s business and/or operations. The Corporation cannot assure you that it will successfully address these risks. In addition, other currently unknown risks exist that may affect Callidus’ business. The risks described below address the material factors that may affect Callidus’ future operating results and financial performance.

Risks Relating to the Business

Lending to Small and Mid-Sized Companies

The Loan Portfolio consists primarily of loans to small and medium sized, privately-owned companies, most of which do not publicly report their financial condition and are not subject to the same accounting rules and securities laws that govern disclosure and financial controls of public companies. Compared to larger, publicly-traded companies, loans to these types of companies may carry more inherent risk. See also “*Risk Factors – Risks Relating to Callidus’ Operations – Creditworthiness of Borrowers*”. The companies that Callidus finances generally have limited access to capital and higher funding costs, are in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks. Small and medium-sized companies also typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tends to render them more vulnerable to competitors’ actions and market conditions, as well as general economic downturns. Additionally, because most of Callidus’ customers do not publicly report their financial condition and may not have sophisticated financial controls and oversight, Callidus is more susceptible to a borrower’s misrepresentation, which could cause Callidus to suffer losses on its portfolio. See also “*Risk Factors – Risks Relating to Callidus’ Operations – Fraud by a Borrower*”. The failure of a borrower to accurately report its financial position could result in Callidus providing loans that do not meet its underwriting criteria, defaults on loan payments, the loss of some or all of the principal of a loan, or non-compliance with loan covenants. Accordingly, loans made to these types of companies involve higher risk than loans made to companies that have larger businesses, greater financial resources or are otherwise able to access traditional credit sources.

Creditworthiness of Borrowers

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. See “*Risk Factors – Risks Relating to Callidus’ Operations – Default by and Bankruptcy of a*

Borrower". 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*".

Default by and Bankruptcy of a Borrower

A borrower's failure to satisfy its borrowing obligations, including any covenants imposed by Callidus, could lead to defaults and the termination of the borrower's loans and enforcement against its assets. In order to protect and recover its investments, Callidus may be required to bear significant expenses (including legal, accounting, valuation and transaction expenses) to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting borrower. In certain circumstances, a borrower's default under one loan could also trigger cross-defaults under other agreements and jeopardize that borrower's ability to meet its obligations under a loan agreement it may have with Callidus.

Should a borrower become insolvent, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale of all of a borrower's collateral will be sufficient to satisfy the loan obligations secured by the collateral, or that sufficient assets will remain after priority creditors have been repaid. See also "*Risk Factors – Risks Relating to Callidus' Operations – Collateral Securing Callidus' Loans*".

Adequacy of Provision for Credit Losses

Callidus maintains a provision for credit losses that reflects management's judgment of the risk of losses inherent in the Loan Portfolio. Callidus periodically reviews its provisions for credit losses to ensure they are adequate and will consider factors such as economic conditions and trends, collateral values (including third party appraisals), credit quality indicators, past charge-off experience, levels of past due loans, past due loan migration trends, and non-performing assets when performing its analysis. The Corporation 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. Determining the appropriate level of the provision for credit losses is an inherently uncertain process and therefore the determination of this provision may prove to be inadequate to cover losses in connection with the Loan Portfolio. Factors that could lead to the inadequacy of a provision for credit losses may include the inability to appropriately underwrite credit risk of new loans, to effectively manage collections or to anticipate adverse changes in the economy or the occurrence of discrete events that adversely affect specific borrowers, industries, markets or geographic areas. For these reasons, Callidus cannot provide assurance that its provisions for credit losses will be adequate to cover credit losses in the Loan Portfolio and such provisions may not keep pace with changes in the creditworthiness of borrowers or in collateral values.

If the credit quality of borrowers declines, if the risk profile of a market, industry, or group of borrowers changes significantly, if the assumptions used to value our collateral change (in particular loans supported by enterprise values), or if a market for the collateral against which Callidus has secured its loans deteriorates significantly, Callidus' previous estimates of the appropriate level of reserves for credit losses may be inadequate. Losses from loans that exceed Callidus' expectations could have a Material Adverse Effect on the Corporation.

Callidus has and will continue to provide for credit losses based on industry specific historical losses considering the categories, segmentation and distribution of the assets being financed and its customer base.

Performance of the Loan Portfolio

Callidus maintains a Loan Portfolio of \$1,314 million and \$1,281 million as at December 31, 2016 and March 28, 2017, respectively. The past performance of Callidus has been based on a comparable loan portfolio of a smaller size. For example, as at December 31, 2015, the size of Callidus' loan portfolio was approximately \$1,221 million. There can be no assurance that the same types of earnings can be made on the current Loan Portfolio or additional loans.

Collateral Securing Callidus' Loans

While Callidus' loans are generally secured by a lien on specified collateral of the borrower (particularly inventory, receivables and tangible fixed assets), and in some instances, supported by enterprise value, there is no assurance that Callidus has obtained or properly perfected its liens, or that the value of the collateral securing any particular loan will protect Callidus from suffering a partial or complete loss if the loan becomes non-performing and Callidus moves to enforce against the collateral. In such event, Callidus could suffer loan losses that could have a Material Adverse Effect on the Corporation. In addition, when underwriting a loan, Callidus makes an estimate of the value of the collateral under a distressed disposition generally using liquidation analysis. A decrease in the market value of collateral assets at a rate greater than the rate projected by Callidus may adversely affect the current realization values of such collateral. The degree of realization risk varies by the business of the borrower and the nature of the security.

Reliance on Certain Individuals and the Management Services Agreement

The success of Callidus depends 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. See also "*Risk Factors – Risks Relating to Callidus' Operations – Management and Employees*".

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 may 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.

Conflicts of Interest

Certain of the Corporation's directors and officers are, and may continue to be, involved in the private equity industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of Callidus. Situations may arise in connection with potential opportunities or acquisitions where the other interests of these directors and officers may conflict with Callidus' interests. Directors and officers of the Corporation with conflicts of interest will be subject to and follow the procedures set out in applicable corporate and securities legislation, regulations, rules and policies.

The officers and directors of CCGI have a fiduciary duty to manage its business in a manner beneficial to its owners and, in connection with fulfilling this duty, CCGI's ownership and management may compete with Callidus for the time and attention of Messrs. Glassman and Riley or for employment of other talented individuals, or may develop CCGI's business plan in a manner that is incompatible with the Corporation's objectives, any of which might result in Callidus' failure to realize the full benefits of the current relationship with CCGI and jeopardize the Corporation's ability to execute its growth plan. If conflicts arise in allocating the services or functions of these officers, a reduction in the services or function of such persons could have a Material Adverse Effect on the Corporation. See also "*Risk Factors – Risks Relating to Callidus' Operations – Reliance on Certain Individuals and the Management Services Agreement*" and "*Risk Factors – Risks Relating to Callidus' Operations – Management and Employees*".

Other than with respect to the non-competition provisions in the Management Services Agreement, CCGI is not restricted from competing with the Corporation and Callidus cannot ensure that CCGI's business focus will not change over time. See "*Executive Officers and Directors Compensation – Management Services Agreement*".

CCGI and the Catalyst Funds Exercise Significant Control over Callidus

The Catalyst Funds, which are managed, controlled and directed by CCGI or its affiliates, beneficially own approximately 67% of the outstanding Common Shares and may acquire additional Common Shares. Messrs. Glassman and Riley are executive officers of CCGI. As a result, CCGI and the Catalyst Funds exercise significant control over Callidus, giving it the ability to, among other things, approve significant corporate transactions or potentially delay or prevent transactions that could otherwise be beneficial to other shareholders. CCGI and the Catalyst Funds may have the ability to control the outcome of matters submitted for the vote or consent of Callidus' shareholders. In some cases, the interests of CCGI and the Catalyst Funds may not be the same as those of the Corporation's other shareholders, and conflicts of interest may arise from time to time that may be resolved in a manner detrimental to the Corporation or its other shareholders. See "*Risk Factors – Conflicts of Interest*".

Loan Concentration

Callidus specializes in certain broad industry segments, including technology and hardware, industrials, forestry, consumer goods, financials, energy and agriculture. Currently, the largest industry sectors represented in the Loan Portfolio as at December 31, 2016 are: industrials, representing 44%] of Gross Loans Receivable, and energy, representing 15% of Gross Loans Receivable. Together, these sectors represent approximately 59% of Gross Loans Receivable. Callidus does not have fixed guidelines for diversification and lending could potentially be concentrated in relatively few industries or markets. Callidus relies on its Credit Committee to assess various risks, including those relating to concentration, on a case by case basis. As a result, Callidus' Loan Portfolio currently has concentrations of risk exposure related to the above-mentioned industry segments, and additional concentrations may develop. If industry segments in which Callidus has a concentration of investments experience adverse economic or business conditions, the delinquencies, default rate and charge-offs in those segments may increase and could have a Material Adverse Effect on the Corporation.

In addition, as of December 31, 2016, the Loan Portfolio contained nine loans with funded amounts in excess of \$50 million. The largest loan provides a \$270 million facility to a shipbuilder. A default by any of these borrowers on its loan may result in Callidus failing to be repaid outstanding principal and interest owed to it, and could have a Material Adverse Effect on the Corporation.

Loan Prepayment

Callidus' term loans are prepayable by the borrowers, subject to prepayment penalties. Callidus is unable to predict if or when a borrower will prepay a loan. Typically, a borrower's decision to prepay depends on its continued positive economic performance and the existence of favourable financing market conditions that permit the borrower to replace its existing financing with less expensive capital. As market conditions change frequently, it is very difficult to predict if or when a borrower may deem market and business conditions to be favourable for prepayment. Prepayment of a loan by a borrower may have the effect of reducing the achievable yield on the prepaid funds to a level below that which was anticipated by Callidus. Such a reduction may occur when Callidus is unable to invest the funds prepaid by the borrower in other transactions with an expected yield greater than or equal to the yield Callidus expected to receive from the prepaying borrower.

Quarterly Financial and Operational Results

Callidus' quarterly net income and results of operations are difficult to forecast. Callidus may experience substantial fluctuations in net income and results of operations from quarter to quarter. Investors should not rely on Callidus' results of operations in any prior reporting period to be indicative of its performance in future reporting periods. Many different factors could cause Callidus' results of operations to vary from quarter to quarter, including:

- the success of Callidus' origination activities;
- credit losses and default rates;
- Callidus' ability to enter into financing arrangements;
- funding decisions made by the Catalyst Funds pursuant to the Participation Agreement;

- competition;
- timing of transactions;
- costs of compliance with regulatory requirements;
- the timing and effect of any future acquisitions;
- personnel changes;
- amount or prepayments in a quarter;
- changes in accounting rules;
- changes in prevailing interest rates;
- general changes to the Canadian, United States and global economies; and
- political conditions or events.

Callidus bases its current and future operating expense levels and its lending and investment plans on estimates of future net income, origination activity and rates of growth. Callidus expects to achieve growth and, as a result, that its expenses will increase in the future, Callidus may not be able to adjust its spending quickly enough to compensate for its actual performance that falls short of Callidus' expectations. Any shortfalls in Callidus' net income, origination activity, or in its expected growth rates, could have a Material Adverse Effect on the Corporation.

Change in Interest Rates

As at December 31, 2016, all of the loans in the Loan Portfolio had fixed interest rates. Changes in market interest rates may cause the fair value or future cash flows of a financial instrument to fluctuate.

