Callidus Capital Corporation

Callidus Capital Reports 2018 Full Year and Fourth Quarter Results

All amounts in Canadian dollars unless otherwise indicated.

Highlights

- The pipeline of potential borrowers at December 31, 2018 was $545 million, and currently stands at approximately $550 million with one signed back term sheet totaling approximately $27million.
- As at December 31, 2018, gross loans receivable before derecognition was $1,225 million, an increase of $178 million or 17% from December 31, 2017. The increase was primarily due to the origination of two new loans and the funding of existing loans in the current year partially offset by the write-off of five loans in the current year.
- Total non-interest revenues for the year was $337.2 million, an increase of $214.8 million or 176% from last year, primarily due to the consolidation and recognition, for accounting purposes, of non-interest revenues of the injection molding, forest products, and paving businesses since June 2017, November 2017 and January 2018 respectively.
- Subsequent to the year end, the Company successfully closed the previously announced sale of the commodity division of C&C Resources Inc. for all-cash consideration of approximately $100 million. A significant portion of the proceeds from the sale were used to pay down the senior debt and collateralized loan obligation.
- Provision for loan losses for the year of $114.3 million (2017 - $217.4 million) was recorded in the statements of income. Of this total provision, approximately $67 million related to one specific loan concentrated in the energy sector.
- During the year, there were indications of impairment at four of the Company's businesses that reflected declines in forecasted performance due to market conditions and lower than expected financial performance of certain businesses. As a result, an amount of $56.3 million was recorded in the statements of comprehensive income as an impairment of goodwill for the year (2017 - $9.5 million).
- During the year, the Company recognized a recovery in the statements of comprehensive income of $63.8 million under the Catalyst guarantee due to the recognition of specific loan loss provisions and other asset impairments in the year and confirmation of coverage of the Catalyst guarantee related to a specific loan.
- Net loss for 2018 of $183.6 million compared to a loss of $218.5 million in 2017.
- Loss per share for 2018 of $3.33 compared to a loss of $4.32 in 2017.
- Net loss for the fourth quarter of 2018 of $115.4 million compared to a loss of $171.6 million in the same period in 2017.
- Loss per share for the fourth quarter of 2018 of $2.02 compared to a loss of $3.37 in the same period in 2017.
- In December 2018, the Company implemented a retention plan for virtually all employees in an effort to maintain workplace continuity until the end of fiscal 2019 and to better align compensation incentives with Company performance indicators.
- Callidus announced that as there are currently no investment analysts covering the Company, it has decided to suspend quarterly analyst conference calls.

TORONTO, April 1, 2019 /CNW/ - Callidus Capital Corporation (TSX:CBL) (the "Company" or "Callidus") today announced its financial and operating results for the full year (audited) and fourth quarter (unaudited) ended December 31, 2018.

	For Three Months Ended			**Year Ended**	
($ 000s unless otherwise indicated)	**Dec 31, 2018**	Sept 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Net loans receivable (before derecognition), end of period	**354,586**	366,581	247,306	**354,586**	247,306
Gross loans receivable (before derecognition), end of period (1)	**1,224,834**	1,163,092	1,046,983	**1,224,834**	1,046,983
Average loan portfolio outstanding (1)	**1,194,098**	1,148,956	1,055,468	**1,135,804**	1,081,937
Gross yield (%) (1)	**7.4%**	8.7%	10.8%	**7.2%**	13.9%
Total revenues(2)	**75,958**	97,540	52,808	**331,887**	165,810
Net interest margin (%) (1)	**-0.7%**	-0.2%	1.9%	**-0.5%**	4.0%
Net (loss) income	**(115,356)**	(20,388)	(171,599)	**(183,592)**	(218,486)
Earnings per share (diluted)	**($2.02)**	($0.36)	($3.37)	**($3.33)**	($4.32)
Recognized yield enhancements(3)	**-**	-	900	**-**	6,700
Leverage ratio (%)(1)	**39.0%**	38.8%	37.3%	**39.0%**	37.3%

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

(1) Refer to "Forward-Looking and Non-IFRS Measures" in this press release. These financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, they may not be comparable to similar measures used by other issuers.
(2) Certain comparative figures have been reclassified to conform with current period presentation.
(3) Recognized yield enhancements are recorded in the statements of income in total revenues (2018 – nil; 2017 - $9.8 million) and in loss on derivative assets associated with loans (2018 – nil; 2017 - loss of $3.1 million).
(4) Income statement data is after derecognition, unless otherwise indicated.

