SELECTED FINANCIAL DATA

(In thousands, except per share amounts)
(years ended December 31)

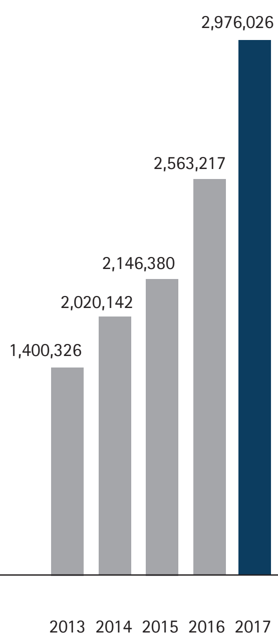
	2017	2016	2015	2014	2013
	$	$	$	$	$
SUMMARY OF OPERATIONS					
Total revenues and investment gains (loss)	488,972	335,828	(166,763)	297,551	489,676
Net income (loss)	197,805	117,181	(111,261)	141,179	243,324
Diluted earnings (loss) per share	60.03	34.50	(35.39)	41.26	73.20
FINANCIAL DATA					
Total assets	2,976,026	2,563,217	2,146,380	2,020,142	1,400,326
Total equity	1,063,385	942,562	856,290	821,740	630,362

COMMON STOCK INFORMATION

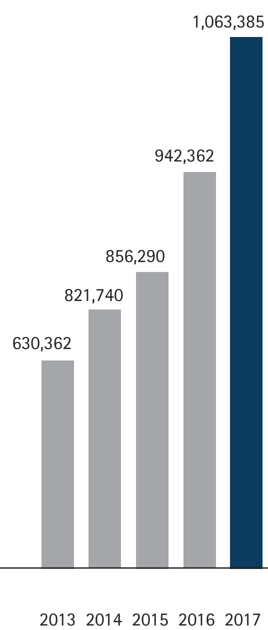
The company's common shares are listed on the Toronto Stock Exchange under the symbol SEC.

	2017		2016	
	$		$	
FISCAL QUARTER	High	Low	High	Low
First	175.64	162.99	153.00	122.42
Second	211.05	171.00	173.00	126.00
Third	231.55	210.43	154.00	134.91
Fourth	250.00	226.13	181.99	148.47

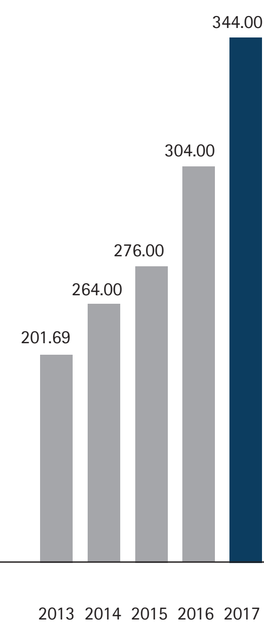
TOTAL ASSETS ($ thousands)



TOTAL EQUITY ($ thousands)



BOOK VALUE PER SHARE



Management's Discussion and Analysis

OVERALL PERFORMANCE

Senvest Capital ("Senvest" or the "Company") continued its successful run from 2016 with a good year of performance noted by outperforming broader equity indices through the first three quarters and then experiencing a pullback in the fourth quarter. Wall Street strategists had modest expectations for the markets at the start of 2017, with Barron's citing an average of a 5% projected gain for the S&P 500. Equity markets, of course, defied predictions as the U.S. equity market saw the best returns since 2013 (Morgan Stanley). The strong stock market performance was noted for its low volatility, lack of correlation among stocks, strength of the technology sector and the momentum factor.

Technology stocks performed as the best sector (up 39%) in the S&P 500, also leading the tech-heavy Nasdaq to outpace other U.S. benchmark indices (up 33% for the year). The "FAANG" stocks (Facebook, Amazon, Apple, Netflix, Google) contributed 37% of the Nasdaq's gains, with those stocks increasing anywhere from 30% to 55%.

The "VIX" (a volatility index established by the Chicago Board Options Exchange which measures investors' expectation of 30-day volatility in the S&P 500, widely regarded as a measure of market risk and a "fear gauge") remained low all year, averaging a measure of 11.1 and hit an all-time low level of just above 9. The S&P 500 moved 1% or more eight times last year – the last time it moved eight times or fewer was 1965 and the 60-year average, until last year, was 53 times (Morgan Stanley). Record low correlations between stocks were also featured in last year's market dynamics. Analysts at S&P Global hypothesized that "markedly different reactions to the year's major events created stronger diversification effects, dampening volatility in the benchmarks."

The past year was notable for the performance of the "Momentum factor". Goldman Sachs reported "2017 was an exceptional year for the Momentum factor, especialy in the US – the first year where Momentum outperformed all other factors". Senvest was able to generate comparable to market returns in 2017 (even though we underperformed the market in the fourth quarter) while not being part of the Momentum game. Our modus operandi has always been that of stock pickers.

In last year's annual letter, we discussed our optimism for the economy, equity markets and our investments. Despite a remarkable year of tumult, the Trump administration has largely delivered on three of the four tailwinds we mentioned. Even with all the uncertainty of what this unconventional President might bring, his administration's notable achievements, from a business perspective, included passage of tax reform legislation and reduced regulation. (As usual we do not comment on the administration's non-business related platform). Tax reform established lower corporate tax rates and incentives (which would create higher earnings and increased capital spending) and generally lower consumer tax rates (greater disposable income, except for certain high income tax states). On the regulatory front, according to the U.S. Chamber of Commerce the administration completed 67 deregulatory actions to only three new regulatory actions, reducing the burden of regulations, they estimate, by $570 million annually. While the absolute numbers may not be impressive, this represents a major inflection from the consistent burden in prior years (for example, an added $6.9 billion annually in 2015 alone) and the first time the cumulative regulatory burden has been reduced. Perhaps even more importantly, the New York Times observes "...the administration has instilled faith in business executives that new regulations are not coming." In addition to higher earnings and less commercial friction, the change in the regulatory environment creates a meaningful change in business confidence, which one would expect to lead to more business investment.

As 2018 begins the public perception appears to be that "Every major economy on earth is expanding at once, a synchronous wave of growth that is creating jobs, lifting fortunes and tempering fears of popular discontent." (NY Times, January 27, 2018). Small business and consumer confidence soared post the Trump election and remained close to their highs into year end. European economic sentiment and consumer confidence has also registered new highs not seen for more than a decade. In light of the strong global economy, it's no surprise that domestic equity markets have hit all-time highs. We do not know what the 2018 year will bring but one would think that market volatility has nowhere to go but up.

Some of the largest holdings as at December 31, 2017 were, Paramount Resources (POU), Tower Semiconductors (TSEM), Radware (RDWR), Quotient Technology (QUOT), TrueCar (TRUE), Solar Edge (SEDG) and Northstar Realty Europe (NRE). While Canadian oil and gas exploration and production company POU was the biggest loser in the fourth quarter, it was still one of the top winners for the 2017 year as a whole. We have discussed this investment in past letters and we view the fourth quarter decline as a speedbump rather than as an indicator of problems. In December, POU management announced a normal course issuer bid indicating that they see value in their stock. Analog semiconductor foundry Tower Semiconductor ("TSEM") was the largest gainer for the year. TSEM continued its spectacular performance with a 10% price increase in the fourth quarter. The company has announced a partnership with a Chinese company to co-develop a new fab in China. This should enable TSEM to address the large and burgeoning Chinese market while simultaneously increasing capacity with relatively minimal capital expenditure. Management has a track record of growing capacity in an intelligent, capital efficient manner. Solar energy equipment supplier Solar Edge ("SEDG") was the second biggest gainer in 2017 and also increased by over 30% in the fourth quarter. SEDG has unveiled its next generation power optimizer, a larger capacity commercial inverter to address large scale commercial installations and an innovative product for the electric vehicle charger market. TrueCar ("TRUE"), an online marketplace that enables price discovery for car buyers and introductions to car dealers, had an up and down year. It performed very well in certain parts of the year while suffering large price declines in other parts of the year.

On the negative side, Depomed was the biggest loser in the 2017 year. The problems with Depomed have been discussed in prior letters, as well as the long road ahead for the restructuring it undertook earlier in the year. Depomed had positive performance in the fourth quarter so it seems that the stock has stabilized for now. Aegean Marine Petroleum Network (ANW) was another of the biggest losers in 2017. Management has attributed the poor performance to unusually competitive conditions in a few of its larger ports. ANW's business historically has been lumpy and the company has a history of sporadically posting a weak quarter. Management has announced ongoing cost cutting initiatives which involve asset sales and a move to more of an "asset light" brokering business model.

Senvest recorded a net income attributable to the owners of the parent of $166.0 million or $60.03 per basic and diluted common share for the year ended December 31, 2017. This compares to net income attributable to owners of the parent of $96.8 million or $34.50 per basic and diluted common share for the 2016 year. After prior years where there was significant appreciation in the US dollar versus the Canadian dollar, the current year has seen a reversal of some of that appreciation. For the year, the result has been a currency translation loss of about $58.5 million from the net income attributable to the owners of the parent. This amount is not reported in the Company's income statement rather it is reflected in its Comprehensive income. As a result the comprehensive income attributable to owners of the parent was $107.4 million

The Company's income from equity investments in 2017 was the biggest contributor to the net income recorded and was more than the corresponding amount in 2016. The net gain on equity investments and other holdings (and also securities sold short and derivative liabilities) totalled $485.9 million in the current year versus $322.0 million in 2016. Due to the depreciation of the US dollar versus other major currencies, our foreign exchange loss for the year was approximately $19.7 million

The Company has made significant investments in its US operations, primarily in people, systems, technology and office space. This investment represents a significant effort in a short amount of time to raise the quality of its infrastructure and personnel. As a result, the Company's operating costs have been increasing in the recent past from historical levels. The compensation costs have increased for this year versus the prior year due to significantly higher bonus payments. Interest expense is also significantly higher than the prior year due to both higher interest rates and higher short rebate costs.

The Senvest Master Fund (Senvest Partners Fund) is focused primarily on small and mid-cap companies. The fund recorded a profit of over 17% net of fees for the year. In April the fund marked its 20 year anniversary. With most of the long portfolio invested in small and mid-cap stocks, the fund outperformed its most relevant benchmark, the Russell 2000, for the year. The fund was a little below the S&P 500 index for the year but does not consider this index as a benchmark. The Senvest Israel Partners Fund was initiated in 2003 to focus on investing in Israel related companies. This fund recorded a profit of almost 33% net of fees for the year (monthly results of both funds can be found on the Company's website). The two funds had approximately $1.57 billion of net assets under management at December 31, 2017. Both of these funds are consolidated into the accounts of the Company.

The Company has a portfolio of real estate investments as at December 31, 2017. One part of this amount represents investments in different US REITs. These REITs are not publicly traded and there is no established market for them. The most likely scenario for a disposal of these holdings is an eventual sale of the underlying real estate properties of the REITs and the distribution to its holders. Also, there are minority interests in private entities whose main assets are real estate properties. As described above for the REITs, the most likely scenario for a disposal of these holdings is an eventual sale of the underlying real estate properties.

The Company also has investment properties in lands and buildings used to earn rental income. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties will be remeasured at fair value, using the fair value model. The fair value is based on external valuations from third party valuators. Gains or losses arising from changes in fair value of investment properties will be included in the Company's net profit or loss. The Company acquired a majority of these properties pursuant to a business combination. The Company (the acquirer) purchased 100% of the voting and equity interests of Bogas Costa Del Sol SL, Globalbox Arganda SL, Globalbox Rivas SL and Coldstream SL (the acquirees) on January 16, 2017. The payment was cash consideration of approximately $9.8 million. The transaction was accounted for under the purchase method. The net assets of the acquired companies were valued at fair value and there was no resulting goodwill on the purchase. There was no contingent consideration nor any non-controlling interests that arose due to the transaction. The related debt against these investment properties as at December 31, 2017 totaled approximately $4.5million and has been included as part of Trade and other payables.