Additional Indebtedness of Borrowers

Callidus' lending criteria are based on the making of demand loans on a first lien (senior secured), collateralized basis. Callidus does, however, seek to provide flexible and innovative loan structuring and, to the extent a borrower is permitted to incur other debt secured by certain assets that ranks equally with, or senior to, the loans made by Callidus, such debt may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which the Callidus debt is serviced. The rights Callidus may have with respect to the collateral securing the loans it provides may also be limited pursuant to the terms of one or more intercreditor agreements with the holders of senior debt. Typically, an intercreditor agreement will provide various rights and remedies to the holder of a first priority lien during the time it is outstanding, which may result in Callidus failing to be repaid outstanding principal and interest owed to it and 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 affected loans, which could have a Material Adverse Effect on the Corporation.

Control over Borrowers

Callidus is generally not in a position to exercise control over its borrowers. Furthermore, Callidus does not intend to take controlling equity positions in its borrowers. The lack of liquidity of debt positions that Callidus typically holds in its borrowers results in the risk that Callidus may not be able to dispose of its exposure to a

borrower in the event that Callidus disagrees with the actions of that company. This could have a Material Adverse Effect on the Corporation.

Securities of Borrowers

Callidus lends almost exclusively to private companies. The securities issued by these companies will be subject to legal and other restrictions on resale or will be otherwise less liquid than publicly traded securities. To the extent Callidus receives, or takes security in, any form of securities issued by private companies, it may be difficult for Callidus to dispose of such holdings if the need arises. Furthermore, if Callidus is required to liquidate all or a portion of the securities it holds in an illiquid company, it may realize significantly less than the value at which it had previously recorded its holdings.

Monitoring, Enforcement and Liquidation Procedures

From time to time, Callidus will be required to take enforcement proceedings with respect to non-performing loans and may be required to liquidate a borrower's assets. Enforcement and liquidation proceedings can be time consuming and, if a sufficient number of loans require enforcement, management's attention may be diverted from the day to day operations or from pursuing its growth strategy and the Corporation may incur significant expenses that cannot be recovered.

In connection with managing and monitoring the Loan Portfolio, Callidus has a "watch list" system whereby a borrower with a deteriorating financial condition, or that otherwise meets certain criteria, is closely monitored by Callidus with a view to Callidus taking a proactive approach to ensuring the borrower's compliance with the terms and obligations of its loan and managing the risk of default. There can be no assurance that Callidus' watch list procedures will successfully identify borrowers at risk of defaulting on, or failing to comply with, their obligations, or that enhanced scrutiny by Callidus of borrowers on the watch list will be sufficient to prevent a borrower's default on its loan obligations.

At any given time loans to borrowers, including but not necessarily limited to those placed on a watch list by management, may represent a risk of a loss to Callidus. Such situations could arise where the value of the collateral of a borrower falls below the outstanding loan balance, or where a borrower has otherwise failed to comply with its obligations. In appropriate cases, management will take a specific loan loss provision to reflect the potential loss on the loan that could be expected through a workout situation or a liquidation scenario. Borrowers on the watch list or loans subject to a loan loss provision may be, and often are, still performing for Callidus with respect to their contractual monthly interest payments.

Credit Facilities

Pursuant to the Credit Agreement, Callidus borrowed \$50 million as a Term Loan as at December 31, 2016. Pursuant to the New Revolving Credit Facility, which provided for an aggregate of US\$281million of Class A Loans and US\$56 million of Class B Loans, as at December 31, 2016, Callidus had \$75 million outstanding. Pursuant to the New Securitization Facility, Callidus had US\$75 million outstanding at December 31, 2016. Lastly, pursuant to the US\$250 million Bridge Facility, as at December 31, 2016, Callidus had US\$250 million outstanding. If Callidus' cash flow and capital resources are insufficient to service amounts owed under its Credit Facilities or any future indebtedness, Callidus may be forced to reduce or delay funding of new loans, dispose of assets, issue equity, or incur additional debt to obtain necessary funds. Alternatively, Callidus may be required to restructure its debt, all of which could have a Material Adverse Effect on the Corporation. In addition, Callidus cannot guarantee that it would be able to carry out any of the foregoing on terms acceptable to Callidus (or at all), that such actions would be permitted under the terms of the Credit Facilities, or that such actions would enable Callidus to continue to satisfy its capital requirements.

In addition, Callidus has not yet determined whether it will renew, extend or replace the Credit Facilities upon their respective maturities, or whether such a renewal, extension or replacement will be available on terms that are as favourable as the current Credit Facilities. Callidus' ability to renew, extend or replace the Credit Facilities may be constrained by the then-current economic conditions affecting credit markets. A failure by Callidus to renew, extend or replace the Credit Facilities at their maturity dates could have a Material Adverse Effect on the Corporation.

The Credit Facilities also contain financial and non-financial covenants (See “*Debt Financing*”). Complying with such covenants may at times necessitate that Callidus forego other favourable business opportunities, such as granting additional loans. Moreover, Callidus’ failure to comply with any of these covenants may constitute a default under some or all of the Credit Facilities and could result in the acceleration of some or all of Callidus’ then outstanding indebtedness. Such an acceleration could have a Material Adverse Effect on the Corporation.

If Callidus’ defaults under the Credit Facilities, Callidus’ secured creditors (and their agents) may be contractually entitled to direct sales of Callidus’ assets and investments, and may be expected to do so in a manner that prefers the interests of the secured and priority creditors over the interests of the Corporation’s shareholders. Holders of Common Shares will incur losses if the proceeds from a sale by Callidus’ secured and priority creditors, after payment in full of amounts due to such creditors (together with any associated costs and expenses), are insufficient to repay the respective amounts invested by each shareholder. As a result, investors in the Common Shares could experience a total loss of their investment.

See also “*Risk Factors – Risks Relating to Callidus’ Operations – Use of Leverage*”.

Lack of Funding

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, third party debt and equity. Callidus intends to fund new loans using (i) Debt Capital; (ii) Growth Capital; and (iii) funds received from the Catalyst Funds pursuant to the Participation Agreement. As at December 31, 2016, proforma for the asset held for sale transaction subsequent to year-end and for the substantial issuer bid, Callidus had liquidity of \$263 million available to fund new loans, subject to borrowing base availability.

Concentration of Debt Financing Sources

Callidus has obtained some of its debt financing from a limited number of financial institutions. Callidus’ reliance on such entities for a significant amount of its funding exposes it to funding concentration risks. If the limited number of entities acting as lender to Callidus decide to terminate the Credit Facilities, such termination could have a Material Adverse Effect on the Corporation.

Use of Leverage

Callidus makes use of borrowed money to fund part of its loan origination and to pay various other operational expenses. The use of leverage magnifies the potential gains and losses from an investment and increases the risk of loss of capital. To the extent that income generated by the Loan Portfolio is greater than the cost of servicing the Corporation’s debt, Callidus’ net income will be greater than if borrowing had not been used. Conversely, if income from lending activities financed with borrowed funds is insufficient to cover the cost of borrowing, Callidus’ net income will be less. The ability of Callidus to service any of its current or future outstanding debt depends largely on its financial performance and is subject to prevailing economic conditions and competitive pressures. The amount of leverage that Callidus employs at any particular time will depend on its assessments of market and other factors at such time.

As a result of Callidus’ use of leverage:

- the Common Shares may be exposed to incremental risk of loss and a decrease in the value of its Loan Portfolio would have a greater negative impact on the value of the Common Shares than if Callidus did not use leverage;
- adverse changes in interest rates could reduce or eliminate the incremental income Callidus receives from the proceeds of any leverage;
- Callidus and, indirectly, its shareholders, bear the entire cost of paying interest and repaying any borrowed funds;

- Callidus' ability to pay dividends on its Common Shares may be restricted by covenants or other restrictions imposed by its lenders. See "*Debt Financing*" and "*Risk Factors – Risks Relating to Callidus' Operations – Credit Facilities*";
- Callidus' ability to amend its organizational documents or other agreements may be restricted if such amendments would result in a material adverse effect on its lenders; and
- Callidus may, under some circumstances, be required to dispose of its loan assets under unfavourable market conditions in order to maintain its leverage, thus causing Callidus to recognize a loss that might not otherwise have occurred.

The extent to which the gains and losses associated with leveraged investing are increased will generally depend on the degree of leverage employed. Callidus generally targets a leverage ratio of between 50% - 60% to total loan assets.

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 continue to expand 'Callidus Lite' and to further expand in the United States ABL industry. The United States 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 United States. If the expansion of the 'Callidus Lite' product or the growth in the United States 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.

Inability to Realize Potential Benefits from Growth

Callidus' inability to realize the potential benefits from its growth strategy may adversely impact its operating results. Callidus' ability to realize such benefits will be based on its management of growth and will require it to continue to build its operational, financial and management controls, human resource policies, and reporting systems and procedures. Callidus' ability to manage its growth will depend in large part upon a number of factors, including the ability of Callidus to rapidly:

- secure additional sources of funding to fund new loans, while maintaining a prudent capital structure for Callidus;
- significantly expand Callidus' internal operational and financial controls so that it can maintain control over operations and provide support to other functional areas as the number of personnel and size of its business increases;
- attract and retain qualified personnel in order to continue to develop Callidus' origination platforms and provide services that respond to evolving customer needs; and

- develop support capacity for customers as sales increase, so that Callidus can provide post-sales support without diverting resources from origination efforts.

Callidus' inability to achieve any of these objectives could have a Material Adverse Effect on the Corporation.

Management and Employees

Callidus' success and ability to compete are dependent on its continuing ability to identify, attract, hire, train, retain and motivate highly qualified management and employees with relationships and referral sources, an understanding of the ABL businesses, and knowledge of the industries in which Callidus' borrowers operate. Many of the financial institutions with which Callidus competes for experienced personnel may be able to offer more attractive terms of employment. If any of Callidus' key origination personnel were to cease their employment with Callidus, Callidus' origination volume may decline or cease. In addition, Callidus invests significant time and expense in training its employees, which increases their value to competitors who may seek to recruit them, and increases the costs of replacing them. These factors could have a Material Adverse Effect on the Corporation. See also "*Risk Factors – Risks Relating to Callidus' Operations – Reliance on Certain Individuals and the Management Services Agreement*".

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.

Foreign Currency and Hedging Transactions

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 offset partially by U.S. dollar amounts outstanding under its Credit Facilities. 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 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 at an acceptable price.

Callidus makes use of certain derivative instruments, primarily forward contracts 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.

Failure of Computer and Data Processing Systems

Callidus is dependent upon the successful and uninterrupted functioning of its computer and data processing systems to monitor the Loan Portfolio, conduct its day-to-day operations and identify new business opportunities. The failure of these systems could interrupt operations or materially impact Callidus' ability to originate and service its Loan Portfolio and conduct its day-to-day business operations.

Cyber-Security Risks and Incidents

Callidus maintains confidential information regarding its borrowers, business plans, strategy and potential origination opportunities in its computer systems. Callidus also maintains an internet website. Despite the implementation of network security measures, this infrastructure may be subject to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. A security breach of computer systems could disrupt operations, damage reputation, result in legal or regulatory liability, and/or have a Material Adverse Effect on the Corporation.

Material Non-Public Information

Callidus' management or employees, and their respective affiliates, may serve as directors of, or in a similar capacity with, its borrowers. In the event that material non-public information is obtained with respect to its borrowers, such persons may become subject to trading restrictions under the internal trading policies of those companies or as a result of applicable law or regulations. As a result, Callidus could be prohibited for a period of time from selling the securities of a borrower, to the extent it owns any, and such a prohibition could have a Material Adverse Effect on the Corporation.