Subsequent Event

The Company has incurred significant operating losses and negative cash flows from operations in the current and preceding year, and requires ongoing funding and support from certain Catalyst Limited Partner Funds ("Catalyst Funds") managed by The Catalyst Capital Group Inc. ("CCGI") reflecting the Company's economic dependence on those Catalyst Funds. See additional discussion in note 2(d) and 20(c) of the Financial Statements.

On March 28, 2019, the Company entered into an agreement with certain Catalyst Funds and CCGI, related to the extension and modification of the following credit facilities, which have been made available to the Company by the Catalyst Funds:

- the US$250 million bridge facility (the "bridge loan") as discussed in note 13 of the Financial Statements;
- the $15.5 million facility to refinance a loan obtained from a Canadian financial institution (the "refinance facility") as discussed in note 15(d) of the Financial Statements; and
- the credit facility in respect of certain loans guaranteed by certain Catalyst Funds (the "guaranty loan") as discussed in note 15(c) and related to the Catalyst guarantees also discussed in note 15(c) of the Financial Statements.

Among other things, it was agreed that, with effect as of January 1, 2019, the bridge loan will be payable on demand, however no demand for repayment in cash can be made prior to June 30, 2020 to the extent the Company's Board of Directors determines that repayment of any such loan in cash would not be prudent having regard to the Company's cash position. The agreement also provides that, until June 30, 2020, Callidus will have the right at its discretion to accrue all interest and fees payable under the bridge loan, which it has done. The Catalyst Funds' waived compliance with the bridge loan debt covenant as of December 31, 2018 and waived compliance with future financial debt covenants.

The refinance facility was amended on a similar basis to the bridge loan. With regards to the guaranty loan, the terms of the loan were modified such that the repayment date coincides with the June 30, 2020 date on which demand in cash may be made in respect of the bridge loan.

Certain Catalyst Funds also agreed to advance to Callidus up to an additional $35 million under the bridge loan if the Company's Board of Directors determines that the Company has liquidity issues that, in the absence of such advance, would bring into question the Company's ability to continue as a going concern.

Additionally, prior to June 30, 2020, if the Company determines that its shareholders' equity is less than $20 million, or would be less than $20 million if a demand on the bridge loan were made and satisfied in cash, the Company may repay a portion of the principal amount of the bridge loan and/or accrued fees and interest by issuing to the Catalyst Funds 9.5% cumulative, redeemable, non-voting preference shares in the capital of the Company in such amount as is required to ensure that the Company's shareholders' equity would be $20 million after giving effect to such repayment. As well, the Catalyst Funds have the option to require that such repayment be effected by the issuance of common shares rather than preference shares, subject to receipt of all necessary regulatory approvals, unless Callidus' Board of Directors determines that it would not be in the best interests of Callidus to issue such common shares. Callidus has a similar right under the refinance facility provided that the right to issue preference or common shares in repayment of the refinance facility will only apply after the bridge loan has been settled. In accordance with this agreement, subsequent to the year-end, the Company converted $25.5 million of the bridge loan into $25.5 million of 9.5% cumulative, redeemable, non-voting preference shares to eliminate the shareholders' equity deficit as at December 31, 2018.

CCGI agreed to backstop certain Catalyst Funds with up to $25 million to enable them to comply with their obligations to the Company, if needed. CCGI's obligation will terminate once those Catalyst Funds have certified to the Company that they have the required liquidity to satisfy their obligations to the Company.

The agreement also provides that Catalyst Fund Limited Partnership V ("Catalyst Fund V") will be responsible for funding all additional advances to borrowers under the four loans in which Catalyst Fund V currently has a participation interest (see note 15(b)) of the Financial Statements, following which the respective participation interests in such loans will be adjusted accordingly.

Additionally, if the Company requires funding for a new loan or wishes to reduce its interest in a participation loan, the Company can obtain such funding from Catalyst Fund V, subject to Catalyst Fund V being satisfied in its reasonable discretion with the terms of the loan and the creditworthiness of the borrower. Catalyst Fund V agreed to provide such funding in an amount up to US$300 million, less the amount that Catalyst Fund V has already advanced or committed in respect of participation interest loans. Catalyst Fund V has agreed to purchase the Company's interests in two participation loans as and when requested by the Company, which as of the date of the agreement amounted to $12.0 million.