The Company consolidates the Senvest Management LLC entity that serves as the investment manager of Senvest Partners and Senvest Israel Partners as well as the general partners of the funds. The portion of the expected residual returns of structured entities that do not belong to the Company is reflected as a non-controlling interest on the statement of financial position. This non-controlling interest is owned by an executive of the Company and totalled $119.9 million as at December 31, 2017 from $98.1 million as at December 31, 2016.

At the end of December 31, 2017, Senvest had total consolidated assets of $2,976.0 million versus $2,563.2 million at the end of 2016. The main reason for this was the change in equity investments and other holdings. Equity investments and other holdings increased to $2,533.1 million from $2,289.3 million in the prior year. The Company purchased $1,552.9 million of investment holdings in the year and sold $1,808.3 million of such holdings. The Company's liabilities increased to $1,912.6 million this year versus $1,620.7 million in 2016. A contributor to this increase was a $115.0 million change in the liability for redeemable units. One reason for the increase in this account was the appreciation of the interests of the non-Senvest investors in the funds. In addition, the securities sold short and derivative liabilities also increased by approximately $190 million from the end of the prior year. The proceeds of securities sold short were $2,627.0 million and the amount of shorts covered was $2,568.1 million in the year. Both these figures were more than the corresponding amounts for the prior year. The net selling resulted in an increase in our short position. As a whole, the 2017 year was less volatile than 2016.

Functional currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the parent company is the US dollar.

Presentation currency

The Company has adopted the Canadian dollar as its presentation currency, which in the opinion of management is the most appropriate presentation currency. Historically, the Company's consolidated financial statements have been presented in Canadian dollars, and since the company's shares are listed on a Canadian stock exchange, management believes it would better serve the use of shareholders to continue issuing consolidated financial statements in Canadian dollars. The US dollar consolidated financial statements are translated into the presentation currency as follows: assets and liabilities – at the closing rate at the date of the consolidated statement of financial position; and income and expenses – at the average rate for the period. All resulting changes are recognized in other comprehensive income (loss) as currency translation differences. Equity items are translated using the historical rate.

Risks

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk, currency risk and equity price risk), credit risk and liquidity risk.

The Company's overall risk management program seeks to maximize the returns derived for the level of risk to which the Company is exposed and seeks to minimize potential adverse effects on the Company's financial performance. Managing these risks is carried out by management under policies approved by the Board.

The Company uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

Market risk

Fair value and cash flow interest rate risks

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The majority of the Company's debt is based on floating rates which expose the Company to cash flow interest rate risk. The Company does not have a long-term stream of cash flows that it can match against this type of fixed debt, so it prefers to use short-term floating rate debt. The Company does not mitigate its exposure to interest rate fluctuation on floating rate debt. If interest rates spike, then the Company could enter into interest rate swaps or more probably just reduce its debt level. As at December 31, 2017, the Company had listed sufficient equity securities that it can sell to reduce its floating rate debt to zero.

Currency risks

Currency risk refers to the risk that values of monetary financial assets and liabilities denominated in foreign currencies will vary as a result of changes in underlying foreign exchange rates. The Company's functional currency is the US dollar. The Company has foreign currency exposure to the Canadian dollar, the British pound sterling, the Euro, the Swedish krone, and the Israeli shekel.

Equity price risk

Equity price risk is the risk that the fair value of equity investments and other holdings and equities sold short and derivatives will vary as a result of changes in the market prices of the holdings. The majority of the Company's equity investments and other holdings and all of the securities sold short are based on quoted market prices as at the consolidated statement of financial position date. Changes in the market price of quoted securities and derivatives may be related to a change in the financial outlook of the investee entities or due to the market in general. Where non-monetary financial instruments – for example, equity securities – are denominated in currencies other than the US dollar, the price, initially expressed in a foreign currency and then converted into US dollars, will also fluctuate because of changes in foreign exchange rates.

Securities sold short represent obligations of the Company to make future delivery of specific securities and create an obligation to purchase the security at market prices prevailing at the later delivery date. This creates the risk that the company's ultimate obligation to satisfy the delivery requirements will exceed the amount of the proceeds initially received or the liability recorded in the consolidated financial statements. In addition, the Company has entered into derivative financial instruments, which have a notional value greater than their fair value, which is recorded in the financial statements. This creates a risk that the Company could settle these instruments at a value greater or less than the amount that they have been recorded in the financial statements.

The Company's equity investments and other holdings have a downside risk limited to their carrying value, while the risk of equities sold short and derivatives is open ended. The Company is subject to commercial margin requirements which act as a barrier to the open-ended risks of the securities sold short and derivatives. The Company closely monitors both its equity investments and other holdings and its equities sold short and derivatives.

The impact of a 30% change in the market prices of the Company's equity holdings with quoted value and derivatives, securities sold short and derivative liabilities as at December 31, 2017 would be as follows (in thousands):

	Fair value	Estimated fair value 30% price increase	Estimated fair value 30% price decrease
Equity investments and other holdings			
Listed equity securities and derivatives	2,395,241	3,113,813	1,676,668
Securities sold short and derivative liabilities	(899,655)	(1,169,551)	(629,758)
Before-tax impact on net earnings		448,676	(448,676)

Liquidity risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial obligations. The Company's largest assets are equity investments and other holdings. Most of these assets are made up of equities in public holdings which can be liquidated in a relatively short time. Due to its large holding of liquid assets, the Company believes that it has sufficient resources to meet its obligations.

All financial liabilities other than securities sold short and derivative liabilities and some other payables as at the consolidated statement of financial position date mature or are expected to be repaid within one year. The liquidity risk related to these liabilities is managed by maintaining a portfolio of liquid investment assets.

Credit risk

Credit risk is the risk that a counterparty will fail to fulfill its obligations under a contract and will cause the Company to suffer a loss.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is executed only once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

The Company is also exposed to counterparty credit risk on its cash and cash equivalents, restricted short term investment and due from brokers.

From time to time, the Company enters into derivative financial instruments consisting primarily of options and warrants to purchase or sell equities, equity indices and currencies, equity swaps, foreign currency forward contracts, and foreign currency futures contracts. These derivative instruments are marked to market. There is deemed to be no credit risk for futures and certain options that are traded on exchanges. The warrant contracts and certain options that are not traded on an exchange allow the company to purchase underlying equities at a fixed price. Equity swaps represent future cash flows that are agreed to be exchanged between the Company and counterparties at set dates in the future. Foreign currency forward contracts are contracts to buy or sell foreign currencies at a specified price at a future point in time.

Capital risk management

The Company's objective when managing its capital is to maintain a solid capital structure appropriate for the nature of its business. The Company considers its capital to be its shareholders equity. The Company manages its capital structure in light of changes in economic conditions. To maintain or adjust its capital structure, the Company initiates normal course issuer bids or adjusts the amount of dividends paid. The Company monitors capital on the basis of its net liabilities-to-capital ratio, which is as follows (in millions):

	December 31, 2017	December 31, 2016
Total net liabilities	$1,612.6	$1,429.1
Total equity	$1,063.4	$942.6
Debt to Capital ratio	1.52	1.52

The Company's goal is to maintain a net debt to Capital ratio below 2.0 in order to limit the amount of risk. The Company defines its net liabilities to equal its total liabilities less its due from brokers. The Company believes that limiting its net liabilities to Capital ratio in this manner is the best way to control risk. The Company's net liabilities to capital ratio stayed at 1.52 at the end of December 2017 from the same ratio at the end of 2016.

Investment Risk

To the extent not discussed above, the Company is subject to additional risks with respect to the investments made.

The value of the Company's portfolio may decrease as well as increase, due to a variety of factors, including general economic conditions, and market factors. Additionally, investment decisions made by the Company may not always be profitable or prove to have been correct. Investment strategies, at any given time, may incur significant losses. Losses can occur for a number of reasons, including but not limited to, an overall decline in the underlying market, a lack of liquidity in the underlying markets, excessive volatility in a particular market, government intervention or monetary and/or fiscal policies of a specific region or country. The profitability of a significant portion of the Company's investments also depends to a great extent upon the Company's ability to correctly assess the future course of the price movements of securities and other investments. There can be no assurance that the Company will be able to accurately predict these price movements.

The Company's investment strategy is speculative and involves risk. The Company trades in options and other derivatives, as well as using short sales and utilizing leverage. The portfolio may not be diversified among a wide range of issuers or industries. In addition, the Company may take concentrated positions in its high conviction ideas, invest in high yield securities or invest in foreign markets outside the US and Canada. Accordingly, the investment portfolio may be subject to more rapid change in value than would be the case if the Company were required to maintain a wide diversification in the portfolios among industries, areas, types of securities and issuers.

The Company may make investments in the securities of high growth companies. More specifically, the Company may have significant investments in smaller-to-medium sized companies with market capitalizations of less than $2 billion US. While smaller companies may have potential for rapid growth, they often involve higher risks because they lack the management experience, financial resources, product diversification, and competitive strengths of larger corporations. These factors make smaller companies far more likely than their larger counterparts to experience significant operating and financial setbacks that threaten their short-term and long-term viability. In addition, in many instances, the frequency and volume of their trading is substantially less than is typical of larger companies. As a result, the securities of smaller companies may be subject to wider price fluctuations and exiting investments in such securities at appropriate prices may be difficult, or subject to substantial delay. Furthermore, some of the portfolio may be invested in technology, technology-related markets and biotech. These types of companies may allocate greater than usual amounts to research and product development. The securities of such companies may experience above-average price movements associated with the perceived prospects of success of the research and development programs. Also, these companies could be adversely affected by lack of commercial acceptance of a new product or products or by technological change and obsolescence. Some of these companies may have limited operating histories. As a result, these companies may face undeveloped or limited markets, have limited products, have no proven profit-making history, operate at a loss or with substantial variations in operating results from period to period, have limited access to capital and/or be in the developmental stages of their businesses.

The Company tries to manage the above risks by monitoring its leverage, actively following its investee companies and trying to react to market conditions. At the same time the Company expects its portfolio to exhibit a higher degree of volatility than portfolios that invest in larger more stable companies and that invest within more defined limits. As at December 31, 2017, approximately 90% of the Company's portfolio was invested in Level 1 securities. The Company monitors its Level 1 securities as percentage of its total investments; however, it does not have a fixed number that this percentage cannot fall below.

Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates applied by management that most significantly affect the Company's consolidated financial statements. These estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Consolidation of entities in which the company holds less than 50% of the voting rights.

Management considers that the company has de facto control of Senvest Management LLC (SML), RIMA Senvest Master Fund GP LLC, and Senvest Israel Partners GP LLC., three legal entities wholly owned by an executive of the Company, because of the Company's board representation and the contractual terms of the investment advisory agreement. SML is the investment adviser to the Funds, whereas RIMA Senvest Master Fund GP LLC is the General Partner of Senvest Master Fund LP and Senvest Israel Partners GP LLC is the General Partner of Senvest Israel Partners Master Fund LP.

Management considers that the Company has control of Senvest Master Fund LP, Senvest Israel Partners Master Fund LP and Senvest Cyprus Recovery Investment Partners LP even though the Company has less than 50% of the voting rights in each of the Funds. The Company assessed that the removal rights of non-affiliated unitholders are exercisable but not strong enough given the Company's decision-making authority over relevant activities, the remuneration to which it is entitled and its exposure to returns. The Company, through its structured entity, is the majority unitholder of each of the Funds and acts as a principal while there are no other unitholders forming a group to exercise their votes collectively.