Payment In Kind Interest

Some of the loans made by Callidus contain a PIK interest provision. Loans with a PIK provision carry additional risk as the Corporation will not receive cash until such time as the "cash payment date" is reached (unless a portion of such loan is sold). If a borrower whose loan contains a PIK provision defaults, Callidus may obtain no return on its investment.

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.

Risks Relating to the Market

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.

Market Price of the Common Shares

The market price for the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond Callidus' control, including the following:

- actual or anticipated fluctuations in Callidus' quarterly results of operations, including changes in earnings or variations in operating results;
- changes in the value of Callidus' portfolio of investments;
- recommendations by securities research analysts;
- operating performance and, if applicable, share price performance of Callidus' competitors;
- addition or departure of Callidus' management and other key personnel;
- expiration of lock-up or other transfer restrictions on outstanding Common Shares;
- sales of additional Common Shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Callidus or its competitors;
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related industry and market issues;
- funding decisions by the Catalyst Funds pursuant to the Participation Agreement; and
- loss of a major funding source.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities and that have often been unrelated to the operating performance, underlying asset values or business prospects. Accordingly, the market price of the Common Shares may decline even if Callidus' operating results, underlying asset values or business prospects have not changed. There can be no assurance that continuing fluctuations in share price and volume will not occur, which could have a Material Adverse Effect on the Corporation.

Dividend Policy

There can be no assurance that the Corporation's revenues or earnings will enable the Corporation to continue to pay quarterly dividends or any dividends at all. If the Corporation does not continue to pay dividends, the Corporation's shareholders will not be able to receive a return on their Common Shares unless they sell them. The market value of the Common Shares may deteriorate if the Corporation is unable to meet its dividend targets in the future, and that deterioration may be material. In addition, the composition of cash dividends for tax purposes may change over time and may affect the after-tax return for investors.

The declaration and payment of dividends on the Common Shares is at the discretion of the Board. The amount and timing of any future dividends will be at the discretion of the Board after taking into account such factors as the Corporation's financial condition, results of operations, current and anticipated cash needs, the satisfaction of solvency tests imposed by the corporate law for the declaration and payment of dividends, restrictions on dividend payments imposed by the Credit Facilities, the requirements of any future financing agreements and other factors that the Board may deem relevant. See "*Dividends and Distributions*".

Future Capital Requirements and Dilution

Callidus may need to raise additional funds through public or private debt or equity financings in order to:

- fund ongoing operations;

- take advantage of opportunities, including more rapid expansion of Callidus' business or the acquisition of complementary businesses; or
- respond to competitive pressures.

Any additional capital raised through the sale of equity will dilute Callidus' existing shareholders' percentage ownership of Common Shares. Capital raised through debt financing would require Callidus to make periodic interest payments and may impose restrictive covenants on the conduct of Callidus' business. Furthermore, such financings may not be available on terms favourable to Callidus, or at all. A failure to obtain funding could prevent Callidus from making expenditures that may be required to implement Callidus' growth strategy and grow or maintain Callidus' operations.

While Callidus believes that its capacity to expand the existing Credit Facilities and access the equity markets will be sufficient to fund future originations and its normal operating and capital expenditures, as Callidus grows, this ability to access necessary capital cannot be assured.

Future Sales of Common Shares by Existing Shareholders

Sales of a substantial number of Common Shares in the public market could occur at any time. These sales, or the market perception that the holders of a large number of Common Shares intend to sell Common Shares, could reduce the market price of the Common Shares. If this occurs and continues, it could impair Callidus' ability to raise additional capital through the sale of securities.

Certain Common Shares issued under the IPO and currently outstanding are subject to a lock-up period. Upon expiration of such lock-up period, such Common Shares will be freely tradable in the public market, subject to the provisions of applicable securities laws. See "Securities Subject to Contractual Restrictions on Transfer."

The Catalyst Funds are private equity funds. As with all similar funds, each of the Catalyst Funds has a specified period in which it invests committed capital, followed by a period in which it disposes of those investments, distributes proceeds to investors and, ultimately, dissolves. Accordingly, after the termination of their respective investment periods, each of the Catalyst Funds will undertake a process of disposing of any interest it may have in Callidus at that time. The investment period for Catalyst Fund II has terminated and the fund is in the process of disposing of its investments. The current term of the fund expires in November 2017. If further extensions are necessary to facilitate an orderly disposition of Catalyst Fund II's investments, such extensions can be granted with the approval of investors, however there can be no assurance that any such extension would be approved. Accordingly, Catalyst Fund II, which, as of December 31, 2016, held 4,453,810 Common Shares, may be required to dispose of its holdings as early as November 2017. The current term of Catalyst Fund III and Catalyst Fund IV expire in 2019 and 2022, respectively, although, in each case extensions may be granted with the approval of investors and the funds will then have an additional period to dispose of their assets (subject to certain extensions).

Inaccurate or Unfavourable Research

The trading market for Common Shares relies in part on the research and reports that securities analysts and other third-parties choose to publish about Callidus. Callidus does not control these analysts or other third-parties. The price of the Common Shares could decline if one or more securities analysts downgrade Callidus or if one or more securities analysts or other third-parties publish inaccurate or unfavourable research about Callidus or cease publishing reports about Callidus.

DIVIDENDS AND DISTRIBUTIONS

The declaration and payment of dividends on the Common Shares is at the discretion of the Board and is determined based on Callidus' earnings, financial requirements for Callidus' operations, the satisfaction of solvency tests imposed by the corporate law for the declaration and payment of dividends, restrictions on dividend payments imposed by the Credit Agreement and other relevant factors. See "*Risk Factors*".

During the year ended December 31, 2015, the Corporation declared distributions of \$0.175 per Common Share on September 30, 2015 and December 31, 2015, which were paid on October 20, 2015 and January 20, 2016,

respectively. During the year ended December 31, 2016, the Corporation declared and subsequently paid the following dividends:

Date Declared	Date Paid	Dividend per Common Share
March 21, 2016	April 20, 2016	\$0.175
April 18, 2016	May 20, 2016	\$0.0583
May 17, 2016	June 20, 2016	\$0.0833
June 16, 2016	July 20, 2016	\$0.0833
July 15, 2016	August 19, 2016	\$0.0833
August 17, 2016	September 20, 2016	\$0.0833
September 16, 2016	October 20, 2016	\$0.0833
October 17, 2016	November 18, 2016	\$0.10
November 17, 2016	December 20, 2016	\$0.10

Currently, the Corporation's current dividend policy targets a monthly dividend payment of \$0.10 per Common Share. Each dividend declared is approved by resolution of the Board. Callidus provides notification of each dividend via press release and newspaper publication of the record date. The Corporation has in place a dividend reinvestment plan. See "*Description of Capital Structure - Dividend Reinvestment Plan*".

DESCRIPTION OF CAPITAL STRUCTURE

Common Shares

The Corporation is authorized to issue an unlimited number of Common Shares, of which 49,916,781 Common Shares were issued and outstanding as at December 31, 2016.

The holders of Common Shares are entitled to receive notice of, and to cast one vote per share at, every meeting of shareholders of the Corporation, to receive such dividends as the Board may declare and to share equally in the assets of Callidus remaining upon the liquidation of Callidus after the creditors of Callidus have been satisfied, subject to prior rights of holders of Preferred Shares.

Preferred Shares

The Corporation is authorized to issue an unlimited number of Preferred Shares, issuable in series. No Preferred Shares were issued or outstanding as at December 31, 2016.

The Preferred Shares will be issuable in series, with each series consisting of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the Board prior to the issuance thereof. With respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, the Preferred Shares are entitled to preference over the Common Shares and any other shares ranking junior to the Preferred Shares and may also be given such other preference over the Common Shares and any other shares ranking junior to the Preferred Shares as may be determined at the time of creation of each series.

Incentive Plan

Effective April 11, 2014, the Board approved an amended and restated incentive plan (the “**Incentive Plan**”) to comply with TSX listing requirements and to allow for the issuance of Options and deferred share units (“**DSUs**”). All Options and DSUs are governed by the Incentive Plan.

The Incentive Plan is intended to provide the Corporation with share-related mechanisms to attract, retain and motivate qualified directors, employees, officers and consultants (“**Eligible Persons**”), to reward such of those Eligible Persons as may be granted equity-based compensation under the Incentive Plan by the Board from time to time for their contributions toward the long term goals and success of the Corporation, and to enable and encourage such directors, employees and consultants to acquire Common Shares as long term investments in the Corporation. The Incentive Plan will permit both Options and DSUs to be granted (collectively, the “**Grants**”). Previous Grants are taken into account when considering new Grants.

Options

The Board may from time to time authorize grants of Options upon such terms and conditions as it may determine in accordance with the terms of the Incentive Plan. The exercise price of all Options is set forth in an option certificate in respect of such Option and is not be less than the market value of the shares as at the date the Option was granted (being the closing price of the Common Shares on the last trading day immediately preceding the date the option was awarded). In no case will the market value be less than the minimum prescribed by any relevant stock exchange or regulator.

The vesting schedule for any Option outstanding under the Incentive Plan is determined by the Board, provided that the Option will vest over a certain period of time or upon the occurrence of certain events (for example, the Board may determine that a particular Option shall be only exercisable after a triggering event).

Unless otherwise determined by the Board or in the case of death, disability, or ceasing to be an Eligible Person, all Options outstanding under the Incentive Plan will expire on the date so fixed by the Board at the time the particular Option are granted, provided that such date will be no later than the tenth anniversary of the date the Options were awarded pursuant to the Incentive Plan. If the expiry date for an Option falls within a blackout period or within ten business days after the date the blackout period expires, the expiry date will be the date which is ten days after the blackout period expiry date.

DSUs

The Board may from time to time authorize grants of DSUs upon such terms and conditions as it may determine in accordance with the terms of the Incentive Plan. In addition, independent directors can elect to receive up to 50% of their compensation as DSUs. Only independent directors are eligible to receive director’s DSUs under the Incentive Plan. Each grant constitutes an agreement to deliver Common Shares, cash or other consideration to the participant in the future in consideration of the performance of services after the participant’s term of directorship ends. During the deferral period, the participant does not have any right to transfer the rights associated with the DSUs and has no ownership or voting rights with respect to the DSU or the underlying shares associated with DSUs.

Key Features of the Incentive Plan

The key features of the Incentive Plan are as follows:

- Issuances
 - Subject to adjustment as provided for in the Incentive Plan, and any subsequent amendment to the Incentive Plan, the number of Common Shares reserved for issuance and which will be available for purchase pursuant to Grants under the Incentive Plan will be 10% on a rolling basis. If any Grant expires or otherwise terminates for any reason without having been exercised in full, or is exercised in full, the number of Common Shares in respect of which such Grant expired, terminated, or was exercised in full, as the case may be, will again be available for the purposes of the Incentive Plan.