In consideration of the arrangements agreed above, the Catalyst Funds are able, at their discretion prior to June 30, 2020, to charge a fee equal to 1% of the aggregate amount owing under the bridge loan. If the Company is notified that such fee is being charged, the amount of the fee will be added to the bridge loan balance.

The Company's future plans include seeking to raise alternative means of financing and capital to fund new lending, and the regeneration of profitable operations from its lending business and operating subsidiaries. Management is also assessing potential asset divestments. Furthermore, a potential privatization transaction is still being pursued. However, there is no guarantee that the Company will be successful with these activities.

Business Update (As at April 1, 2019)

Loan Portfolio – The Company's pipeline at December 31, 2018 was $545 million, and currently stands at approximately $550million with one signed back term sheet totaling approximately $27 million.

As previously disclosed, Callidus undertakes extensive due diligence before closing on a loan transaction and there can be no assurance that the results of the due diligence will be satisfactory to Callidus.

As at December 31, 2018, net loans receivable of $224.0 million in 2018 remained relatively flat from $223.4 million in 2017 as loan originations and increased funding were offset by higher provisions for loan losses and the consolidation of Midwest Asphalt Corporation in the first quarter of 2018 as this loan was removed from loans receivable and the company was consolidated in the financial statements.

Acquired Subsidiary Companies – A total of six loans have been removed from loans receivable and consolidated in the financial statements in order to protect collateral in each of those loans.

Total non-interest revenues for these acquired subsidiary companies: (i) for the fourth quarter of 2018 were $78.1 million, an increase of $30.3 million or 64% from the same quarter last year and (ii) for the full year 2018 were $337.2 million, an increase of $214.8 million or 176% from 2017, primarily due to the consolidation and recognition, for accounting purposes, of non-interest revenues of the injection molding, forest products, and paving businesses since June 2017, November 2017 and January 2018 respectively.

Total gross margin for these acquired subsidiary companies for the fourth quarter of 2018 was 2.3%, compared to 4.0% in the same quarter last year. Gross margin for the full year 2018 was 9.1%, a decrease from 10.0% in 2017. The decreases in gross margin were due primarily to: (i) the aluminum castings business experiencing more negative gross margins in the quarter and year-to-date periods due to a reduction in volume from a major customer and (ii) a decrease in gross margin for the gaming business due to cost of sales in the third quarter of 2017 being impacted by a one-time inventory costing adjustment.

Callidus continues to work with these subsidiaries to implement strategic decisions and execute new business plans as part of their respective turnarounds.

Provision for Loan Losses – Provision for loan losses of $53.3 million was recorded in the statements of comprehensive income for the fourth quarter of 2018 ($153.2 million in Q4-2017). Provision for loan losses for the year of $114.3 million (2017 - $217.4 million) was recorded in the statements of income. Of this total provision, approximately $67 million related to one specific loan concentrated in the energy sector.

During the year, there were indications of impairment at four of the Company's businesses that reflected declines in forecasted performance due to market conditions and lower than expected financial performance of certain businesses. As a result, an amount of $56.3 million was recorded in the statements of comprehensive income as an impairment of goodwill for the year (2017 - $9.5 million).

During 2018, the Company recognized a recovery in the statements of comprehensive income of $63.8 million under the Catalyst guarantee due to the recognition of specific loan loss provisions and other asset impairments in the year and confirmation of coverage of the Catalyst guarantee related to a specific loan. During the fourth quarter of 2018, the Company recognized a recovery of $13.4 million under the Catalyst guarantee due to the recognition of specific loan loss provisions.

Normal Course Issuer Bid – In April 2018, the Toronto Stock Exchange accepted Callidus' notice of intention to undertake a normal course issuer bid ("NCIB"). Under the terms of the NCIB, Callidus may acquire up to 2,648,529 of its common shares, representing 5% of the 52,970,597 common shares comprising Callidus' total issued and outstanding common shares as of April 2, 2018, and will be purchased only when and if the Company considers it advisable. No purchases have been made to date under the current Normal Course Issuer Bid. As the Company continues t pursue a potential privatization transaction, it is maintaining a trading blackout and purchases under the Normal Course Issuer Bid may only be effected when that blackout ceases.