Fair value estimates of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or by using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. To the extent practical, models use only observable data; however, areas such as credit risk (both the company's own credit risk and counterparty credit risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Financial instruments in Level 1

The fair value of financial assets and financial liabilities traded in active markets are based on quoted market prices at the close of trading on the balance sheet date. The quoted market price used for financial assets and financial liabilities held by the Company is the close price. Investments classified in Level 1 include active listed equities and derivatives traded on an exchange. The financial assets classified as Level 1 were approximately 90% of the total financial assets.

Financial instruments in Level 2

Financial instruments classified with Level 2 trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or valuation techniques that use market data. These valuation techniques maximize the use of observable market data where available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. These include corporate bonds, thinly traded listed equities, over-the-counter derivatives and private equities.

The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each year-end date. Valuation techniques used for non-standardized financial instruments such as options and other over-the-counter derivatives include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses, option pricing models and other valuation techniques commonly used by market participants, making maximum use of market inputs and relying as little as possible on entity-specific inputs. The financial assets classified as Level 2 were under 6% of the total financial assets.

Financial instruments in Level 3

Investments classified in Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments consist mainly of unlisted equity investments and real estate investments. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value. The financial assets classified as Level 3 were under 5% of the total fair value of financial assets.

Level 3 valuations are reviewed by the Company's Chief Financial Officer (CFO), who reports directly to the Board on a quarterly basis in line with the Company's reporting dates. On an annual basis, close to the year-end date, the Company obtains independent, third party appraisals to determine the fair value of the Company's most significant Level 3 holdings. The quarterly and annual valuations of the significant level 3 holdings are carried out externally. The Company's CFO reviews the results of the independent valuations. Emphasis is placed on the valuation model used to determine its appropriateness, the assumptions made to determine whether it is consistent with the nature of the investment, and market conditions and inputs such as cash flow and discount rates to determine reasonableness.

As at December 31 2017, Level 3 instruments are in various entities and industries. The real estate investments are made up of investments in private real estate companies, in real estate income trusts and in investment properties. For the main Level 3 instruments, the Company relied on appraisals carried out by independent third party valuators or on recent transactions. There was no established market for any of these investments, so the most likely scenario is a disposal of the underlying assets. For the investments in real estate income trusts, the company relied mainly on audited financial statements, valuing the assets at fair value. The most likely scenario is an eventual sale of the underlying properties and their subsequent distribution to the holders.

Liability for redeemable units

Liability for redeemable units represents the units in the consolidated funds that are not owned by the Company. Units may be redeemed as of the end of any calendar quarter; provided, however, that redemptions made within the first 24 months will be subject to a redemption fee which is payable to the funds. In addition, there are notice periods of 60 days that must be given prior to any redemption. Senvest Cyprus Recovery Investment Fund LP has units that cannot be redeemed until December 2018. These units are recognized initially at fair value, net of any transaction costs incurred, and subsequently measured at redemption amount. At the individual fund level, this item is not shown as a liability but as part of shareholders equity. It is deemed to be a liability only for the consolidated financial statements as they are prepared from the point of view of the parent company.

Income taxes

TThe Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provisions for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

QUARTERLY RESULTS

(In thousands except for earnings (loss) per share information)

Year	Total revenue and investments gain (losses)	Net income (loss) – owners of the parent	Earnings (loss) per share
2017-4	2,234	491	0.29
2017-3	236,284	74,964	27.10
2017-2	121,348	42,669	15.40
2017-1	129,106	47,843	17.24
2016-4	64,623	26,923	9.67
2016-3	328,896	109,942	39.08
2016-2	73,023	14,748	5.22
2016-1	(130,714)	(54,830)	(19.47)

CONTRACTUAL OBLIGATIONS
(In thousands)

	Less than 1 year	1-3 years	4-5 years	Total
Due to Brokers	16,784	-	-	16,784
Operating leases	1,182	2,484	2,176	5,842
Other commitments	9,641	-	-	9,641
Total	27,607	2,484	2,176	32,267

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(In thousands except for earnings (loss) per share information)

	2017	2016	2015
Total revenue and investment gains (loss)	488,972	335,828	(166,763)
Net income (loss) – owners of the parent	165,967	96,783	(99,826)
Earnings (loss) per share	60.03	34.50	(35.39)
Total assets	2,976,026	2,563,217	2,146,380

The Company has had wide swings in profitability from quarter to quarter in the past two years, as seen above. Of the eight most recent quarters, there have been seven profitable quarters and one losing quarters. Still the profit has fluctuated a significant amount quarter to quarter. Also, the highest earning quarter showed a profit of over $100 million and the least profitable quarter had a loss of over $50 million. These wide swings are primarily due to the large quarterly mark to market adjustments in the Company's portfolio of public holdings. However, we expect the volatility and choppiness of the markets to result in wide profit swings from year to year and from quarter to quarter. Reference is made to the section on Investment risk above.

The Company maintains accounts with several major financial institutions in the U.S. who function as the Company's main prime brokers. The Company has assets with the prime brokers pledged as collateral for leverage. Although the prime brokers are large financial institutions, there is no guarantee that any financial institution will not become insolvent. In addition, there may be practical or time problems associated with enforcing the Company's rights to its assets in the case of such insolvency.

While both the U.S. Bankruptcy Code and the Securities Investor Protection Act seek to protect customer property in the event of a failure, insolvency or liquidation of a broker dealer, there is no certainty that, in the event of a failure of a broker dealer that has custody of the Company's assets, the company would not incur losses due to its assets being unavailable for a period of time, ultimately less than full recovery of its assets, or both. As a significant majority of the Company's assets are in custody with four prime brokers, such losses could be significant.

On August 14, 2017, Senvest commenced a new normal course issuer bid to purchase a maximum of 82,000 of its own common shares until August 13, 2018. There were 25,400 shares repurchased under the new bid and 38,100 purchased for the year. The number of common shares outstanding as at December 31, 2017 was 2,739,724 and as at March 28, 2018 was 2,725,924. There were no stock options outstanding as at December 31 2017 and none have been issued since 2005.

The Company has financing with a bank, composed of a credit facility and a guarantee facility. A first ranking movable hypothec in the amount of $30 million on all of its assets has been granted as collateral for both of the facilities. According to the terms of the facilities, the Company is required to comply with certain financial covenants. During the period, the Company met the requirements of all the covenants. The Company also has margin facilities with brokers.

New and amended accounting standard adopted in 2017

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017:

- Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12, and

- Disclosure initiative – Amendments to IAS 7.

The adoption of these amendments did not have any impact on the amounts recognized in prior periods. The amendments also do not affect significantly the current or future periods.

Accounting standards and amendments issued but not yet adopted

The Company presents the developments that are relevant to its activities and transactions. The following revised standards and amendments are not mandatory for December 31, 2017 reporting periods and have not been applied in preparing these consolidated financial statements. The Company has not early adopted these standards and amendments.

- IFRS 15, Revenue from Contracts with Customers (IFRS 15), deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company is in the final stage of analyzing the impact of the adoption of IFRS 15. The impact is not expected to be significant.

- In July 2014, the IASB issued the complete version of IFRS 9, Financial Instruments (IFRS 9), first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement.

  IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured at fair value through profit or loss, fair value through other comprehensive income or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets not at fair value through profit or loss. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities, permits hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks, and requires additional disclosures. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently in the final stage of analyzing the impact of the adoption of IFRS 9 on the consolidated financial statements. The Company does not expect the new guidance to significantly affect the classification of measurement of its financial assets.

- IFRS 16, Leases, was published in January 2016 by the IASB. This standard will replace the current guidance in IAS 17, Leases, and require lessees to recognize an asset and a lease liability reflecting a "right-of-use asset" and future lease payments, respectively, for virtually all lease contracts. The standard applies to annual periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15 is adopted. The Company is currently assessing the impact of this standard on the consolidated financial statements. As at December 31, 2017, the operating leases disclosed in Note 20 to the audited consolidated financial statements are in scope with IFRS 16.

- IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures, were amended in 2014 to address an inconsistency between those standards when accounting for the sale or a contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, whereas a partial gain is recognized when the transaction involves assets that do not constitute a business. The mandatory effective date of this amendment will be determined by the IASB at a future date. Voluntary application is permitted.

- The amendment to IAS 40 related to the transfers of investment property clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence that a change in use as occurred. A change in use occurs when the property meets, or ceases to meet, the definition on investment property. A change in intention alone is not sufficient to support a transfer. The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company is currently assessing the impact of this standard on the consolidated financial statements.

Related party transactions

The Company consolidates the Senvest Management LLC entity that serves as the investment manager of Senvest Partners and Senvest Israel Partners as well as the general partners of the funds. The portion of the expected residual returns of structured entities that do not belong to the Company is reflected as a non-controlling interest on the statement of financial position. This non-controlling interest is owned by an executive of the Company and totalled $119.9 million as at December 31, 2017 from $98.1 million as at December 31, 2016.

Significant Equity Investments

For information on a summary of financial information from certain significant investees please refer to the 2017 annual report. The accounts of Senvest Partners, Senvest Israel Partners and Senvest Cyprus Recovery Investment Fund are consolidated with the Company's accounts.

FORWARD LOOKING STATEMENTS

This MD&A contains "forward looking statements" which reflect the current expectations of management regarding our future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "may", "would", "could", "will", "anticipate","believe", "plan", "expect", "intend", "estimate", "aim", "endeavour", "likely", "think" and similar expressions have been used to identify these forward looking statements. These statements reflect our current beliefs with respect to future events and are based on information currently available to us. Forward looking statements involve significant known and unknown risks, uncertainties and assumptions. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward looking statements including, without limitation, those Risk Factors listed in the Company's annual information form. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward looking statements contained in this MD&A. These forward looking statements are made as of March 29, 2018 and will not be updated or revised except as required by applicable securities law.

OTHER FINANCIAL INFORMATION

There is additional financial information about the Company on Sedar at www.sedar.com and on the Company's website at www.senvest.com, as well the Company's or Senvest Management's U.S. SEC section 13 and other filings on www.sec.gov.

INTERNAL CONTROLS

Disclosure controls and procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified under those laws, and include controls and procedures that are designed to ensure that the information is accumulated and communicated to management, including Senvest's President and CEO and Vice-President and CFO, to allow timely decisions regarding required disclosure. As at December 31, 2017, management evaluated, under the supervision of and with the participation of the CEO and the CFO, the effectiveness of our disclosure controls and procedures, under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as at December 31, 2017.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting under National Instrument 52-109. Our internal control over financial reporting is a process designed under the supervision of the CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Management evaluated, under the supervision of and with the participation of the CEO and the CFO, the effectiveness of our internal control over financial reporting as at December 31, 2017, based on the criteria established in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, the CEO and CFO concluded that our internal control over financial reporting was effective as at December 31, 2017. There have been no changes during the year ended December 31, 2017 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Victor Mashaal
Chairman of the Board and President

March 29, 2018

(Management Discussion and Analysis ("MD&A") provides a review of Senvest Capital Inc.'s operations, performance and financial condition for the period ended December 31, 2017, and should be read in conjunction with the 2017 annual filings. Readers are also requested to visit the SEDAR website at www.sedar.com for additional information. This MD&A also contains certain forward-looking statements with respect to the Corporation. These forward-looking statements, by their nature necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control may ultimately prove to be incorrect.)

Management's Report

The consolidated financial statements for the fiscal year ended December 31, 2017 and December 31, 2016, were prepared by the management of Senvest Capital Inc., reviewed by the Audit Committee and approved by the Board of Directors. They were prepared in accordance with International Financial Reporting Standards and are consistent with the company's business.

The company and its subsidiaries maintain a high quality of internal controls, designed to provide reasonable assurance that the financial information is accurate and reliable. The information included in this Annual Report is consistent with the financial statements contained herein.

The financial statements have been audited by PricewaterhouseCoopers LLP, the company's auditors, whose report is provided below.