- In no case will the Grant under the Incentive Plan, together with any proposed or previously existing security based compensation arrangement, result in (in each case, as determined on the grant date): (i) the number of Common Shares reserved for issuance pursuant to Grants to insiders exceeding 10% of the Corporation's issued and outstanding Common Shares (on a non-diluted basis) and (ii) the issue to insiders, within any one-year period, of a number of Common Shares exceeding in the aggregate 10% of the Corporation's issued and outstanding Common Shares (on a non-diluted basis).
- The number of Common Shares reserved for issuance to non-employee Directors under the Incentive Plan shall not exceed (i) for all non-employee directors, in the aggregate, a maximum of 1% of the number of outstanding Common Shares; and (ii) on an individual non-employee director basis, Grants per non-employee director in any one calendar year having a maximum aggregate value of \$100,000 at the time of the Grants (other than Grants under the Incentive Plan to a non-employee director in the year of his or her initial appointment to the Board).
- Termination
 - With cause: any Grant held by such person will expire on the date on which he or she ceased to be an Eligible Person.
 - Without cause: the expiry date for any vested Option or portion of an Option will be the earlier of the date fixed by the Board at the time of the issuance of the Option, and 60 days following the date that the person ceased to be an Eligible Person, provided that no such Option may be exercised past its original expiry date. All DSUs previously granted to such person will become vested and will be redeemed and paid out.
 - Death/disability: In the event of the death or permanent disability of an Eligible Person prior to the expiry time of an Option, any vested Option or portions of an Option will expire on the date that is one year after the date of the Option holder's death or permanent disability, as applicable, provided that no such Option may be exercised past its original expiry date. The expiry date for any unvested portion of the Option will be, in the case of death, the date of death, and in the case of permanent disability, unless the Board determines otherwise, the date on which the option holder is no longer able to perform his or her duties by reason of the disability. All DSUs previously granted to such person will become vested on death or permanent disability and will be redeemed and paid out.
 - Except in the case of death, the expiry date for any unvested portion of any Option held by an Eligible Person will be the date such person ceases to be an Eligible Person.
- Other
 - Grants are not transferable or assignable.

Amendments to the Incentive Plan

The following amendments to the Incentive Plan require the approval of shareholders of the Corporation:

- any change to the maximum number of Common Shares issuable, either as a fixed number or a fixed percentage of the Corporation's outstanding Common Shares;
- any amendment which reduces the exercise price of any Option, other than an adjustment pursuant to the Incentive Plan;

- any amendment which would change the number of days in respect of the blackout period of the Incentive Plan with respect to the extension of the expiration date of Options expiring during or immediately following a blackout period;
- any amendment which extends the expiry date of an Option other than as then permitted under the Incentive Plan;
- any amendment which cancels any Option and replaces such Option with an Option which has a lower exercise price, other than an adjustment pursuant to the Incentive Plan;
- any amendment which would permit Options to be transferred or assigned;
- any amendment to increase the limits on Grants that may be issued to insiders; and
- any amendment in respect of the amending provision of the Incentive Plan.

As of December 31, 2016, the Corporation had 2,217,484 options to acquire Common Shares under the Incentive Plan issued and outstanding, which upon exercise in accordance with the terms of the Incentive Plan will result in the issuance of an additional 2,217,484 Common Shares. As of December 31, 2016 the Corporation had 11,581 DSUs issued and outstanding, which upon exercise in accordance with the terms of the Plan may result in the issuance of up to an additional 11,581 Common Shares. The decision as to whether to settle DSUs in cash or in Common Shares will be at the sole discretion of the Board (or a committee thereof) at the time of settlement.

Normal Course Issuer Bid

On May 12, 2015, the Corporation announced that the TSX had accepted the Corporation's notice of intention to undertake a normal course issuer bid (the "NCIB"). Under the terms of the NCIB, the Corporation may acquire up to 2,561,396 Common Shares, representing 5% of the issued and outstanding Common Shares as at May 11, 2015. For the purposes of conducting the NCIB, the Corporation entered into an automatic share purchase plan with GMP Securities L.P. All Common Shares purchased under the NCIB are purchased on the open market through the facilities of the TSX in accordance with the rules, regulations and policies of the TSX and are cancelled. The prices that the Corporation pays for the Common Shares purchased is the market price of the shares at the time of acquisition, determined in accordance with the rules of the TSX. The NCIB began on May 19, 2015 and ended on May 18, 2016. As at December 31, 2016, the Corporation had purchased for cancellation an aggregate of 2,561,396 Common Shares at a weighted average price per Common Shares of \$13.33.

On January 25, 2017, Callidus announced that had accepted the Corporation's notice of intention to undertake a normal course issuer bid ("2017 NCIB"). Under the terms of the 2017 NCIB, the Corporation may acquire up to 2,495,839 Common Shares, representing 5% of the issued and outstanding Common Shares as at January 16, 2017. For the purposes of conducting the 2017 NCIB, the Corporation will into an automatic share purchase plan with GMP Securities L.P. All Common Shares purchased under the 2017 NCIB are purchased on the open market through the facilities of the TSX in accordance with the rules, regulations and policies of the TSX and are cancelled. The prices that the Corporation pays for the Common Shares purchased is the market price of the shares at the time of acquisition, determined in accordance with the rules of the TSX. The 2017 NCIB began on January 27, 2017 will terminate on the earlier of January 26, 2018 or on the date on which the maximum number of common shares that can be acquired pursuant to the 2017 NCIB have been purchased. As at the date hereof, the Corporation has not made any purchases under the 2017 NCIB.

Substantial Issuer Bid

On March 30, 2016, Callidus announced the Substantial Issuer Bid. The Substantial Issuer Bid expired on December 29, 2016. Callidus took up and paid for a total of 2,849,604 Common Shares under the Substantial Issuer Bid at \$16.50 per Common Share, or \$47,018,466.

Dividend Reinvestment Plan

On September 21, 2015, the Corporation adopted a dividend reinvestment plan (the "DRIP") that provides eligible holders of Common Shares with a means to purchase additional Common Shares ("Plan Shares") by

reinvesting their cash dividends without payment of brokerage commissions or service charges. The Plan Shares will be purchased on the open market unless the Corporation elects to issue shares from treasury. If purchased on the open market, the price of such shares will be the average price paid per Plan Share for all Plan Shares purchased during the three business days following the relevant dividend payment date. If the Corporation elects to issue Plan Shares from treasury, such shares will be purchased under the DRIP at a 5% discount of the average closing price of the Common Shares on the TSX for the five consecutive trading days immediately prior to the applicable dividend payment date.

DEBT FINANCING

Credit Agreement

On April 23, 2014, the Corporation and a Canadian financial institution entered into a second amended and restated credit agreement (the “**Credit Agreement**”) providing for a \$50 million term loan, further described below. All obligations under the Credit Agreement are secured by a first-priority charge on all the present and future assets of Callidus, including the Loan Portfolio and any other loans owned by Callidus. The Credit Agreement provides for a term to March 31, 2017. If Callidus sells certain assets, including some loans, it is required to apply the proceeds from such sale toward the revolving facility. Notwithstanding the stated termination date, the Senior Lenders may refuse to make further advances and accelerate the payment of all obligations under the Credit Agreement upon the occurrence of an event of default under the Credit Agreement.

The Credit Agreement contains customary representations, warranties, covenants, conditions to funding and events of default. In particular, the Credit Agreement contains restrictive covenants with respect to certain business matters, including among others:

- restrictions on the payment of dividends if such payment would cause the financial covenants set out in the Credit Agreement to not be met. Such financial covenants include, among others, the maintenance of an asset coverage ratio of at least 1.00:1.00, a senior debt service coverage ratio of at least 2.00:1.00 and a total debt service coverage ratio of at least 1.00:1.00; and
- restrictions limiting the additional debt that Callidus may incur to: (i) debt under the Credit Agreement; (ii) debt in respect of purchase money security interests granted by Callidus in an amount not to exceed \$1 million in the aggregate and any renewal or refinancing of such debt; (iii) foreign exchange forward contracts permitted by the Credit Agreement; and (iv) debt ranking junior in priority and fully subordinated and postponed to debt incurred pursuant to the Credit Agreement.

In addition, the Credit Agreement defines certain events of default with reference to Newton Glassman’s continued involvement with Callidus and CCGI’s ownership stake in Callidus and provides that events of default under the Credit Agreement include, among others, (i) the ownership of more than 35% of the voting equity of Callidus by a person other than Newton Glassman, CCGI, or investment funds managed by CCGI; or (ii) certain events of bankruptcy with respect to CCGI.

Upon the occurrence of an event of default and subject to any required notice and grace periods, payment of amounts owed by Callidus pursuant to the Credit Agreement may be accelerated and outstanding advances will incur additional interest at a rate of 2.00% per annum.

Revolving Credit Facility

On December 19, 2013, the Corporation 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 Revolver was available in either Canadian dollar or U.S. dollar advances, and bore interest at bank prime plus a margin or, at the Corporation'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 Corporation. In connection with the IPO, the Revolving Credit Facility was repaid in full.

Term Loan

The Credit Agreement provides for a term loan in the principal amount of \$50 million (the “**Term Loan**”) to Callidus. As at December 31, 2016, the total amount owing by Callidus under the Term Loan was \$50million plus accrued interest.

The Term Loan is a secured non-revolving term loan and was extended in March 2017 to the earlier of (i) completion of the Privatization Process and (ii) September 30, 2017. The Term Loan bears interest at a fixed rate of 8.419% per annum, based on Government of Canada Bond rate at the time of issuance plus 5.75%, calculated and compounded on a semi-annual basis and payable monthly in arrears. The Term Loan may be repaid in whole or in part prior to maturity upon payment of the principal and accrued and unpaid interest. The loan has a first priority charge over a portion of the assets of the Corporation. The Corporation was in compliance with its financial covenants at December 31, 2016 and December 31, 2015.

New Revolving Credit Facility

On April 10, 2014, the Corporation, CCC Funding Corporation, and certain financial institutions entered into a loan financing and servicing agreement (the “**New Revolving Credit Facility**”) that provided for a revolving credit facility in an amount up to US\$200 million. In January 2015, the facility limit was increased to US\$262.5 million. The increased facility provides for an aggregate of approximately US\$219 million of Class A loans (the “**Class A Loans**”) and approximately \$US44 million of Class B loans (the “**Class B Loans**”, and together with the Class A Loans, the “**Loans**”), and each of the Loans is subject to a minimum utilization of 50%, measured quarterly. On January 15, 2015, two major Canadian Schedule I banks joined the syndicate of lenders, committing an additional US\$62.5 million, increasing the New Revolving Credit Facility to US\$262.5 million in the aggregate. In April 2015, the Company increased the amount of its existing Revolving Credit Facility by US\$37.5 million to US\$300 million in the aggregate. Again in May 2016, the company increased the amount by US\$37.5 million to US\$337.7 million in the aggregate. In January 2017, the Company decreased the amount of the revolving credit facility to US\$275 million, with an expandable feature to increase it to US\$325 million. All other terms remain substantially unchanged.

This revolving credit facility was extended to CCC Funding Corporation in order to finance its purchase of certain loans or portions thereof in the Loan Portfolio. Callidus acts as sole servicer to CCC Funding Corporation.

The Loans are secured by a portion of the Loan Portfolio. The New Revolving Credit Facility contains customary representations, warranties, covenants, conditions to funding and events of default. The lender may terminate the New Revolving Credit Facility upon the occurrence of an event of default under the New Revolving Credit Facility.

In respect of Class A Loans, the sum of the 3-month Banker’s Acceptance Rates or LIBOR and 2.75%; and in respect of Class B Loans, the sum of the 3-month Banker’s Acceptance Rates or LIBOR and 6.25%. In addition, there is an upfront fee of 1% of each of any Class A Loan amount and Class B Loan amount, as applicable.

The revolving period will be for an initial period of two years (and may be extended upon the mutual agreement of the Borrower and the administrative agent under the New Revolving Credit Facility) and the amortization period will be for a period of two years following the last day of the revolving period. There is a non-call period to the end of the revolving period, provided that if Callidus has requested an extension to the facility and the lender has denied the request, Callidus may pre-pay the facility with no penalty.

