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**Management's Discussion and Analysis – Three and Six Months Ended June 30, 2016**

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- Provision for loan losses/assets acquired from loans of \$14.4 million was recorded in the statement of income for the quarter. Included in this amount is an unusual incremental provision of \$12.0 million related to Gray Aqua Group Ltd. As at March 31, 2016, the Company had taken provisions totaling \$25.4 million relating to the loan to this Canadian salmon farming operations based largely on estimates of the live salmon inventory prepared by independent third party evaluators. The inventory estimates were updated in the second quarter, and indicate there are fewer fish than originally expected and that those measured are smaller in size than previously estimated. Based on new cash flow forecasts derived from the revised inventory estimates, the Company deemed an incremental provision was necessary. Callidus will continue to have the inventory independently monitored periodically until the final harvest in March 2017.
- During the quarter, the Company recognized a recovery of \$8.5 million under the Catalyst guarantee due to the