Victor Mashaal
Chairman of Board and President
Senvest Capital Inc.
March 29, 2018

Independent Auditor's Report

To the Shareholders of Senvest Capital Inc.

We have audited the accompanying consolidated financial statements of Senvest Capital Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion..

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Senvest Capital Inc. and its subsidiaries as at December 31, 2017 and 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A125840

Montréal, Quebec
March 29, 2018

Consolidated Statements of Financial Position

AS AT DECEMBER 31, 2017 AND 2016
(IN THOUSANDS OF CANADIAN DOLLARS)

	Note	2017 $	2016 $
Assets			
Cash and cash equivalents	4	53,122	26,978
Restricted short-term investments	5(a)	460	459
Due from brokers	5(b)	299,996	191,602
Equity investments and other holdings	6	2,533,174	2,289,288
Investments in associates	7	12,681	12,461
Real estate investments	8	30,789	35,938
Investment properties	9	26,738	1,874
Income taxes receivable		13,771	-
Other assets		5,295	4.617
Total assets		2,976,026	2,563,217
Liabilities			
Bank advances	5(a)	2,276	509
Trade and other payables	11	29,130	20,055
Due to brokers	5(b)	16,784	56,754
Securities sold short and derivative liabilities	6	917,511	727,644
Redemptions payable		10,265	2,299
Subscriptions received in advance		16,992	3,315
Income taxes payable		-	1,253
Deferred income tax liabilities	12(b)	43,485	47,599
Liability for redeemable units		876,198	761,227
Total liabilities		1,912,641	1,620,655
Equity			
Equity attributable to owners of the parent			
Share capital	13	22,751	23,057
Accumulated other comprehensive income		122,019	180,596
Retained earnings		798,718	640,816
Total equity attributable to owners of the parent		943,488	844,469
Non-controlling interest	17	119,897	98,093
Total equity		1,063,385	942,562
Total liabilities and equity		2,976,026	2,563,217

Approved by the Board of Directors

Victor Mashaal, Director

Frank Daniel, Director

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(IN THOUSANDS OF CANADIAN DOLLARS. EXCEPT PER SHARE DATA)

	Note	2017 $	2016 $
Revenue			
Interest income		6,972	4,184
Net dividend income		5,940	10,561
Other income		2,504	810
		15,416	15,555
Investment gains (losses)			
Net change in fair value of equity investments and other holdings		485,893	321,977
Net change in fair value of real estate investments		3,814	5,147
Net change in fair value of investment properties		1,345	111
Share of profit (loss) of associates	7	2,182	(505)
Foreign exchange loss		(19,678)	(6,457)
		473,556	320,273
Total revenue and net investment gains		488,972	335,828
Operating costs and other expenses			
Employee benefit expense		54,138	27,769
Interest expense		40,930	18,669
Transaction costs		12,037	7,960
Other operating expenses		14,748	9,917
		121,853	64,315
Change in redemption amount of redeemable units		146,030	133,726
Income before income tax		221,089	137,787
Income tax expense	12(a)	23,284	20,606
Net income for the year		197,805	117,181
Net income attributable to:			
Owners of the parent		165,967	96,783
Non-controlling interests		31,838	20,398
Earnings per share attributable to owners of the parent:			
Basic and diluted	14	60.03	34.50

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(IN THOUSANDS OF CANADIAN DOLLARS)

	2017 $	2016 $
Net income for the year	197,805	117,181
Other comprehensive loss		
Currency translation differences	(66,014)	(24,667)
Comprehensive income for the year	131,791	92,514
Comprehensive income attributable to:		
Owners of the parent	107,390	74,237
Non-controlling interests	24,401	18,277

Other comprehensive loss is composed solely of items that will not be reclassified subsequently to net income.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(IN THOUSANDS OF CANADIAN DOLLARS)

		Equity attributable to owners of the parent					
	Note	Share capital $	Accumulated other comprehensive income $	Retained earnings $	Total $	Non-controlling interests $	Total equity $
Balance – December 31, 2015		23,376	203,142	549,774	776,292	79,998	856,290
Net income for the year		-	-	96,783	96,783	20,398	117,181
Other comprehensive loss		-	(22,546)	-	(22,546)	(2,121)	(24,667)
Comprehensive income (loss) for the year		-	(22,546)	96,783	74,237	18,277	92,514
Repurchase of common shares	13	(319)	-	(5,741)	(6,060)	-	(6,060)
Contribution from non-controlling interests		-	-	-	-	1,590	1,590
Distributions to non-controlling interests		-	-	-	-	(1,772)	(1,772)
Balance – December 31, 2016		23,057	180,596	640,816	844,469	98,093	942,562
Net income for the year		-	-	165,967	165,967	31,838	197,805
Other comprehensive loss		-	(58,577)	-	(58,577)	(7,437)	(66,014)
Comprehensive income (loss) for the year		-	(58,577)	165,967	107,390	24,401	131,791
Repurchase of common shares	13	(306)	-	(8,065)	(8,371)	-	(8,371)
Distributions to non-controlling interests		-	-	-	-	(2,597)	(2,597)
Balance – December 31, 2017		22,751	122,019	798,718	943,488	119,897	1,063,385

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

	Note	2017 $	2016 $
Cash flows provided by (used in)			
Operating activities			
Net income for the year		197,805	117,181
Adjustments for non-cash items	15(a)	(348,261)	(186,721)
Purchase of equity investments and other holdings held for trading		(1,552,882)	(1,008,552)
Purchase of securities sold short and derivative liabilities		(2,568,067)	(1,208,881)
Proceeds on sale of equity investments and other holdings held for trading		1,808,257	924,817
Proceeds from securities sold short and derivative liabilities		2,626,988	1,675,155
Dividends and distributions received from real estate investments		8,199	15,662
Changes in working capital items	15(b)	(165,844)	(336,884)
Net cash provided by (used in) operating activities		6,195	(8,223)
Investing activities			
Transfers to restricted short-term investments		(32)	(15)
Purchase of real estate investments		(2,561)	(520)
Purchase of investment properties		(7,630)	-
Purchase of equity investments and other holdings designated as fair value through profit or loss		(12,457)	(3,956)
Proceeds on sale of equity investments and other holdings designated as fair value through profit or loss		21,949	2,674
Proceeds from investments in associates		1,106	647
Acquisition of subsidiaries, net of cash acquired	18	(9,658)	-
Net cash used in investing activities		(9,283)	(1,170)
Financing activities			
Contribution from non-controlling interests		-	1,590
Distributions paid to non-controlling interests		(2,597)	(1,772)
Increase in bank advances		1,863	262
Repurchase of common shares		(8,371)	(6,060)
Proceeds from issuance of redeemable units		123,954	35,243
Amounts paid on redemption of redeemable units		(83,137)	(21,929)
Net cash provided by financing activities		31,712	7,334
Increase (decrease) in cash and cash equivalents during the year		28,624	(2,059)
Effect of changes in foreign exchange rates on cash and cash equivalents		(2,480)	(889)
Cash and cash equivalents – Beginning of year		26,978	29,926
Cash and cash equivalents – End of year	4	53,122	26,978
Amounts of cash flows classified in operating activities:			
Cash paid for interest		40,412	7,737
Cash paid for dividends on equities sold short		10,699	6,051
Cash received on interest		5,482	4,607
Cash received on dividends		13,831	16,044
Cash paid for income taxes		34,528	15,538

The accompanying notes are an integral part of these consolidated financial statements.

1 General information

Senvest Capital Inc. (the "Company") was incorporated under Part I of the Canada Corporations Act on November 20, 1968 under the name Sensormatic Electronics Canada Limited, and was continued under the Canada Business Corporations Act under the same name effective July 23, 1979. On April 21, 1991, the Company changed its name to Senvest Capital Inc. The Company and its subsidiaries hold investments in equity and real estate holdings that are located predominantly in the United States. The Company's head office and principal place of business is located at 1000 Sherbrooke Street West, Suite 2400, Montréal, Quebec H3A 3G4. The Company's shares are traded on the Toronto Stock Exchange under the symbol "SEC". Refer to note 17 for the composition of the Company.

2 Summary of significant accounting policies

Basis of preparation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as set out in Part I of the Chartered Professional Accountants of Canada (CPA Canada) Handbook – Accounting.

The Board of Directors (Board) approved these consolidated financial statements for issue on March 29, 2018.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities held at fair value through profit or loss, including derivative instruments which have been measured at fair value.

Consolidation

Business Combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The company recognizes any non controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition related costs are expensed as incurred. The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The financial statements of the Company consolidate the accounts of the Company, its subsidiaries and its structured entities. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Where applicable, amounts reported by subsidiaries, associates and structured entities have been adjusted to conform with the Company's accounting policies.

Investments in associates

Associates are entities over which the Company has significant influence but not control, generally accompanying a holding of between 20% to 50% of the voting rights. The financial results of the Company's investments in its associates are included in the Company's consolidated financial statements according to the equity method.

Subsequent to the acquisition date, the Company's share of profits or losses of associates is recognized in the consolidated statement of income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Dilution gains and losses arising from changes in interests in investments in associates are recognized in the consolidated statement of income.

The Company assesses at each year-end whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Company's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the consolidated statement of income. In accordance with International Accounting Standard (IAS) 36, Impairment of Assets, impairment losses are reversed in subsequent years if the recoverable amount of the investment subsequently increases and the increase can be related objectively to an event occurring after the impairment was recognized.

Liability for redeemable units

Liability for redeemable units represents the units in Senvest Master Fund, L.P., Senvest Israel Partners Master Fund, L.P. and Senvest Cyprus Recovery Investment Partners, L.P. Fund (the Funds or individually the Fund) that are not owned by the Company. Senvest Master Fund, L.P. and Senvest Israel Partners Master Fund, L.P. units may be redeemed as of the end of any calendar quarter; however, redemptions made within the first 24 months will be subject to a redemption fee of 3% to 5% which is payable to Senvest Master Fund, L.P. and Senvest Israel Partners Master Fund, L.P. In addition, there are notice periods of 60 days that must be given prior to any redemption. Senvest Cyprus Recovery Investment Partners, L.P. Fund has units that cannot be redeemed until December 31, 2018. These units are recognized initially at fair value, net of any transaction costs incurred, and subsequently units are measured at the redemption amount.

Redeemable units are issued and redeemed at the holder's option at prices based on each Fund's net asset value per unit at the time of subscription or redemption. Each Fund's net asset value per unit is calculated by dividing the net assets attributable to the holders of each class of redeemable units by the total number of outstanding redeemable units for each respective class. In accordance with the provisions of the Funds' offering documents, investment positions are valued at the close price for the purpose of determining the net asset value per unit for subscriptions and redemptions

Non-controlling interests

Non-controlling interests represent equity interests in the consolidated structured entity owned by outside parties. The share of net assets of the structured entity attributable to non-controlling interests is presented as a component of equity. Their share of net income (loss) and comprehensive income (loss) is recognized directly in equity. Changes in the parent company's ownership interest in the structured entity that do not result in a loss of control are accounted for as equity transactions.

Foreign currency translation

Functional currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the parent company is the US dollar.

Transactions and balances

Foreign currency transactions are translated into the relevant functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of income.

All foreign exchange gains and losses are presented in the consolidated statement of income in foreign exchange gain (loss).
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Consolidation and foreign operations

The financial statements of an entity that has a functional currency different from that of the parent company are translated into US dollars as follows: assets and liabilities – at the closing rate at the date of the consolidated statement of financial position; and income and expenses – at the average rate for the period (as this is considered a reasonable approximation of actual rates). All resulting changes are recognized in other comprehensive loss as currency translation differences.

When an entity disposes of its interest in a foreign operation, or loses control or significant influence over a foreign operation, the foreign exchange gains or losses accumulated in other comprehensive loss related to the foreign operation are recognized in net income. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign exchange gains or losses accumulated in other comprehensive loss related to the subsidiary are reallocated between controlling and non-controlling interests.