The acquisition of any collateral obligation by Callidus must be approved by Deutsche Bank AG in its sole discretion based on certain information provided by Callidus to the lender. Each collateral obligation is subject to a maximum amount of the outstanding balance of the Loans multiplied by the percentage of par determined by the lender following the occurrence of certain revaluation events, including but not limited to the payment default of interest or principal amount on such collateral obligation or other debt obligation that is senior or *pari passu* to such collateral obligation. The maximum aggregate collateral obligation amount is the sum of all collateral obligation amounts minus amounts in excess of the following limits, among others (expressed as a percentage sum of the

aggregate collateral obligation amount of all collateral obligations): (i) for minimum first lien loans: 100%; (ii) for obligor exposures: 10% for the top three obligors, 7.5% for the fourth and fifth largest obligors, and 5% for remaining obligors; and (iii) for industry exposures: 20% for the largest industry, 15% for the second and third largest industry, 12.5% for the fourth largest industry, and 10% for the remaining industries.

The borrowing base will be: (i) for Class A Loans, 50% of the eligible aggregate collateral obligation amount; and (ii) for Class B Loans, 60% of the eligible aggregate collateral obligation amount. CCC Funding Corporation will maintain a minimum equity amount of the greater of (i) the principal balance of the four largest obligors and (ii) US\$50 million.

The lender's consent will be required in connection with any material modification of a collateral obligation included in the borrowing base.

Bridge Facility

On December 23, 2014 Callidus announced that it had finalized the terms of a US\$200 million unsecured subordinated bridge facility extended by funds managed by CCGI (the "**Bridge Facility**"). The Bridge Facility is subordinated to the Corporation's other Credit Facilities. The Bridge Facility carries an interest rate of 8% per annum. In addition, the Catalyst Funds are entitled to a fee equal to 1.5% of the maximum amount available under the Bridge Facility on the first anniversary of the Bridge Facility; a fee equal to 0.625% of the maximum amount available under the Bridge Facility payable on the second anniversary of the Bridge Facility; and a standby fee equal to 1% per annum of the average undrawn amounts over the applicable calendar year. The Bridge Facility has a term of 29 months and is prepayable by Callidus at any time without penalty, so long as such repayment does not breach any obligation under the Corporation's other Credit Facilities. The Bridge Facility contains customary representations, warranties, covenants, conditions to funding and events of default. In particular, the Bridge Facility contains financial covenants, including among others:

- the maintenance by Callidus of a total senior debt to funded asset ratio of no greater than 0.65:1.00; and
- restrictions limiting the additional debt that Callidus may incur to debt incurred in relation to the other Credit Facilities.

In addition, the Bridge Facility provides that events of default include, among others, (i) if investment funds managed by CCGI cease to hold a certain percentage of the voting equity of Callidus; or (ii) certain events of bankruptcy with respect to Callidus. Upon the occurrence of an event of default and subject to any required notice and grace periods, payment of amounts owed by Callidus pursuant to the Bridge Facility may be accelerated.

In September 2015, the Corporation increased the amount of its revolving unsecured Bridge Facility from Catalyst by US\$50 million to US\$250 million. All other terms remain unchanged.

Approximately US\$250 million had been drawn under the Bridge Facility as of December 31, 2016.

The independent directors reviewed the terms of the Bridge Facility and concluded that they are consistent with the terms applicable between arm's length parties for similar unsecured, subordinated credit facilities.

In March 2017, the Company extended the maturity of the Bridge Facility to October 31, 2017.

New Securitization Facility

On December 1, 2016, Callidus announced that it had closed a new securitization facility (the "**New Securitization Facility**"). The C\$167 million (US\$125 million) facility has four investment grade debt tranches ranging from AAA (sf) to BBB (sf), which represents approximately 60% of the initial issue size. Rates under the New Securitization Facility represent an approximate 2% reduction in Callidus' cost of funds, compared with the rates Callidus is paying under the current financing facilities. The proceeds from the New Securitization Facility were used to partially repay outstanding amounts under the existing facilities.

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares are currently listed on the TSX under the trading symbol “CBL”. The following table sets forth the reported intraday high and low prices and the trading volume for the Common Shares on the TSX during the period indicated.

	<u>Month</u>	<u>Toronto Stock Exchange</u>		
		<u>High</u>	<u>Low</u>	<u>Volume</u>
2016				
	January	9.00	7.63	2,221,415
	February	8.86	7.59	1,145,748
	March	13.75	8.43	2,410,916
	April	13.95	12.47	4,506,692
	May	15.50	13.28	2,291,342
	June	16.31	14.48	1,146,089
	July	16.89	15.77	1,628,171
	August	16.83	16.00	1,080,612
	September	16.76	16.11	645,178
	October	17.49	16.45	850,606
	November	18.43	17.04	671,370
	December	18.98	17.90	573,535

Prior Sales

Common Shares

The following table summarizes details of the Common Shares issued by the Corporation during and since the end of the Corporation’s most recently completed financial year:

<u>Date of Issue/Grant</u>	<u>Price per Security</u>	<u>Number of Securities</u>
<i>Common Shares</i>		
January 15, 2016	3.41	8,137
January 20, 2016	7.66	732,438
April 1, 2016	3.41	555,424
April 20, 2016	12.94	440,933
May 17, 2016	3.41	1,000
May 20, 2016	13.00	176,306
June 20, 2016	14.10	158,714
July 21, 2016	15.64	210,555
July 21, 2016	16.10	4,642
August 19, 2016	15.51	213,225
August 24, 2016	3.41	11,693
September 20, 2016	15.58	211,200
October 20, 2016	16.11	205,108
November 8, 2016	16.37	18,139
November 18, 2016	17.03	233,309
December 20, 2016	17.28	231,207

Stock Options and DSUs

The following table summarizes details of the Options and DSUs issued by the Corporation during the Corporation’s most recently completed financial year:

<u>Date of Issue/Grant</u>	<u>Type of Security</u>	<u>Price per Security</u>	<u>Number of Securities</u>
<i>Options & DSUs⁽¹⁾</i>			
January 15, 2016	DSUs	\$8.05	2,793
January 20, 2016	Options	\$7.99	117,555
January 20, 2016	DSUs	\$7.99	240
April 14, 2016	DSUs	\$13.70	1,641
April 21, 2016	Options	\$13.54	66,422
April 21, 2016	DSUs	\$13.54	165
May 21, 2016	DSU	\$14.00	54
May 23, 2016	Options	\$14.00	17,743
June 21, 2016	Options	\$14.85	17,070
June 21, 2016	DSUs	\$14.85	51
July 15, 2016	DSUs	\$13.92	1,367
July 21, 2016	Options	\$16.10	23,002
July 21, 2016	DSUs	\$16.10	51
August 22, 2016	Options	\$16.15	23,532
August 22, 2016	DSUs	\$16.15	51
September 21, 2016	DSUs	\$16.34	51
September 21, 2016	Options	\$16.34	23,594
October 17, 2016	DSUs	\$17.22	1,305
October 21, 2016	DSUs	\$17.09	55
October 21, 2016	Options	\$17.09	22,953
November 21, 2016	DSUs	\$18.10	61
November 21, 2016	Options	\$18.10	24,342
December 21, 2016	DSUs	\$18.20	61
December 21, 2016	Options	\$18.20	24,248

Notes:

- (1) Options to acquire Common Shares and deferred share Common Shares vest in accordance with the terms of the Corporation's Amended and Restated Incentive Plan. Upon exercise, such Options will be converted into Common Shares and such DSUs may be converted into either a) Common Shares or b) cash (at the discretion of the Board or a committee thereof). Any such conversion into Common Shares will be on a 1:1 basis.

SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

The following Common Shares are subject to contractual restrictions on transfer pursuant to lock-up arrangements entered into in connection with the Corporation's IPO.

<u>Number of Common Shares Subject to Lock-up</u>	<u>Percentage of Common Shares</u>
3,682,373	7.46

In connection with the IPO, CCGI, Catalyst Fund II, Catalyst Fund II Parallel, Catalyst Fund III, and Catalyst Fund IV entered into lock-up arrangements pursuant to which each such party agreed, subject to certain exceptions, not to offer, sell, contract to sell, agree to sell, pledge, hypothecate, grant or otherwise dispose of, or agree to dispose of, directly or indirectly, any Common Shares or securities convertible into or exchangeable or exercisable for any Common Shares or Common Shares issuable on the conversion or exchange of any convertible security (whether such Common Shares or convertible securities were held or received prior to, at, or after the closing of the IPO, but excluding any Common Shares acquired on the secondary market after the completion of the IPO), enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of Common Shares, without the prior written consent of the Underwriter, with respect to 3,682,373 Common Shares representing the number of Common Shares anticipated to be distributed to CCGI or its affiliates as its carried interest, until the later of (i) two years after the closing of the IPO; and (ii) the date on which CCGI or its affiliates would become entitled to such Common Shares pursuant to the provisions of the partnership agreement of the applicable Catalyst Fund (or, if CCGI does not become entitled to such Common Shares with respect to a particular Catalyst Fund, on the date such fund has disposed of substantially all of its investments).

DIRECTORS AND EXECUTIVE OFFICERS OF THE CORPORATION

Directors and Executive Officers, Positions and Security Holdings

The following table sets out certain information about the directors and executive officers of the Corporation.

Name, province or state and country of residence	Position with the Corporation	Principal Occupation During the Past Five Years	Period as Director ⁽¹⁾
Tibor Donath ⁽²⁾⁽³⁾⁽⁵⁾ (Ontario, Canada)	Lead Director	Partner, Bench & Donath	April 3, 2014 to present
David Sutin ⁽²⁾⁽⁴⁾⁽⁵⁾ (Ontario, Canada)	Director	Independent Financial Advisor; Former Managing Director, Quest Partners Ltd.	March 11, 2014 to present
Newton Glassman (Ontario, Canada)	CEO; Director; Executive Chairman	Managing Partner, CCGI	September 23, 2011 to present
David Reese (Ontario, Canada)	President and COO	President and Chief Operating Officer of Callidus; President of Reese Management Inc.	N/A
Jim Riley (Ontario, Canada)	Director and Secretary	Managing Director and Chief Operating Officer of CCGI	September 23, 2011 to present
Dan Nohdomi (Ontario, Canada)	Vice President and CFO	CFO of Callidus; Former CFO of Greypoint Capital Inc.; Former Corporate Treasurer, Western Forest Products Inc.	N/A
Bradley Ashley ⁽²⁾⁽⁵⁾ (Ontario, Canada)	Director	Founder and Managing Partner, PRIVEQ Capital Funds	May 17, 2016 to present

Notes:

- (1) Each director listed will hold his or her position as a director of the Corporation until the next annual meeting of shareholders.
- (2) Member of the Audit & Risk Committee and member of the Compensation and Governance Committee.
- (3) Chair of the Audit & Risk Committee.
- (4) Chair of the Compensation and Governance Committee.
- (5) Member of the Special Committee

As a group, all directors and executive officers of the Corporation beneficially own, or control or direct, directly or indirectly, 33,828,020 Common Shares of the Corporation, being approximately 68% of the Common Shares issued and outstanding as at December 31, 2016.

Biographies

The following are brief profiles of the directors and the executive officers of the Corporation.