Liquidity and Changes to Credit Facility – The Company's primary sources of short-term liquidity are cash and cash equivalents. Assuming a participation rate for Catalyst Fund Limited Partnership V of approximately 75%, total liquidity as at December 31, 2018 would be able to suppor in excess of approximately $200 million of new loans. In addition, as business acquisitions are rehabilitated, the Company will pursue opportunities to monetize these investments where and when we believe capital may be deployed in opportunities that generate superior returns. Timing of these divestitures is uncertain and will be assessed on a case by case basis, taking into account performance of the investmer and the macro-economic conditions impacting the sector of the investment.

The Corporation expects to secure future growth capital through asset sales and attracting incremental capital, although there is no certainty it will succeed in this regard.

Subsequent to the year-end, the Company entered into an agreement with certain Catalyst Funds and CCGI to address the Company's funding and liquidity requirements. As part of the agreement, all future financial covenant waivers have been waived; see Subsequent Event earlier in this news release.

Privatization Process – The Company continues to pursue a privatization. While discussions continue with Braslyn Ltd., there are no material facts or changes to report and there can be no assurance that a transaction will be completed.

Strategy for Restoring and Building Shareholder Value - Callidus is committed to restoring and building shareholder value and intends to do so, by: (i) prudently growing the loan portfolio; (ii) actively managing the loan portfolio to minimize realized losses with a goal to recover som of the loan loss provisions recorded to date; (iii) maximizing the cash-flow and value of businesses acquired; (iv) prudently increasing leverage, including seeking external sources of financing at the subsidiary level; (v) enhancing the management team as appropriate; and (vi) considering other transactions that could support and/or benefit the Corporation's plan.

Management Continuity - With the resignation of Patrick Dalton and while Newton Glassman, Callidus' Executive Chairman and Chief Executiv Officer, continues to be on a medical leave of absence, the Callidus Board of Directors has assigned CEO responsibilities to the existing Callidus management team. To that end, in December 2018, the Company implemented a retention plan for virtually all employees in order to maintain workplace continuity until the end of fiscal 2019 and to better align compensation incentives with Company performance indicators.

IFRS and Non-IFRS Measures - Management uses both IFRS and non-IFRS measures to monitor and assess the operating performance of the Company's operations. Throughout this press release, Management uses the following terms and ratios which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other organizations:

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

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

Gross loans receivable is defined as the sum of (i) the aggregate amount of loans receivable on the relevant date, (ii) the loan loss allowance on such date, (iii) the book value of businesses acquired as they appear on the balance sheet, and (iv) discounts on loan acquisitions. The following is a reconciliation, before and after derecognition, of gross loans receivable to net loans receivable in the statements of financial position and a summary of gross loans receivable as at December 31, 2018 and December 31, 2017.

($ 000s)	**After Derecognition December 31, 2018**	**Before Derecognition December 31, 2018**	After Derecognition December 31, 2017	Before Derecognition December 31, 2017
Loan facilities	**$ 1,148,260**	**$1,301,342**	$ 1,096,888	$ 1,146,510
Gross loans receivable	**1,092,578**	**1,224,834**	1,022,193	1,046,983
Less: Discounted facilities	**-**	**-**	(7,575)	(7,575)
Less: Allowance for loan losses	**(320,158)**	**(321,855)**	(358,217)	(359,079)
Less: Cumulative change in fair value of financial instruments(1)	**(45,331)**	**(45,331)**	-	-
Less: Impairment on goodwill and businesses acquired(2)	**(150,209)**	**(150,209)**	(57,421)	(57,421)
Less: Businesses acquired(2)	**(352,853)**	**(352,853)**	(375,602)	(375,602)
Net loans receivable	**$ 224,027**	**$ 354,586**	$ 223,378	$ 247,306

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

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

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

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

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

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

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

The non-IFRS measures should not be considered as the sole measure of the Company's performance and should not be considered in isolation from, or as a substitute for, analysis of the Company's financial statements.

About Callidus Capital Corporation
Established in 2003, Callidus Capital Corporation is a Canadian company that specializes in innovative and creative financing solutions for companies that are unable to obtain adequate financing from conventional lending institutions. Unlike conventional lending institutions who demand a long list of covenants and make credit decisions based on cash flow and projections, Callidus credit facilities have few, if any, covenants and are based on the value of the borrower's assets, its enterprise value and borrowing needs. Further information is available on our website, www.calliduscapital.ca.

SOURCE Callidus Capital Corporation

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