Presentation currency

The Company has adopted the Canadian dollar as its presentation currency, which in the opinion of management is the most appropriate presentation currency. Historically, the Company's consolidated financial statements have been presented in Canadian dollars, and since the Company's shares are listed on a Canadian stock exchange, management believes it would better serve the use of shareholders to continue issuing consolidated financial statements in Canadian dollars. The US dollar consolidated financial statements described above are translated into the presentation currency as follows: assets and liabilities – at the closing rate at the date of the consolidated statement of financial position; and income and expenses – at the average rate for the period. All resulting changes are recognized in other comprehensive loss as currency translation differences. Equity items are translated using the historical rate.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Financial instruments

At initial recognition, the Company classifies its financial instruments in the following categories, depending on the purpose for which the instruments were acquired:

a) **Financial assets and financial liabilities at fair value through profit or loss**

   Classification

   The Company classifies its equity investments and other holdings, real estate investments and equities sold short and derivatives as financial assets or financial liabilities at fair value through profit or loss. This category has two subcategories: financial assets or financial liabilities held for trading and those designated at fair value through profit or loss.

i) Financial assets and financial liabilities held for trading

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition it is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading. The Company does not classify any derivatives as hedges in a hedging relationship.

The Company makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions.

From time to time, the Company enters into derivative financial instruments for speculative purposes. These instruments are marked to market, and the corresponding gains and losses for the year are recognized in the consolidated statement of income. The carrying value of these instruments is fair value, which approximates the gain or loss that would be realized if the position were closed out as at the consolidated statement of financial position date. The fair value is included in equity investments and other holdings if in an asset position or securities sold short and derivative liabilities if in a liability position.

ii) Financial assets and financial liabilities designated as fair value through profit or loss

Financial assets and financial liabilities designated as fair value through profit or loss are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Company's documented investment strategy.

The Company's policy requires management to evaluate the information about these financial assets and financial liabilities on a fair value basis together with other related financial information.

Recognition, derecognition and measurement

Regular purchases and sales of investments are recognized on the trade date – the date on which the Company commits to purchase or sell the investment. Financial assets and financial liabilities at fair value through profit or loss are initially recognized at fair value. Transaction costs are expensed as incurred in the consolidated statement of income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of financial assets or financial liabilities at fair value through profit or loss are presented in the consolidated statement of income in net change in fair value of equity investments and other holdings or net change in fair value of real estate investments in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated statement of income as net dividend income when the Company's right to receive payment is established. Dividend expense on securities sold short is included in net dividend income. Interest on debt securities at fair value through profit or loss is recognized in the consolidated statement of income in interest income based on the effective interest rate.

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and when there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

b) Loans and receivables

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, restricted short-term investments and due from brokers, as well as loans to employees, which are included in other assets.

Recognition, derecognition and measurement

Loans and receivables are initially recognized at fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss as follows:

- The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

- Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

c) Financial liabilities at amortized cost

Classification

Financial liabilities at amortized cost comprise bank advances, trade and other payables, due to brokers, redemptions payable and subscriptions received in advance.

Recognition, derecognition and measurement

Trade and other payables are initially recognized at fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Bank advances, due to brokers, redemptions payable and subscriptions received in advance are recognized initially at fair value, net of any transaction costs incurred (where applicable), and subsequently at amortized cost using the effective interest method.

Due from and to brokers

Amounts due from and to brokers represent positive and negative cash balances or margin accounts, and pending trades on the purchase or sale of securities.

Where terms in the prime brokerage agreements permit the prime broker to settle margin balances with cash accounts or collateral, the due from brokers cash balances are offset against the due to brokers margin balances at each prime broker.

A provision for impairment of amounts due from brokers is established when there is objective evidence that the Company will not be able to collect all amounts due from the relevant broker. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganization, and default in payments are considered indicators that the amount due from brokers is impaired. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Investment properties

Investment properties are properties held to earn rental income and/or for capital appreciation and are not occupied by the Company. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at faire value. Changes in fair values are recognized in the consolidated statement of income as part of net change in fair value of investment properties in the period in which they arise.

Provision

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity. Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the consolidated statement of financial position date and will apply when it is expected that the related deferred income tax asset will be realized or the deferred income tax liability settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Interest income and dividend income

Interest income

Interest income is recognized using the effective interest method. It includes interest income from cash and cash equivalents and interest on debt securities at fair value through profit or loss.

Dividend income

Dividend income is recognized when the Company's right to receive payments is established.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment.

Transaction costs related to financial assets and financial liabilities at fair value through profit or loss are expensed as incurred. Transaction costs for all other financial instruments are capitalized, except for instruments with maturity dates, in which case transaction costs are amortized over the expected life of the instrument using the effective interest method.

Employee benefits

Post-employment benefit obligations

Employees of companies included in these consolidated financial statements have entitlements under Company pension plans which are defined contribution pension plans. The cost of defined contribution pension plans is charged to expense as the contributions become payable and is included in the same line item as the related compensation cost in the consolidated statement of income.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares or options are recorded in equity as a deduction, net of tax, from the proceeds.

Dividend distribution

Dividends on the Company's common shares are recognized in the Company's consolidated statement of changes in equity in the year in which the dividends are declared and approved by the Company's Board.

Earnings per share

Basic earnings per share is calculated by dividing the net income for the year attributable to equity owners of the parent by the weighted average number of common shares outstanding during the year.

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potentially dilutive instruments. The Company's potentially dilutive common shares comprise stock options granted to employees, directors and senior executives. In calculating diluted earnings per share, the assumed proceeds on exercise of options are regarded as having been used to repurchase common shares at the average market price during the year.

New and amended accounting standard adopted in 2017

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017:

- Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12, and
- Disclosure Initiative – Amendments to IAS 7 Statement of Cash Flows.

The adoption of these amendments did not have any impact on the amounts recognized in prior periods. The amendments will not affect significantly the current period or future periods.

Accounting standards and amendments issued but not yet adopted

The Company presents the developments that are relevant to its activities and transactions. The following revised standards and amendments are not mandatory for December 31, 2017 reporting periods and have not been applied in preparing these consolidated financial statements. The Company has not early adopted these standards and amendments.

- IFRS 15, Revenue from Contracts with Customers, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company is in the final stage of analyzing the impact of the adoption of IFRS 15. The impact is not expected to be significant.
- In July 2014, the IASB issued the complete version of IFRS 9, Financial Instruments, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement.
- IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured at fair value through profit or loss, fair value through other comprehensive income or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets not at fair value through profit or loss. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities, permits hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks, and requires additional disclosures. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently in the final stage of analyzing the impact of the adoption of IFRS 9 on the consolidated financial statements. The Company does not expect the new guidance to significantly affect the classification of measurement of its financial assets.
- IFRS 16, Leases, was published in January 2016 by the IASB. This standard will replace the current guidance in IAS 17, Leases, and require lessees to recognize an asset and a lease liability reflecting a "right-of-use asset" and future lease payments, respectively, for virtually all lease contracts. The standard applies to annual periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15 is adopted. The Company is currently assessing the impact

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of this standard on the consolidated financial statements. As at December 31, 2017, the operating leases disclosed in note 20 to the consolidated financial statements are in scope with IFRS 16.

- IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures, were amended in 2014 to address an inconsistency between those standards when accounting for the sale or a contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, whereas a partial gain is recognized when the transaction involves assets that do not constitute a business. The mandatory effective date of this amendment will be determined by the IASB at a future date. Voluntary application is permitted.

- The amendment to IAS 40, Investment property, related to the transfers of investment property clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence that a change in use as occurred. A change in use occurs when the property meets, or ceases to meet, the definition on investment property. A change in intention alone is not sufficient to support a transfer. The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company is currently assessing the impact of this standard on the consolidated financial statements.

3 Critical accounting estimates and judgments

Critical accounting estimates

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates applied by management that most significantly affect the Company's consolidated financial statements. These estimates have a significant risk of causing a significant adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

Fair value of financial instruments

The fair value of financial instruments where no active market exists or where listed prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or by using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. To the extent practical, models use only observable data; however, areas such as credit risk (both the Company's own credit risk and counterparty credit risk), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Refer to note 16 for risk sensitivity information for the Company's financial instruments.

Income taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the consolidated provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

Critical accounting judgments

Consolidation of entities in which the Company holds less than 50% of the voting rights

Management considers the Company to have de facto control of Senvest Management L.L.C. (RIMA) and RIMA Senvest Master Fund GP, L.L.C., two legal entities wholly owned by an executive of the Company, because of the Company's Board representation and the contractual terms of the investment advisory agreement. RIMA is the investment adviser to the Funds, whereas RIMA Senvest Master Fund GP, L.L.C. is the General Partner. As compensation for its sub-advisory services, the Company is entitled to receive 60% of the management and incentive fees earned by RIMA each fiscal year.

Management considers the Company to have control of Senvest Master Fund, L.P., Senvest Israel Partners, Master Fund L.P. and Senvest Cyprus Recovery Investment Fund, L.P. even though the Company has less than 50% of the voting rights in each of the Funds. The Company assessed that the removal rights of non-affiliated unitholders are exercisable but not strong enough given the Company's decision-making authority over relevant activities, the remuneration to which it is entitled and its exposure to returns. The Company, through its structured entities, is the majority unitholder of each of the Funds and acts as a principal while there are no other unitholders forming a group to exercise their votes collectively.

4 Cash and cash equivalents

	2017 $	2016 $
Cash on hand and on deposit	44,302	26,616
Short-term investments	8,820	362
	53,122	26,978

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

5 Credit facilities and due from and due to brokers

a) Credit facilities

Bank advances

In 2014, the Company renegotiated its credit facility with a bank and has available a demand revolving loan (credit facility) and a guarantee facility. The credit facility is in the amount of $3,000 and is payable on demand. As at December 31, 2017, $2,276 was outstanding (2016 – $509). Under the credit facility, the Company may, upon delivery of a required notice, opt to pay interest at the bank's prime rate plus 0.25%, the bank's US base rate plus 0.25% or LIBOR plus 1.75% per annum. All of the credit facility available is also available by way of banker's acceptances plus a stamping fee of 1.75% per annum, or by US dollar advances.

Guarantee facility

The Company also has available a EUR450,000 guarantee facility (2016 – EUR450,000) to issue standby letters of credit. A fee of 1.00% per annum on the face amount of each standby letter of credit applies. All amounts paid by the bank under the guarantee facility are payable on demand. As at December 31, 2017, no standby letters of credit were outstanding; however, the Company has provided a $460 (2016 – $459) term deposit to guarantee future letters of credit. This term deposit has been disclosed in restricted short-term investments on the consolidated statement of financial position.

In addition, a first-ranking movable hypothec in the amount of $30,000 on all of the Company's assets has been granted as collateral for both the credit and guarantee facilities. According to the terms of the facilities, the Company is required to comply with certain financial covenants. As at December 31, 2017 and 2016, the Company had met the requirements of all the covenants.

b) Due from and due to brokers

The Company has margin facilities with its prime brokers. As at December 31, 2017 and 2016, the Company's amounts due to brokers have no specific repayment terms, and they are governed by the margin terms set forth in the prime brokerage agreements. As at December 31, 2017, listed equity securities and due from brokers amounting to $2,615,157 have been pledged as collateral (2016 – $2,346,784). The fair value of the collateral-listed equity securities is calculated daily and compared to the Company's margin limits. The prime brokers can at any time demand full or partial repayment of the margin balances and any interest thereon or demand the delivery of additional assets as collateral.