Newton Glassman, Executive Chairman, Chief Executive Officer and Director - 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 CCGI. He devotes all of his working time to CCGI, investment funds managed by CCGI and assets held by those investment funds, including the Corporation. 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 Markets 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 Corporation of Canada, Inc., 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 M.B.A. from the Wharton School of the University of Pennsylvania, a law degree from Faculty of Law, University of Toronto and an undergraduate degree from the University of Toronto.

Jim Riley, Secretary and Director - Mr. Riley is a Managing Director and Chief Operating Officer of 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 law degree from Harvard University and a law degree from the Faculty of Law, University of Toronto.

David M. Reese, President and Chief Operating Officer - Mr. Reese is the President and Chief Operating Officer of Callidus. Prior to joining Callidus in June 2011, Mr. Reese spent over 30 years developing a strong operational and credit background by working and building business groups focused on asset-based lending, leveraged buyouts and structured credit products. Over his career, he has been involved in arranging senior debt, mezzanine debt and equity in both the public and private markets spanning a broad range of industries. He has worked in both corporate and investment banking with several Canadian and international banks and Securitus Capital, a structured credit boutique that he co-founded. Mr. Reese holds a Masters in Business Administration from the Richard Ivey School of Business, University of Western Ontario and a Bachelor of Arts (Biology) from Queen's University.

Dan Nohdomi, Chief Financial Officer - Mr. Nohdomi is the Chief Financial Officer of Callidus. Prior to joining Callidus in February 2013, Mr. Nohdomi was the CFO of Greypoint Capital Inc., a private debt fund based in Toronto, which he assisted in launching and founding. Prior to joining Greypoint in June 2012, Mr. Nohdomi was a part of Brookfield Asset Management's Special Situations Group from May 2006 until September 2012 and was involved in distressed and stressed investing and lending. Mr. Nohdomi was also the Corporate Treasurer of Western Forest Products Inc., a publicly traded, previously a Brookfield Asset Management portfolio company operating in British Columbia, from January 2010 until May 2012. Mr. Nohdomi is a CPA, CA and holds a Masters in Business Administration from Cornell University and a Bachelor of Arts from Trinity Western University.

Tibor Donath, Lead 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 Professionnel Agrees du Québec. Mr. Donath graduated from Sir George William's 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 & Risk Committee for Counsel Corporation. Mr. Donath also sits on the Investment Committee of a private venture capital firm.

David E. Sutin, 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' 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 Masters of Business Administration degree from York University.

Bradley W. Ashley, Director. Mr. Ashley is the Managing Partner and founder of PRIVEQ Capital Funds ('PRIVEQ'), a manager of several private equity funds. Mr. Ashley founded PRIVEQ in 1994 and devotes substantially all of his working time to PRIVEQ and its portfolio companies. Prior to founding PRIVEQ, Mr. Ashley was an Investment Manager with VenGrowth Capital Funds from 1990 to 1994, a Senior Manager in the Corporate Finance Group with Ernst & Young from 1989 to 1990, and an Assistant Treasurer with JP Morgan Canada from 1986 to 1989. Mr. Ashley is a director of Integracare Inc., Accipiter Radar Technologies Inc., and Kraus Global Ltd. He also sits on the investment committee of a venture capital fund. Mr. Ashley is a former Chairman and President of Canada's Venture Capital and Private Equity Association (CVCA). Mr. Ashley holds a law degree and Masters of Business Administration degree from York University. In 2014, Mr. Ashley obtained his ICD.D designation from the Institute of Corporate Directors.

Corporate Cease Trade Orders or Bankruptcies

To the knowledge of the Corporation, except as described below, no director or executive officer of the Corporation (nor any personal holding company of any such persons) is, as at the date of this AIF, or was within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Corporation), that: (i) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an “Order”) and that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Mr. Glassman was installed as a director of Hollinger Inc. in July of 2005 as part of a court order. Hollinger Inc. was a Canadian media company that was listed on the Toronto Stock Exchange. In 2005, Hollinger Inc. was made subject to a management cease-trade order for being in default of its annual filing requirements. In August 2007, Hollinger Inc. made application for a Court-supervised restructuring under the *Companies’ Creditors Arrangement Act* (Canada) and a similar proceeding in the United States pursuant to Chapter 15 of the U.S. *Bankruptcy Code*. Mr. Glassman ceased to be a director in the Spring of 2007, and in August of 2008 the shares of Hollinger Inc. were delisted from the Toronto Stock Exchange.

To the knowledge of the Corporation, except as disclosed below, no director or executive officer of the Corporation (nor any personal holding company of any such persons), or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation: (i) is, as at the date of this AIF, or has been within the 10 years before the date of this AIF, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement, or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (ii) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Newton Glassman was appointed as a director of Snowbear Limited on March 11, 2005, following the acquisition of Snowbear Limited by Catalyst Fund I. In 2012, an application was made by Catalyst Fund I for an order pursuant to section 243(1) of the *Bankruptcy and Insolvency Act* and section 101 of the *Courts of Justice Act* appointing PricewaterhouseCoopers Inc. as receiver, without security, of all of the assets, undertakings and properties of Snowbear Limited. On May 2, 2012, the Ontario Superior Court of Justice granted the motion made by PricewaterhouseCoopers Inc. to approve an auction services agreement entered into between PricewaterhouseCoopers Inc. and Century Services Inc., and vesting Snowbear Limited’s rights, title and interests in and to the assets described in such auction services agreement in the purchasers thereof free and clear of all claims.

Bradley Ashley was appointed as a director of Cornelius Pools Corp. in March 2005 upon PRIVEQ II Limited Partnership’s investment in Cornelius. Mr. Ashley resigned as a director on November 27, 2007. Subsequent to his departure, on December 3, 2007, the company was adjudged bankrupt by court order.

Bradley Ashley was appointed as a director of Vertigo Group Inc. in July 2006 upon PRIVEQ III Limited Partnership’s investment in Vertigo. Mr. Ashley resigned as a director on September 8, 2009. Subsequent to his departure, on September 11, 2009, the company filed an assignment in bankruptcy and a trustee was appointed.

Bradley Ashley was appointed as a director of Telephoto Technologies Inc. in July 2003 upon PRIVEQ II Limited Partnership’s investment in Telephoto. Mr. Ashley resigned as a director on August 23, 2010. Subsequent to his departure, on August 24, 2010, a receiver was appointed pursuant to section 243(1) of the *Bankruptcy and Insolvency Act* and section 101 of the *Courts of Justice Act*.

Bradley Ashley was appointed as a director of R. Nicholls Distributors Inc. in December 2007 upon PRIVEQ III Limited Partnership’s investment in R. Nicholls. Mr. Ashley resigned as a director on May 20, 2014.

Subsequent to his departure, on September 5, 2014, the company filed a Notice of Intention to file a proposal under section 50.4(1) of the Bankruptcy and Insolvency Act.

Penalties or Sanctions

To the knowledge of the Corporation, no director or executive officer of the Corporation (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision with respect to the Corporation.

Conflicts of Interest

Other than as disclosed in this AIF (including the disclosure below), to the best of the Corporation's knowledge, there are no existing or potential material conflicts of interest among the Corporation and a director or officer of the Corporation at the date of this Annual Information Form.

Messrs. Glassman and Riley serve as executive officers of CCGI and will be paid by and continue to devote a majority of their time to CCGI. Messrs. Glassman and Riley have fiduciary and other obligations to CCGI and the Catalyst Funds' equity owners. As a result of these relationships, conflicts of interest may arise in the future between Callidus (and its shareholders, other than the Catalyst Funds) and CCGI (and its owners and affiliates, including the Catalyst Funds). Messrs. Glassman and Riley will have fiduciary and other obligations to Callidus by virtue of the Management Services Agreement and applicable law. In particular, decisions relating to funding by the Catalyst Funds under the Participation Agreement will be made by Messrs. Glassman and Riley and such decisions may negatively impact shareholders of Callidus. See "*Risk Factors – Conflicts of Interest*".

Certain directors and officers of the Corporation serve as directors and officers of other entities or private equity firms or are, and may continue to be, involved in the private equity industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of Callidus. Accordingly, conflicts of interest may arise which could influence these persons in evaluating potential opportunities or acquisitions or in generally acting on behalf of the Corporation. While the majority of the loan opportunities considered by the Corporation are initially developed by Callidus' origination professionals, in some instances opportunities for asset-based loans may be brought to the attention of an officer or director of the Corporation who is also an officer or director of CCGI or another entity or private equity investment business.

In the case of CCGI, Callidus believes that the likelihood of any conflict is reduced given the differences in the business of Callidus and the Catalyst Funds. Whereas Callidus is primarily in the business of asset-based lending, the Catalyst Funds are in the business of control and/or influence investments in distressed and/or undervalued Canadian entities. This often entails the Catalyst Funds purchasing debt of an entity with the primary objective of gaining control of, or influence over, such entity either through converting debt to equity or through a restructuring process. Callidus believes that the Catalyst Funds' investment objectives are distinct from Callidus' business as a conventional finance asset based lender. In addition, CCGI has agreed in the Management Services Agreement to certain non-competition covenants in favour of the Corporation. See "*Executive Officers and Directors Compensation – Management Services Agreement*" and "*Risk Factors - Conflict of Interest*".

The Corporation's directors and officers are required by law to act honestly and in good faith with a view to the best interests of the Corporation and to disclose any conflicts to the Corporation if and when they arise. The Corporation has entered into indemnification agreements with each of its directors and executive officers. The indemnification agreements generally require that the Corporation indemnify and hold the indemnitees harmless to the greatest extent permitted by law for liabilities arising out of the indemnitees' service to the Corporation as directors and executive officers, provided that the indemnitees acted honestly and in good faith with a view to the best interests of the Corporation and, with respect to criminal and administrative actions or proceedings that are enforced by monetary penalty, the indemnitees had reasonable grounds to believe that their conduct was lawful. The indemnification agreements will also provide for the advancement of defense expenses to the indemnitees by the Corporation.

Management Services Agreement

Pursuant to the terms of a management services agreement dated April 23, 2014 between CCGI and Callidus (the “**Management Services Agreement**”), CCGI: (a) provides Callidus with the services of Mr. Glassman, as Executive Chairman and Chief Executive Officer of the Corporation, and Mr. Riley, as Secretary of the Corporation, or such other persons to perform those functions as may be acceptable to Callidus, acting reasonably; and (b) provides Callidus with access to CCGI’s senior management, analysts and research library, as required.

As shared executives of both Callidus and CCGI, Messrs. Glassman and Riley do not devote all of their time to the business of the Corporation. Each of Mr. Glassman and Mr. Riley devote approximately 25% of his working time to Callidus. In the event that Callidus appoints a full-time chief executive officer, it shall be at Callidus’ expense.

Pursuant to the Management Services Agreement, compensation to be paid to any directors, officers or employees of CCGI or its affiliates made available to Callidus thereunder, including the Executive Chairman, Chief Executive Officer and the Secretary of the Corporation, is paid by CCGI and Callidus pays to CCGI a nominal sum in consideration for making available the services of the Executive Chairman and Chief Executive Officer of the Corporation and the Secretary of the Corporation. All other expenses incurred by CCGI in carrying out its obligations under the Management Services Agreement, including the services provided by the Executive Chairman and Chief Executive Officer and the Secretary of Callidus in their capacities as executive officers of the Corporation, are for the account of the Corporation. The Corporation does not pay any compensation to CCGI, the Catalyst Funds, or any other related entity. Except for the services rendered by Messrs. Glassman and Riley, all transactions between CCGI and the Corporation are at fair values which would be consistent with arm’s length transactions.

