

Impaired Loans Receivable

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. Callidus' extensive system of collateral monitoring and management contact mitigates risk by acting as an early warning system of potential credit issues. However, there are instances where loans may not perform as originally underwritten. Management assesses each loan to determine whether an indication of impairment exists. In determining collateral values, the Company engages a variety of independent third parties such as lawyers, appraisal firms, enterprise valuation experts and other valuation specialists, in addition to performing quarterly field examinations where applicable. In instances where enterprise valuation is used in determining collateral values, significant estimations and critical judgments are used including assumptions about future cash flows, interest rates, execution risk and company-specific risks. Inherently, there are risks and uncertainties relating to the valuation of these forms of collateral that may result in significant variation from period to period. Such risks and uncertainties include unforeseen economic and technological changes in a particular industry, inability to meet future cash flows targets and changes in commodity prices.

The loan loss allowance is calculated as the difference between (i) the carrying value of the loan and (ii) the present value of estimated net proceeds on disposal using the interest rate of the loan as the discount rate. The extent of estimates and judgment applied in determining a loan's impaired value leads to significant measurement uncertainty, and the ultimate value realized from such security may be materially different than that estimated by management. Additionally, monetizing certain impaired loans or their underlying security may not occur on a timely basis, given the nature of the security or its location.