Due from and due to brokers balances are presented on a net basis by broker in the consolidated statement of financial position. Under the prime broker agreements, the broker may upon events of default offset, net and/or regroup any amounts owed by the Company to the broker by amounts owed to the Company by the broker. The following tables set out the offsetting of the Company's various accounts with prime brokers

			2017
	Gross amounts due from brokers $	Gross amounts due to brokers $	Net amount $
Due from brokers	440,284	140,288	299,996
Due to brokers	1,279	18,063	(16,784)

			2016
	Gross amounts due from brokers $	Gross amounts due to brokers $	Net amount $
Due from brokers	191,602	–	191,602
Due to brokers	14,011	70,765	(56,754)

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6 Equity investments and other holdings, securities sold short and derivative liabilities

Equity investments and other holdings

	Note	2017 $	2016 $
Assets			
Financial assets held for trading			
Equity securities		2,313,472	2,151,422
Debt securities		62,598	23,491
Derivative financial assets	6(a)	85,728	60,228
		2,461,798	2,235,141
Financial assets designated as fair value through profit or loss			
Equity securities		2,143	2,004
Unlisted equity securities		8,811	8,745
Private investments	6(b)	60,422	43,398
		2,533,174	2,289,288
Less: current portion		2,461,798	2,235,141
Non-current portion		71,376	54,147

Securities sold short and derivative liabilities

	Note	2017 $	2016 $
Liabilities			
Financial liabilities held for trading			
Securities sold short			
Listed equity securities (proceeds of $803,845; 2016 – $783,973)		892,203	725,798
Debt securities (proceeds of $15,644; 2016 – nil)		15,696	-
Derivative financial liabilities (proceeds of $130; 2016 – $2,825)	6(a)	9,612	1,846
		917,511	727,644

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

a) From time to time, the Company enters into derivative financial instruments consisting primarily of warrants and options to purchase or sell equity indices and currencies, equity swaps, foreign currency forward contracts and foreign currency futures contracts. The following tables list the notional amounts, fair values of derivative financial assets and financial liabilities and net change in fair value by contract type, including swaps, options, warrants, rights, foreign currency futures contracts, foreign currency forward contracts and swaps and options sold short included in equity investments and other holdings or securities sold short and derivative liabilities:

	As at December 31, 2017				For the year ended December 31, 2017
	Notional value $	Fair value of derivative financial assets $	Notional value $	Fair value of derivative financial liabilities $	Net change in fair value $
Equity swaps	245,124	78,844	81,184	7,304	46,859
Equity options	1,380	781	2,202	148	511
Warrants and rights	3,476	705	-	-	656
Foreign currency options	65,234	31	-	-	(283)
Foreign currency futures contracts	186,000	5,367	-	-	14,786
Foreign currency forward contracts	-	-	200,720	2,160	(2,316)
	501,214	85,728	284,106	9,612	60,213

	As at December 31, 2016				For the year ended December 31, 2016
	Notional value $	Fair value of derivative financial assets $	Notional value $	Fair value of derivative financial liabilities $	Net change in fair value $
Equity swaps	223,963	40,043	9,581	139	40,060
Equity options	14,988	773	39,411	1,661	747
Warrants and rights	3,999	76	-	-	(156)
Foreign currency options	289,056	9,913	209,461	46	(8,350)
Foreign currency futures contracts	186,000	6,571	-	-	(2,230)
Foreign currency forward contracts	58,672	2,852	-	-	2,815
	776,678	60,228	258,453	1,846	32,886

b) These holdings are in private entities whose shares/units do not trade in an active market. There is no established market for these securities. The most likely scenario of a disposal of these holdings is an eventual sale of the underlying entities.

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7 Investments in associates

The Company has invested in a number of individually insignificant associates that are accounted for using the equity method. The aggregated financial information on these associates is as follows:

	2017 $	2016 $
Aggregate carrying amount of individually immaterial associates	12,681	12,461
Aggregate amounts of the Company's share of:		
Net income (loss) from continuing operations and comprehensive income	2,182	(505)

Commitments, contingent liabilities and borrowing arrangements of associates

There are no commitments, contingent liabilities or borrowing arrangements relating to the Company's interests in these associates.

8 Real estate investments

Real estate investments comprise the following:

	Note	2017 $	2016 $
Financial assets designated as fair value through profit or loss			
Investments in private entities	8(a)	17,630	18,644
Investments in real estate income trusts	8(b)	13,159	17,294
		30,789	35,938
Non-current portion		30,789	35,938

a) These investments are minority interests in private entities whose main assets are real estate properties. There is no established market for these investments. The most likely scenario for a disposal of these investments is an eventual sale of the underlying real estate properties.

b) These real estate investments are US real estate income trusts (commonly referred to as REITs). A REIT is an entity that owns and operates income-producing real estate and annually distributes to its holders at least 90% of its taxable income. The Company's investments are non-publicly-traded REITs. There is no established market for these REITs. The most likely scenario for a disposal of these holdings is an eventual sale of the underlying real estate properties of the REITs and the distribution to their holders.

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9 Investment properties

	Note	2017 $	2016 $
Opening balance as at January 1		1,874	1,880
Acquired through a business combination		15,482	-
Capitalized subsequent expenditure		7,630	-
Net gain from fair value adjustment		1,345	111
Currency translation adjustments		407	(117)
Closing balance as at December 31		26,738	1,874
Non-current portion		26,738	1,874

a) Amounts recognized in profit or loss for investment properties

	2017 $	2016 $
Rental income	2,770	-
Direct operating expenses from property that generated rental income	2,168	-
Direct operating expenses from property that does not generate rental income	937	120
Net change in fair value of investment properties	1,345	111

b) Contractual obligations

Refer to note 20 for disclosure of contractual obligations to purchase, construct or develop investment property or for repairs, maintenance and enhancements.

c) Leasing arrangements

The investment properties are leased to tenants under short-term month to month operating leases with rentals payable monthly.

d) Fair value measurements

This note explains the judgments and estimates made in determining the fair values of the investment properties that are recognized and measured at fair value in the consolidated financial statements. Based on the reliability of the inputs used in determining the fair value, the Company has classified its investment properties in Level 3 of the fair value hierarchy (a description of the levels is provided in note 16). There was no transfers between levels for recurring fair value measurements of investment properties during the years ended December 31, 2017 and 2016.

i) Valuation techniques used to determine Level 3 fair values

The Company obtains independent valuations for its investment properties annually. At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active markets for similar properties. Where such information is not available the independent valuators consider information from a variety of sources including:

- current prices in active markets for properties of similar properties in similar markets and in less active market, adjusted to reflect those differences;
- discounted cash flow projections based on reliable estimates of future cash flows; and
- capitalized income projections based upon a property's estimated net market income, and a capitalization rate derived from an analysis of market evidence.

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ii) Fair value measurements using significant unobservable inputs (Level 3)

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring Level 3 fair value measurement. See (i) above for the valuation technique adopted.

Description	**Fair value (rounded) 2017 $**	**Valuation technique**	**Significant unobservable inputs**	**Weighted average input**	**Reasonably possible shifts +/–**	**Change in value $**
Leased buildings – Storage facilities	26,738	Comparable sales approach	Value/m^2	1,100	10%	+/-2,700

Description	**Fair value (rounded) 2016 $**	**Valuation technique**	**Significant unobservable inputs**	**Weighted average input $**	**Reasonably possible shifts +/–**	**Change in value $**
Leased buildings – Storage facilities	1,874	Comparable sales approach	Value/m^2	560	10%	+/-190

The following table presents the changes in Level 3 investment properties:

	2017 $
As at December 31, 2016	1,874
Acquired through a business combination	15,482
Capitalized subsequent expenditure	7,630
Disposals	-
Gains recognized in net income	1,345
Currency translation adjustments	407
As at December 31, 2017	26,738

	2016 $
As at December 31, 2015	1,880
Acquisition	-
Disposals	-
Gains recognized in net income	111
Currency translation adjustments	(117)
As at December 31, 2016	1,874

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

10 Financial instruments by category and related income, expenses and gains and losses

	Assets (liabilities) at fair value through profit or loss				2017
	Held for trading $	Designated $	Loans and receivables $	Financial liabilities at amortized cost $	Total $
Assets (liabilities) as per consolidated statement of financial position					
Cash and cash equivalents	-	-	53,122	-	53,122
Restricted short-term investments	-	-	460	-	460
Due from brokers	-	-	299,996	-	299,996
Equity investments and other holdings	2,461,798	71,376	-	-	2,533,174
Real estate investments	-	30,789	-	-	30,789
Other assets*	-	-	1,767	-	1,767
Bank advances	-	-	-	(2,276)	(2,276)
Trade and other payables	-	-	-	(29,130)	(29,130)
Due to brokers	-	-	-	(16,784)	(16,784)
Securities sold short and derivative liabilities	(917,511)	-	-	-	(917,511)
Redemptions payable	-	-	-	(10,265)	(10,265)
Subscriptions received in advance	-	-	-	(16,992)	(16,992)
	1,544,287	102,165	355,345	(75,447)	1,926,350
Amounts recognized in consolidated statement of income					
Net change in fair value	455,939	33,768	-	-	489,707
Interest income (expense)	6,650	30	324	(40,917)	(33,913)
Net dividend income	4,902	1,038	-	-	5,940
	467,491	34,836	324	(40,917)	461,734

* Includes loans to employees and other financial receivables but excludes capital assets and other non-financial assets.

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

	Assets (liabilities) at fair value through profit or loss				2016
	Held for trading $	Designated $	Loans and receivables $	Financial liabilities at amortized cost $	Total $
Assets (liabilities) as per consolidated statement of financial position					
Cash and cash equivalents	–	–	26,978	–	26,978
Restricted short-term investments	–	–	459	–	459
Due from brokers	–	–	191,602	–	191,602
Equity investments and other holdings	2,235,141	54,147	–	–	2,289,288
Real estate investments	–	35,938	–	–	35,938
Other assets*	–	–	252	–	252
Bank advances	–	–	–	(509)	(509)
Trade and other payables	–	–	–	(20,055)	(20,055)
Due to brokers	–	–	–	(56,754)	(56,754)
Securities sold short and derivative liabilities	(727,644)	–	–	–	(727,644)
Redemptions payable	–	–	–	(3,315)	(3,315)
Subscriptions received in advance	–	–	–	(2,299)	(2,299)
	1,507,497	90,085	219,291	(82,932)	1,733,941
Amounts recognized in consolidated statement of income (loss)					
Net change in fair value	324,417	2,707	–	–	327,124
Interest income (expense)	3,846	29	309	(18,464)	(14,280)
Net dividend income	10,343	218	–	–	10,561
	338,606	2,954	309	(18,464)	323,405

* Includes loans to employees but excludes capital assets and other non-financial assets.

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

11 Trade and other payables

	2017 $	2016 $
Trade payables	1,008	614
Employee benefits accrued	13,946	15,464
Mortgages	4,448	-
Interest payable	4,482	1,529
Other	5,246	2,448
	29,130	20,055

Mortgages of $4,448 (2016 – nil) are on investment properties acquired through a business combination. The terms of the mortgages range from four to seven years and bear interest rates of 0.8% to 1.0%. Investment properties of $15,413 are pledged as collateral against the mortgages.