CCGI and each of its directors, officers and employees are indemnified by the Corporation to the fullest extent permitted by law for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against CCGI, or any of its officers, directors or employees, in the exercise of its duties pursuant to the Management Services Agreement, except those resulting from the following actions by CCGI or its directors, officers or employees: willful misconduct, bad faith, negligence, breach of such person’s standard of care under the Management Services Agreement or material breach or default of such person’s obligations under the Management Services Agreement (collectively, the “**Material Breaches**”). The Corporation and each of its directors, officers and employees are indemnified by CCGI to the fullest extent permitted by law for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against the Corporation, or any of its officers, directors or employees, resulting from Material Breaches.

If, upon the request of the independent directors of the Board, CCGI renders services to the Corporation that are outside of the scope of services required to be rendered pursuant to the provisions of the Management Services Agreement, such additional services will be compensated for separately and will be on such terms that are no less favourable to the Corporation than those available from arm’s length parties.

The management services provided by CCGI under the Management Services Agreement are not exclusive to the Corporation and nothing in the Management Services Agreement prevents CCGI from providing similar management services to other companies or from engaging in other activities (other than as set out in the Management Services Agreement). See also “*Executive Officers and Directors – Conflicts of Interest*”.

Pursuant to the Management Services Agreement, for a period ending on the later of (a) April 23, 2019, and (b) two years after the termination of the Management Services Agreement, neither CCGI nor its affiliates will (i) engage in; (ii) establish or manage any fund or other entity that engages in; or (iii) invest in any other fund or entity that engages principally in the asset-based lending business as carried on by Callidus. In addition, during the term of the Management Services Agreement any opportunities within such business description that are made available to CCGI or its affiliates will first be offered to Callidus. CCGI and its affiliates are not restricted from entering into lending transactions with one of the Catalyst Funds’ portfolio companies or from making or acquiring loans as part of an overall investment objective of acquiring control or influence over an entity (other than an entity that engages principally in the asset-based lending business as carried on by Callidus).

The Management Services Agreement will remain in force until the earlier of (i) the date on which the Corporation and CCGI mutually agree in writing to terminate the Management Services Agreement; and (ii) the date on which CCGI gives written notice of the termination of the Management Services Agreement, provided that such notice may not be given for so long as any Catalyst Fund holds Common Shares or holds a direct participation interest in any Loan Portfolio. No additional fees will be payable by Callidus to CCGI on termination of the Management Services Agreement.

LEGAL PROCEEDINGS AND REGULATORY MATTERS

Other than as disclosed below, to the knowledge of the Corporation, there were no other material legal proceedings known or known to be contemplated against the Corporation or to which any of its property is or may be subject, during the financial year ended December 31, 2016.

On February 6, 2017, Craig Boyer, formerly Callidus' chief underwriter, commenced a claim against Callidus in the Ontario Superior Court of Justice claiming, among other things, 28 weeks of vacation pay, a declaration that his stock options are fully vested or will be fully vested at their vesting dates, damages for loss of benefits in the amount of \$100,000, interest and costs. Callidus has delivered a Statement of Defence denying the allegations in the Statement of Claim. Callidus has also delivered a Counterclaim seeking damages in the amount of \$150 million, plus interest and costs. The Counterclaim alleges that Boyer breached his fiduciary duty to Callidus with respect to three companies, Gray Aqua Group, Xchange Technology Group and Horizontal Well Drillers. The action has not yet moved past the pleadings stage, and no schedule has been set for the next steps in the action.

No penalties or sanctions have been imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority and no settlement agreements have been entered into by the Corporation before a court relating to securities legislation or with a securities regulatory authority during the financial year ended December 31, 2016.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed herein, to the knowledge of the Corporation, none of (i) the directors, officers or persons that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding securities of the Corporation; or (ii) any associate or affiliate of the persons referred to in (i), has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Corporation.

Callidus has entered into the following agreements with CCGI or entities managed by CCGI:

- the Debenture Repayment Agreement (See "*Business of the Corporation - General Development of the Business - Debenture Repayment Agreement*");
- the Participation Agreement (See "*Business of the Corporation - General Development of the Business - Funding Arrangements*");
- the Assignment Agreement (See "*Business of the Corporation - General Development of the Business - Funding Arrangements*");
- the Management Services Agreement (See "*Directors and Executive Officers of the Corporation - Management Services Agreement*"); and
- the Bridge Facility (See "*Debt Financing - Bridge Facility*").

AUDIT & RISK COMMITTEE

The directors of the Corporation have established an audit and risk committee comprised of three directors (the "**Audit & Risk Committee**"). The Audit & Risk Committee is chaired by Tibor Donath and the other committee members are David Sutin and Bradley Ashley. The relevant education and experience of each member of the Audit & Risk Committee are provided above, under the heading "*Directors and Executive Officers of the*

Corporation - Biographies". All of the Audit & Risk Committee members are independent of management of the Corporation as required by *National Instrument 52-110 – Audit & Risk Committees* and each member is financially literate in that each has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

The mandate of the Audit & Risk Committee is set out in the written Charter of the Audit & Risk Committee. A copy of the Audit & Risk Committee charter is included as Schedule "A" attached hereto.

Reliance on Certain Exemptions

At no time since the commencement of the Corporation's most recently completed financial year has the Corporation relied on the exemptions in Section 2.4 of National Instrument 52-110 (*De Minimis Non-audit Services*), Section 3.2 of National Instrument 52-110 (*Initial Public Offerings*), Section 3.4 of National Instrument 52-110 (*Events Outside of Control of Member*), Section 3.5 of National Instrument 52-110 (*Death, Disability or Resignation of Audit & Risk Committee Member*), or an exemption from National Instrument 52-110, in whole or in part, granted under Part 8 of National Instrument 52-110.

Additionally, at no time since the commencement of the Corporation's most recently completed financial year has the Corporation relied on the exemptions in subsection 3.3(2) of National Instrument 52-110 (*Controlled Companies*), Section 3.6 of National Instrument 52-110 (*Temporary Exemption for Limited and Exceptional Circumstances*) or Section 3.8 of National Instrument 52-110 (*Acquisition of Financial Literacy*).

Audit & Risk Committee Oversight

At no time since the commencement of the Corporation's most recently completed financial year was a recommendation of the Audit & Risk Committee to nominate or compensate an external auditor not adopted by the board of directors of the Corporation.

Pre-Approval Policies and Procedures

The Audit & Risk Committee is authorized by the Corporation's board of directors to review the performance of the Corporation's external auditors and pre-approve all non-audit services to be provided to the Corporation by its external auditors.

External Auditor Service Fees

A summary of the aggregate fees billed by the Corporation's external auditor for the last two fiscal years ended December 31, 2016, is set out below:

<u>Fiscal Year</u>	<u>Audit Fees</u> ⁽¹⁾	<u>Audit-Related Fees</u> ⁽²⁾	<u>Tax Fees</u> ⁽³⁾	<u>Total</u>
2015	\$475,000	\$115,000	\$123,020	\$713,000
2016	\$513,000	\$155,000	\$137,573	\$805,573

Notes:

- (1) Audit Fees includes the audit of the annual financial statements of the Corporation, and review of the Corporation's unaudited condensed consolidated interim financial statements.
- (2) Audit-Related Fees consists primarily of fees billed by our independent auditors for services related to accounting advisory and associated translation services.
- (3) Tax Fees consists of tax compliance and pre-approved tax consulting services.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Corporation's Common Shares is Computershare Investor Services Inc. at its offices located in Toronto, Ontario.

MATERIAL CONTRACTS

The Corporation has entered into the following material contracts since January 1, 2015 (or prior to January 1, 2015, if such contract is still in effect), and which are outside of the ordinary course of the Corporation's business. A description and summary of each has been cross-referenced in this Annual Information Form:

1. Participation Agreement (see "*Business of the Corporation - General Development of the Business - Funding Arrangements*");
2. Assignment Agreement (see "*Business of the Corporation - General Development of the Business - Funding Arrangements*");
3. Management Services Agreement (see "*Directors and Executive Officers of the Corporation - Management Services Agreement*");
4. Debenture Repayment Agreement (see "*Business of the Corporation - General Development of the Business - Debenture Repayment Agreement*");
5. New Revolving Credit Facility (see "*Debt Financing - New Revolving Credit Facility*");
6. Credit Agreement (see "*Debt Financing - Credit Agreement*"); and
7. New Securitization Facility (see "*Debt Financing - New Securitization Facility*").

Copies of the above listed material contracts are available on the Corporation's profile on SEDAR at www.sedar.com or upon request from the Corporation at 4620 - 181 Bay Street, P.O Box 792, Bay Wellington Tower, Brookfield Place, Toronto, Ontario, M5J 2T3.

INTEREST OF EXPERTS

The independent auditors of the Corporation are KPMG LLP, at its offices located at 4600-333 Bay Street, Toronto, Ontario, M5H 2S5. KPMG LLP has confirmed that it is independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations. KPMG LLP was appointed auditor of the Corporation on February 3, 2011.

ADDITIONAL INFORMATION

Additional information including directors' and officers' remuneration and indebtedness, the executive compensation for named executive officers of the Corporation, principal holders of the Corporation's securities, interests of insiders in material transactions, as applicable, and securities authorized for issuance under equity compensation plans will be contained in the Corporation's management information circular for its annual meeting of security holders which will involve the election of directors.

Additional financial information is provided in the Corporation's financial statements and management's discussion and analysis for the year ended December 31, 2016. A copy of the management information circular, financial statements and management's discussion and analysis may be obtained upon request from the Corporation and those documents and other information in respect of the Corporation are also available on SEDAR at www.sedar.com.

SCHEDULE "A" - AUDIT & RISK COMMITTEE CHARTER

General

It is the policy of Callidus Capital Corporation (the "**Corporation**") to establish and maintain an Audit & Risk Committee (the "**Committee**"), composed entirely of independent directors, to assist the board of directors (the "**Board**") in carrying out its oversight responsibility for the Corporation's internal controls, financial reporting and risk management processes. The Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board, including administrative support. If determined necessary by the Committee, it will have the discretion to institute investigations of improprieties, or suspected improprieties within the scope of its responsibilities, including the standing authority to retain special counsel or experts.

Composition of the Committee

The Committee shall consist of at least three directors. The Board shall appoint the members of the Committee and may seek the advice and assistance of the Nominating, Compensation and Corporate Governance Committee in identifying qualified candidates. The Board shall appoint one member of the Committee to be the chair of the Committee (the "**Chair**").

Each director appointed to the Committee by the Board shall be an outside director who is unrelated. An outside, unrelated director is a director who is independent of management and is free from any interest, any business or other relationship which could, or could reasonably be perceived, to materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholdings. In determining whether a director is independent of management, the Board shall make reference to the then current legislation, rules, policies and instruments of applicable regulatory authorities.

Each member of the Committee shall be "financially literate". In order to be financially literate, a director must be, at a minimum, able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements.

A director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation.

Meetings of the Committee

The Committee shall convene a minimum of four times each year at such times and places as may be designated by the Chair and whenever a meeting is requested by the Board, a member of the Committee, the auditors, or a senior officer of the Corporation. Meetings of the Committee shall also correspond with the review of the quarterly financial statements and management's discussion and analysis.

Notice of each meeting of the Committee shall be given to each member of the Committee and to the auditors, who shall be entitled to attend each meeting of the Committee and shall attend whenever requested to do so by a member of the Committee. However, no notice of a meeting shall be necessary if all of the members are present either in person or by means of telephone or web conference, or other communication equipment, or if those absent waive notice or otherwise signify their consent to the holding of such meeting.