12 Income taxes

a) Income tax expense

	2017 $	2016 $
Current tax		
Current tax on income for the year	24,296	7,720
Adjustments in respect of prior years	45	6,603
	24,341	14,323
Deferred tax		
Origination and reversal of temporary differences	1,660	6,283
Changes in deferred tax rates	(2,717)	-
	(1,057)	6,283
	23,284	20,606

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

The tax on the Company's income before income tax differs from the theoretical amount that would arise using the federal and provincial statutory tax rate applicable to income of the consolidated entities. The statutory tax rate for 2017 decreased from 26.9% to 26.8%. This decrease is in line with Quebec's tax rate reduction from 11.9% to 11.8%. The difference between the Company's income tax and theoretical tax is as follows:

	2017 $	2016 $
Income before income tax	221,089	137,787
Income tax expense based on statutory rate of 26.8% (2016 – 26.9%)	59,251	37,065
Prior year adjustments	(544)	(1,912)
Difference in tax rate	6,698	2,645
Change in deferred tax rates	(2,717)	-
Portion of income recoverable in hands of non controlling interests	(8,717)	(4,616)
Non-taxable dividend	(956)	-
Non-taxable portion of capital gains	(15,126)	(9,017)
Non-deductible expenses	72	163
Foreign exchange	(14,555)	(4,175)
Unrecognized deferred income tax assets	191	489
Other	(313)	(36)
Income tax expense	23,284	20,606

b) The analysis of deferred income tax assets and liabilities is as follows:

	2017 $	2016 $
Deferred income tax assets		
Deferred tax assets to be recovered		
After more than 12 months	-	-
Within 12 months	-	-
Deferred income tax assets	-	-
Deferred income tax liabilities		
Deferred tax liabilities to be settled		
After more than 12 months	43,485	47,599
Within 12 months	-	-
Deferred income tax liabilities	43,485	47,599

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows.

Deffered income tax assets	Equity investments and other holdings $	Investments in associates $	Real estate investments $	Tax loss carry-forward $	Other $	Total $
As at December 31, 2015	385	108	487	141	495	1,616
Credited (charged) to consolidated statement of income	1,013	(103)	(240)	900	(474)	1,096
Foreign exchange differences	1	(5)	(17)	8	(21)	(34)
As at December 31, 2016	1,399	-	230	1,049	-	2,678
Charged to consolidated statement of income	(671)	-	(140)	(1,014)	-	(1,825)
Foreign exchange differences	(69)	-	(11)	(35)	-	(115)
As at December 31, 2017	659	-	79	-	-	738

Deffered income tax liabilities	Equity investments and other holdings $	Investments in associates $	Real estate investments $	Other $	Total $
As at December 31, 2015	3,708	32,901	1,906	5,602	44,117
Charged (credited) to consolidated statement of income	(685)	5,012	(146)	3,197	7,378
Foreign exchange differences	(120)	(914)	(59)	(125)	(1,218)
As at December 31, 2016	2,903	36,999	1,701	8,674	50,277
Charged (credited) to consolidated statement of income	2,145	5,875	47	(8,198)	(131)
Effect of tax rate changes	(801)	(1,876)	(40)	-	(2,717)
Foreign exchange differences	(236)	(2,566)	(112)	(292)	(3,206)
As at December 31, 2017	4,011	38,432	1,596	184	44,223

Deferred income tax assets for temporary differences totalling $8,518 (2016 – $8,253) and non-expiring capital loss carry-forwards totalling $9,628 (2016 – $8,974) and non-expiring operating loss carry-forwards of $9,534, of which $8,374 originated from a business combination, have not been recognized in the consolidated financial statements.

Deferred income tax liabilities have not been recognized on unremitted earnings totalling $69,754 as at December 31, 2017 (2016 – $62,938) with respect to the investment in subsidiaries, branches and associates and interest in joint arrangements because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

13 Share capital

Authorized
Unlimited number of common shares, without par value

Movements in the Company's share capital are as follows:

	2017		2016	
	Number of shares	Amount $	Number of shares	Amount $
Balance – Beginning of year	2,777,824	23,057	2,817,624	23,376
Shares repurchased	(38,100)	(306)	(39,800)	(319)
Balance – End of year	2,739,724	22,751	2,777,824	23,057

In 2017, the Company began a normal course issuer bid to purchase a maximum of 82,000 of its own common shares before August 14, 2018. In 2017, the Company purchased 38,100 common shares (2016 – 39,800) for a total cash consideration of $8,370 (2016 – $6,060). The excess of the consideration paid over the stated capital was charged to retained earnings in the consolidated statement of changes in equity.

No dividends were declared in 2017 and 2016

14 Earnings per share

a) Basic

	2017 $	2016 $
Net income (loss) attributable to owners of the parent	$165,967	$96,783
Weighted average number of outstanding common shares	2,764,851	2,805,213
Basic earnings (loss) per share	60.03	34.50

b) Diluted

For the years ended December 31, 2017 and 2016, there were no dilutive instruments.

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

15 Supplementary information to consolidated statements of cash flows

a) Adjustments for non-cash items are as follows:

	Note	2017 $	2016 $
Net change in fair value of equity investments and other holdings		(485,893)	(321,977)
Net change in fair value of real estate investments		(3,814)	(5,147)
Net change in fair value of investment properties		(1,345)	(111)
Share of profit (loss) of associates, adjusted for distributions received		(2,182)	505
Change in redemption amount of redeemable units		146,030	133,726
Deferred income tax	12 (a)	(1,057)	6,283
		(348,261)	(186,721)

b) Changes in working capital items are as follows:

	Note	2017 $	2016 $
Decrease (increase) in			
Due from brokers		(125,233)	(178,156)
Income taxes receivable		(14,256)	121
Other assets		72	27
Increase (decrease) in			
Trade and other payables		12,300	11,296
Due to brokers		(37,516)	(170,268)
Income taxes payable		(1,211)	96
		(165,844)	(336,884)

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

16 Financial risks and fair value

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk, currency risk and equity price risk), credit risk and liquidity risk.

The Company's overall risk management program seeks to maximize the returns derived for the level of risk to which the Company is exposed and seeks to minimize potential adverse effects on the Company's financial performance. Managing these risks is carried out by management under policies approved by the Board.

The Company uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

Market risk

Fair value and cash flow interest rate risks

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The majority of the Company's debt is based on floating rates, which exposes the Company to cash flow interest rate risk. The Company does not have a long-term stream of cash flows that it can match against this type of fixed debt, so it prefers to use short-term floating rate debt. The Company does not mitigate its exposure to interest rate fluctuation on floating rate debt. If interest rates spike, then the Company could enter into interest rate swaps or more probably just reduce its debt level. As at December 31, 2017, the Company has listed equity securities of $2,315,615 (2016 – $2,153,426). It can sell these securities to reduce its floating rate debt. As at December 31, 2017, a 1% (2016 – 1%) increase or decrease in interest rates, with all other variables remaining constant, would impact interest expense by approximately $191 over the next 12 months (2016 – $573).

The Company's exposure to interest rate risk is summarized as follows:

	2017	2016
Cash and cash equivalents	Between nil and 1.0%	Between nil and 0.81%
Restricted short-term investments	Between 0.30% and 0.50%	Between 0.15% and 0.30%
Debt securities	Between 1.016% and 12.0%	Between 1.26% and 11.0%
Loans to employees	Non-interest bearing	Non-interest bearing
Credit facilities		
Bank advances	Prime rate plus 0.25%	Prime rate plus 0.25%
Guarantee facility	1.0%	1.0%
Trade and other payables	Non-interest bearing	Non-interest bearing
Due to brokers	0.00% to 1.17%	0.00% to 0.88%
Mortgages	0.80% to 1.0%	-

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

The Company also holds debt securities held for trading of $62,598 (2016 – $23,491). Debt securities are usually highly sensitive to interest rate changes. Theoretically, when interest rates rise, it causes the value of debt securities to decline. The opposite generally happens when interest rates fall, then debt securities usually rise in value. However, interest rates are only one factor affecting the value of debt securities. Other factors such as the creditworthiness of the issuer and the spreads attached thereto, the state of the economy and market sentiment can also have a significant effect on debt securities. At any time, one or more factors may have more or less of an effect on the fair value of debt securities than the change in interest rates. If all other factors are assumed not to change, then a change of 100 basis points in the yield to maturity will affect the fair value of the debt securities held for trading as follows.

Estimated effect on the fair value of debt securities due to:

	2017 $	2016 $
An increase of 100 basis points in the yield to maturity	(914)	(709)
A decrease of 100 basis points in the yield to maturity	1,030	749

Currency risk

Currency risk is the risk that the value of monetary financial assets and financial liabilities denominated in foreign currencies will vary as a result of changes in underlying foreign exchange rates. The Company is exposed to currency risk due to potential variations in currencies other than the US dollar. The following tables summarize the Company's main monetary financial assets and financial liabilities whose fair value is predominantly determined in currencies other than the US dollar, the Company's functional currency, and the effect on pre-tax net income of a 10% change in currency exchange rates:

				2017
	Financial assets $	Financial liabilities $	Net exposure $	Net effect of a 10% increase or decrease $
Canadian dollar	816	(134,497)	(133,681)	(13,368)
British pound sterling	-	(816)	(816)	(82)
Euro	1,356	(6,959)	(5,603)	(560)
Swedish Krone	-	(2,456)	(2,456)	(246)
Israeli shekel	-	(11,091)	(11,091)	(1,109)
	2,172	(155,819)	(153,647)	(15,375)

				2016
	Financial assets $	Financial liabilities $	Net exposure $	Net effect of a 10% increase or decrease $
Canadian dollar	138,618	(6,852)	131,766	13,177
British pound sterling	9,431	(2,888)	6,543	654
Euro	2,171	(10,247)	(8,076)	(808)
Norwegian krone	-	(791)	(791)	(79)
Japanese yen	-	(2,865)	(2,865)	(287)
Israeli shekel	-	(22,144)	(22,144)	(2,214)
	150,220	(45,787)	104,433	10,443

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

Equity price risk

Equity price risk is the risk that the fair value of equity investments and other holdings and equities sold short and derivatives will vary as a result of changes in the market prices of the holdings. The majority of the Company's equity investments and other holdings and all of the equities sold short and derivatives are based on quoted market prices as at the consolidated statement of financial position date. Changes in the market price of quoted securities and derivatives may be related to a change in the financial outlook of the investee entities or due to the market in general. Where non-monetary financial instruments – for example, equity securities – are traded in currencies other than the US dollar, the price, initially expressed in a foreign currency and then converted into US dollars, will also fluctuate because of changes in foreign exchange rates.

Securities sold short represent obligations of the Company to make future delivery of specific securities and create an obligation to purchase the security at market prices prevailing at the later delivery date. This creates the risk that the Company's ultimate obligation to satisfy the delivery requirements will exceed the amount of the proceeds initially received or the liability recorded in the consolidated financial statements. In addition, the Company has entered into derivative financial instruments which have a notional value greater than their fair value which is recorded in the consolidated financial statements. This information is disclosed in note 6(a) to these consolidated financial statements. This creates a risk that the Company could settle these instruments at a value greater or less than the amount that they have been recorded in the consolidated financial statements.

The Company's equity investments and other holdings have a downside risk limited to their carrying value, while the risk of equities sold short and derivatives is open-ended. The Company is subject to commercial margin requirements which act as a barrier to the open-ended risks of the equities sold short and derivatives. The Company closely monitors both its equity investments and other holdings and its equities sold short and derivatives.

The impact of a 30% change in the market prices of the Company's listed equity investments and other holdings and equities sold short and derivatives would be as follows:

			2017
	Fair value $	Estimated fair value with a 30% price increase $	Estimated fair value with a 30% price decrease $
Equity investments and other holdings			
Listed equity securities and derivatives	2,395,241	3,113,813	1,676,668
Equities sold short and derivative liabilities	(899,655)	(1,169,551)	(629,758)
Pre-tax impact on net income		448,676	(448,676)

			2016
	Fair value $	Estimated fair value with a 30% price increase $	Estimated fair value with a 30% price decrease $
Equity investments and other holdings			
Listed equity securities and derivatives	2,194,242	2,852,515	1,535,969
Equities sold short and derivative liabilities	(727,598)	(945,877)	(509,319)
Pre-tax impact on net income		439,993	(439,993)

The above analysis assumes that listed equity investments, derivatives and equities sold short would increase or decrease at the same rate. As these portfolios are not hedged together, a change in market prices will affect each one differently.

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

Credit risk

Credit risk is the risk that a counterparty will fail to fulfill its obligations under a contract and will cause the Company to suffer a loss.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is executed only once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

The Company is also exposed to counterparty credit risk on its cash and cash equivalents, restricted short-term investments and due from brokers.