Notice of a meeting of the Committee shall:

- be in writing;
- state the nature of the business to be transacted at the meeting in reasonable detail;
- to the extent practicable, be accompanied by copies of documentation to be considered at the meeting; and

- be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Committee may permit.

A quorum for the transaction of business at a meeting of the Committee shall consist of a majority of the members of the Committee. However, it shall be the practice of the Committee to require review, and, if necessary, approval of certain important matters by all members of the Committee.

Any matter to be determined by the Committee shall be decided by a majority of the votes cast at a meeting of the Committee called for such purpose. Any action of the Committee may also be taken by an instrument or instruments in writing signed by all of the members of the Committee (including in counterparts, by facsimile or other electronic signature) and any such action shall be as effective as if it had been decided by a majority of the votes cast at a meeting of the Committee called for such purpose.

A member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities, as permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.

In the absence of the Chair, the members of the Committee shall choose one of the members present to be chair of the meeting. In addition, the members of the Committee shall choose one of the persons present to be the secretary of the meeting.

The chairman of the Board, senior management of the Corporation and other parties may attend meetings of the Committee; however, the Committee (i) shall meet with the external auditors independent of management, as necessary, in the sole discretion of the Committee, but in any event, not less than quarterly; and (ii) may meet separately with management.

The Committee shall hold an in-camera session without any senior officers present at each meeting of the Committee, unless such a session is not considered necessary by the members present.

Minutes shall be kept of all meetings of the Committee and shall be signed by the chair and the secretary of the meeting.

Committee Responsibilities

The Committee's primary responsibilities are to:

- identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation;
- monitor the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
- monitor the independence and performance of the Corporation's external auditors;
- deal directly with the external auditors to approve external audit plans, other services (if any) and fees;
- directly oversee the external audit process and results;
- provide an avenue of communication among the external auditors, management and the Board;
- ensure that there is an appropriate standard of corporate conduct relating to the internal controls and financial reporting of the Corporation;
- ensure that an effective "whistle blowing" procedure (the "**Policy**") exists to permit stakeholders to express any concerns regarding accounting or financial matters to an appropriately independent individual; and

- ensure that an appropriate code of conduct and ethics (the “**Code of Conduct**”) is in place and understood by employees, officers and directors of the Corporation.

Duties

The Committee shall:

- review the audit plan with the Corporation’s external auditors and with management;
- discuss with management and the external auditors any proposed changes in major accounting policies or principles, the presentation and impact of significant risks and uncertainties and key estimates and judgments of management that may be material to financial reporting;
- review with management and with the external auditors significant financial reporting issues arising during the most recent fiscal period and the resolution or proposed resolution of such issues;
- review any problems experienced or concerns expressed by the external auditors in performing an audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management;
- review with senior management the process of identifying, monitoring and reporting the principal risks affecting financial reporting;
- consider whether the Corporation’s financial disclosures are complete, accurate, prepared in accordance with International Financial Reporting Standards (“**IFRS**”) and fairly present the financial position of the Corporation;
- obtain timely reports from the external auditors describing critical accounting policies and practices applicable to the Corporation, the alternative treatment of information in accordance with IFRS that were discussed with the Chief Financial Officer of the Corporation, the ramifications thereof, and the external auditor’s preferred treatment, and should review any material written communications between the Corporation and the external auditor;
- review and discuss with senior officers of the Corporation any guidance being provided on the expected future results and financial performance of the Corporation, and provide its recommendations on such guidance to the Board;
- review the procedures which are in place for the review of the public disclosure by the Corporation of financial information extracted or derived from the financial statements of the Corporation and periodically assess the adequacy of such procedures;
- review audited annual financial statements and related documents in conjunction with the report of the external auditors and obtain an explanation from management of all significant variances between comparative reporting periods;
- consider and review with management, the internal control memorandum or management letter containing the recommendations of the external auditors and management’s response, if any, including an evaluation of the adequacy and effectiveness of the internal financial controls of the Corporation and subsequent follow-up to any identified weaknesses;
- review with financial management and the external auditors the quarterly unaudited financial statements and management’s discussion and analysis before release to the public;
- before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information, including any prospectuses or securities offering documents (including documents incorporated by reference

therein), annual reports, annual information forms, management's discussion and analysis and press releases containing financial information;

- review, consider and if appropriate, approve any transactions between the Corporation and The Catalyst Capital Group Inc. ("CCGI") or an investment fund established and managed by CCGI or its affiliates, all of which are or would be related parties of the Corporation, as applicable;
- oversee any of the financial affairs of the Corporation, its subsidiaries or affiliates, and, if deemed appropriate, make recommendations to the Board, external auditors or management;
- evaluate the independence and performance of the external auditors and annually recommend to the Board the appointment of the external auditors or the discharge of the external auditors when circumstances are warranted;
- consider the recommendations of management in respect of the appointment of the external auditors;
- pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by its external auditors, or the external auditors of the Corporation's subsidiary entities (if any);
- approve the engagement letter for non-audit services to be provided by the external auditors or affiliates, together with estimated fees, and consider the potential impact of such services on the independence of the external auditors;
- review the fees paid by the Corporation to the external auditor in respect of audit and non-audit services on an annual basis;
- when there is to be a change of external auditors, review all issues and provide documentation related to the change, including the information to be included in the Notice of Change of Auditors and documentation required pursuant to National Instrument 51-102 — *Continuous Disclosure Obligations* (or any successor instrument) of the Canadian Securities Administrators and the planned steps for an orderly transition period;
- establish and maintain procedures for:
 - the receipt, retention and treatment of complaints received by the Corporation regarding accounting controls, or auditing matters; and
 - the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the external auditors and any former external auditors;
- review all reportable events, including disagreements, unresolved issues and consultations, as defined by applicable securities policies, on a routine basis, whether or not there is to be a change of external auditors; and
- review with management at least annually, the financing strategy and plans of the Corporation.

The Committee has the authority to:

- inspect any and all of the books and records of the Corporation, its subsidiaries and affiliates (to the extent necessary);
- discuss with the management of the Corporation, its subsidiaries and affiliates and senior staff of the Corporation, any affected party and the external auditors, such accounts, records and other matters as any member of the Committee considers necessary and appropriate;

- consult with executive officers and operating personnel of the Corporation who do not have economic interests in CCGI, as well as other external advisors that the Committee deems appropriate, in connection with reviewing transactions with CCGI;
- engage independent counsel and other advisors as it determines necessary to carry out its duties;
- to set and pay the compensation for any advisors employed by the Committee;
- conduct any investigation considered appropriate by the Committee; and
- at any meeting, request the presence of the auditor, a member of senior management or any other person who could contribute to the subject of the meeting.

The Committee shall, at the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate.

Chair of the Committee

The Board will appoint one member who is qualified for such purpose to be Chair, to serve until the next annual election of directors or otherwise until his or her successor is duly appointed. If, following the election of directors, in any year, the Board does not appoint a Chair, the incumbent Chair will continue in office until a successor is appointed.

The Chair should:

- provide leadership to the Committee and oversee the functioning of the Committee;
- chair meetings of the Committee (unless not present), including in-camera sessions, and report to the Board following each meeting of the Committee on the activities and any recommendations and decisions of the Committee, and otherwise at such times and in such manner as the Chair considers advisable;
- ensure that the Committee meets at least quarterly in each financial year of the Corporation, and otherwise as is considered advisable;
- in consultation with the Chairman of the Board and the members of the Committee, establish dates for holding meetings of the Committee;
- set the agenda for each meeting of the Committee, with input from other members of the Committee, the Chairman of the Board, the Lead Director, if any, and any other appropriate individuals;
- ensure that Committee materials are available to any director upon request;
- act as a liaison, and maintain communication, with the Chairman of the Board, the Lead Director, if any, and the Board to co-ordinate input from the Board and to optimize the effectiveness of the Committee;
- report annually to the Board on the role of the Committee and the effectiveness of the Committee in contributing to the effectiveness of the Board;
- assist the members of the Committee to understand and comply with the responsibilities contained in this mandate;
- foster ethical and responsible decision making by the Committee;
- consider complaints covered by the Policy, undertake an investigation of the violation or suspected violation of the Code of Conduct or as defined in the Policy, and promptly report to the

Committee and the Board any complaint that may have material consequences for the Corporation and, for each financial quarter of the Corporation, the Chair should report to the Committee and to the external auditors, in the aggregate, the number, the nature and the outcome of the complaints received and investigated under the Policy;

- together with the Nominating, Compensation and Corporate Governance Committee, oversee the structure, composition and membership of, and activities delegated to, the Committee from time to time;
- ensure appropriate information is provided to the Committee by the senior officers of the Corporation to enable the Committee to function effectively and comply with this mandate;
- ensure that appropriate resources and expertise are available to the Committee;
- ensure that the Committee considers whether any independent counsel or other experts or advisors retained by the Committee are appropriately qualified and independent in accordance with the applicable laws;
- facilitate effective communication between the members of the Committee and the senior officers of the Corporation, and encourage an open and frank relationship between the Committee and the external auditor;
- attend, or arrange for another member of the Committee to attend, each meeting of the shareholders of the Corporation to respond to any questions from shareholders that may be asked of the Committee; and
- perform such other duties as may be delegated to the Chair by the Committee or the Board from time to time.

In the event a Chairman of the Board is not appointed by the Board at the first meeting of the Board following the annual meeting of shareholders each year, and the position of Chair of the Nominating, Compensation and Corporate Governance Committee is vacant, the Chair shall serve as the interim Chairman of the Board until a successor is appointed.

Removal and Vacancies

Any member of the Committee may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as he or she resigns or ceases to meet the qualifications set out above. The Board will fill vacancies on the Committee by appointment from among qualified members of the Board on the recommendation of the Committee. If a vacancy exists on the Committee, the remaining members will exercise all of its powers so long as a quorum remains in office.

Assessment

At least annually, the Committee will assess its effectiveness in fulfilling its responsibilities and duties as set out in this Mandate and in a manner consistent with the Board mandate to be adopted by the Board.

Review and Disclosure

The Committee will review this Mandate at least annually and submit it to the Board for approval with such further proposed amendments as it deems necessary and appropriate.

Code of Conduct and Ethics

The Committee should:

- review periodically and recommend to the Board any amendments to the Code of Conduct, and monitor the policies and procedures established by the senior officers to ensure compliance with the Code of Conduct;
- review actions taken by the senior officers to ensure compliance with the Code of Conduct, the results of the confirmations and the responses to any violations of the Code of Conduct;
- monitor the disclosure of the Code of Conduct, any proposed amendments to the Code of Conduct and any waivers to the Code of Conduct granted by the Board; and
- review the policies and procedures instituted to ensure that any departure from the Code of Conduct by a director or senior officer which constitutes a “material change” within the meaning of applicable laws is appropriately disclosed in accordance with applicable laws.

Whistleblower Policy

The Committee shall review the Corporation’s Policy periodically to determine whether the Policy is effective in providing appropriate procedures to report violations (as defined in the Policy) or suspected violations, and recommend to the Board any amendments to the Policy.

Access to Outside Advisors

The Committee may retain any outside advisor, including an executive search firm, at the expense of the Corporation at any time and has the authority to determine any such advisor’s fees and other retention terms. The Committee, and any outside advisors retained by it, will have access to all records and information relating to the Corporation and its subsidiaries which it deems relevant to the performance of its duties.