The Company manages counterparty credit risk by dealing only with parties approved by the Board.

From time to time, the Company enters into derivative financial instruments consisting primarily of warrants and options to purchase or sell equity indices and currencies, equity swaps, foreign currency forward contracts and foreign currency futures contracts. These derivative instruments are marked to market. There is deemed to be no credit risk for futures and certain options because they are traded on exchanges. The warrant contracts and certain options are not traded on an exchange and allow the Company to purchase underlying equities at a fixed price. Equity swaps represent future cash flows that are agreed to be exchanged between the Company and counterparties at set dates in the future. Foreign currency forward contracts are contracts to buy or sell foreign currencies at a specified price at a point in time in the future.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available on Standard & Poor's, Moody's or Fitch rating agencies) or to historical information about counterparty default rates. Credit ratings are presented using Standard & Poor's rating scale as follows:

Financial assets	**Rating**	**2017**	**2016**
		$	**$**
Cash and cash equivalents	A	53,122	26,978
Restricted short-term investments	A	460	459
Due from brokers	A	299,996	191,602
Debt securities	B-	5,304	-
Debt securities	CCC and below	57,294	23,491
Financial liabilities			
Debt securities sold short	B-	15,696	-
Mortgages	A	4,448	-

Counterparties without external credit rating	**2017**	**2016**
	$	**$**
Loans to employees*	127	252

* Related parties with which the Company has not experienced defaults in the past.

Liquidity risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial obligations. The Company's largest assets are equity investments and other holdings. Most of these assets are made up of equities in listed companies which can be liquidated in a relatively short time. Due to its large investments in liquid assets, the Company believes that it has sufficient resources to meet its obligations as they come due.

All financial liabilities other than equities sold short and derivative liabilities as at the consolidated statement of financial position date mature or are expected to be repaid within one year (2016 – one year). The liquidity risk related to these liabilities is managed by maintaining a portfolio of liquid investment assets.

Capital risk management

The Company's objective when managing its capital is to maintain a solid capital structure appropriate for the nature of its business. The Company considers its capital to be its equity. The Company manages its capital structure in light of changes in economic conditions. To maintain or adjust its capital structure, the Company initiates normal course issuer bids or adjusts the amount of dividends paid. The Company monitors capital on the basis of its net debt-to-capital ratio. Net liabilities used in the net debt-to-capital ratio is calculated by subtracting the due from broker balances from total liabilities. The net debt-to-capital ratio is as follows:

	2017	2016
Total liabilities	$1,612,645	$1,429,053
Total equity	$1,063,385	$942,562
Debt-to-capital ratio	1.52	1.52

The Company's objective is to maintain a debt-to-capital ratio below 2.0. The Company believes that limiting its debt-to-capital ratio in this manner is the best way to monitor risk. The Company does not have any externally imposed restrictive covenants or capital requirements, other than those included in the credit facilities (note 5).

Fair value estimation

The tables below analyze financial instruments carried at fair value by the inputs used in the valuation method. The different levels have been defined as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3 – Inputs that are not based on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgment by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

The following tables analyze within the fair value hierarchy the Company's financial assets and financial liabilities measured at fair value as at December 31, 2017 and 2016:

				2017
	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial assets held for trading				
Equity securities	2,303,077	10,395	–	2,313,472
Debt securities	–	50,029	12,569	62,598
Derivative financial assets	5,367	80,361	–	85,728
Financial assets designated as fair value through profit or loss				
Equity securities	2,133	8,821	60,422	71,376
Real estate investments	–	–	30,789	30,789
	2,310,577	149,606	103,780	2,563,963
Liabilities				
Financial liabilities held for trading				
Equity holdings sold short	892,203	–	–	892,203
Debt securities	–	15,696	–	15,696
Derivative liabilities	–	9,612	–	9,612
	892,203	25,308	–	917,511

				2016
	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial assets held for trading				
Equity securities	2,150,822	600	–	2,151,422
Debt securities	–	23,491	–	23,491
Derivative financial assets	6,571	53,657	–	60,228
Financial assets designated as fair value through profit or loss				
Equity securities	1,984	9,055	43,108	54,147
Real estate investments	–	–	35,938	35,938
	2,159,377	86,804	79,046	2,325,227
Liabilities				
Financial liabilities held for trading				
Equity holdings sold short	725,798	–	–	725,798
Derivative liabilities	–	1,846	–	1,846
	725,798	1,846	–	727,64

Financial instruments in Level 1

The fair value of financial assets and financial liabilities traded in active markets are based on quoted market prices at the close of trading on the year-end date. The quoted market price used for financial assets and financial liabilities held by the Company is the close price. Investments classified in Level 1 include active listed equities and derivatives traded on an exchange.

Financial instruments in Level 2

Financial instruments classified with Level 2 trade in markets that are not considered to be active but are valued based on quoted market prices, broker quotations or valuation techniques such as financial models that use market data. These valuation techniques maximize the use of observable market data where available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. These include corporate bonds, thinly traded listed equities and derivatives, over-the-counter derivatives and private equities.

The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each year-end date. Valuation techniques used for non-standardized financial instruments such as options and other over-the-counter derivatives include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses, option-pricing models and other valuation techniques commonly used by market participants, making maximum use of market inputs and relying as little as possible on entity-specific inputs:

Description	Valuation technique
Equity securities	Quoted market prices or broker quotes for similar instruments
Private equities	Valuation techniques or net asset value based on observable inputs
Debt securities	Quoted market prices or broker quotes for similar instruments
Derivatives	Quoted market prices or broker quotes for similar instruments

Financial instruments in Level 3

Investments classified in Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments consist of unlisted equity investments, debt securities and real estate investments. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value.

Level 3 valuations are reviewed by the Company's chief financial officer (CFO), who reports directly to the Board on a quarterly basis in line with the Company's reporting dates. The Board considers the appropriateness of the valuation models and inputs used. On an annual basis, close to the year-end date, the Company obtains independent, third party appraisals to determine the fair value of the Company's most significant Level 3 holdings. The Company's CFO reviews the results of the independent valuations. Emphasis is placed on the valuation model used to determine its appropriateness, the assumptions made to determine whether it is consistent with the nature of the investment, and market conditions and inputs such as cash flow and discount rates to determine reasonableness.

As at December 31, 2017 and 2016, Level 3 instruments are in various entities and industries.

Real estate investments are disclosed in more detail in note 8, comprising investments in private real estate companies and in real estate income trusts. The real estate companies are involved with various types of buildings in different geographical locations. For the main Level 3 instruments, the Company relied on appraisals carried out by independent third party valuators. There was no established market for any of these investments, so the most likely scenario is a disposal of the underlying assets. For the investments in real estate income trusts, the Company relied mainly on audited financial statements, valuing the assets at fair value. The most likely scenario is an eventual sale of the underlying properties and the subsequent distribution to the holders.

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

The following tables present the changes in Level 3 instruments:

			2017
	Real estate investments $	Unlisted securities $	Total $
As at December 31, 2016	35,938	43,108	79,046
Transferred out of Level 3	(1,078)	-	(1,078)
Purchases	2,561	25,412	27,973
Sales proceeds	-	(21,111)	(21,111)
Distributions	(8,199)	-	(8,199)
Gains (losses) recognized in net income			
On financial instruments held at end of year	3,814	18,430	22,244
On financial instruments disposed of during the year	-	11,132	11,132
Currency translation adjustments	(2,247)	(3,980)	(6,227)
As at December 31, 2017	30,789	72,991	103,780

			2016
	Real estate investments $	Unlisted securities $	Total $
As at December 31, 2015	47,482	42,102	89,584
Purchases	520	3,956	4,476
Distributions	(15,662)	-	(15,662)
Gains (losses) recognized in net income			
On financial instruments held at end of year	5,147	2,257	7,404
On financial instruments disposed of during the year	-	(4,009)	(4,009)
Currency translation adjustments	(1,549)	(1,198)	(2,747)
As at December 31, 2016	35,938	43,108	79,046

In 2016, there were no transfers between levels in the Company's consolidated financial instruments.

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

The table below presents the investments whose fair values are measured using valuation techniques classified as Level 3 as at December 31, 2017.

Description	Fair value (rounded) 2017 $	Valuation technique	Significant unobservable inputs	Weighted average input	Reasonably possible shifts +/–	Change in value $
Unlisted private equity holdings - Internet services -Equity securities	29,700	Comparable company approach	Enterprise value/ users vs Revenue/users	Number of users EV/User	10M 10%	+/-400 +/-700
		Recent transaction	none	-	-	-
Unlisted private equity holdings - Internet services -Convertible bonds	12,600	Black-Scholes option pricing	Share price	0.38	10%	+/-15
		Comparable debt method	Yield to maturity	8.08%	10%	+/-255
Unlisted private equity holdings - Pharmaceuticals	13,200	Recent Transaction	none	-	-	-
Unlisted private equity holdings - Food and beverage	11,000	Comparable company approach	Revenue estimate Revenue multiple	$17,000 2.31	$1M 10%	+/-100 +/-100
		Recent transaction	none	-	-	-
Unlisted private equity holdings - Software developers	4,000	Recent transaction	none	-	-	-
Unlisted private equity holdings - Other	2,400	Comparable company approach	Revenue estimate Revenue multiple	$80.57M 1.56	$1M 10%	+/-15 +/-100
REITs	14,500	Discounted cash flows	Discount rate Capitalization rate Discounted cash flow term Rental growth rate	7.0%-12% 5.0%-9.0% 10-13 years (12.0)%-39.10%	The REITs consist of numerous investments in commercial and residential properties, each with different unobservable inputs tailored to best estimate their fair value. The inputs disclosed cover the range used for all the real estate holdings in the REITs. A general analysis of the change in inputs would not reveal a fair change in value.	
Real estate investments in private entities	16,300	Capitalization model	Rate of return	7.0%	1,0%	+2,200 -1,600

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

The table below presents the investments whose fair values are measured using valuation techniques classified as Level 3 as at December 31, 2016.

Description	Fair value (rounded) 2016 $	Valuation technique	Significant unobservable inputs	Weighted average input	Reasonably possible shifts +/–	Change in value $
Unlisted private equity holdings		Comparable company approach	Revenue estimate	$36,000	$3,000	+/-300
Software developers	12,000		Revenue multiple	1.57	10%	+/-400
			M&A multiple	3.97	10%	+/-800
Unlisted private equity holdings		Comparable company approach	Number of users	114.4M	10M	+/-800
Internet services	15,000		EV/User	113.69	10%	+/-900
Unlisted private equity holdings						
Other	16,000	Comparable company approach	Revenue estimate	$8M-11.5M	$1,000	+/-100
			Revenue multiple	1.97-3.55	10%	+/-50-100
			M&A multiple	1.88	10%	+/-100
			Yield to maturity	12.48%-12.92%	10%	+/-100
			Probability of success	78%	10%	+/-600
			WACC	11.19%	2%	+/- 2,000 +/-1,000
REITs	17,300	Discounted cash flows	Discount rate	7.0%-12.0%	The REITs consist of numerous investments in commercial and residential properties, each with different unobservable inputs tailored to best estimate their fair value. The inputs disclosed cover the range used for all the real estate holdings in the REITs. A general analysis of the change in inputs would not reveal a fair change in value.	
			Capitalization rate	5.5%-9.0%		
			Discounted cash flow term	10-13 years		
			Rental growth rate	(12.0)%-39.10%		
Real estate investments in private entities	18,700	Capitalization model	Rate of return	8.0%	1.0%	+1,700 -1,300

Assets and liabilities not carried at fair value but for which fair value is disclosed

The carrying amount of cash and cash equivalents, restricted short-term investments, due from brokers, bank advances, credit facilities, trade and other payables, due to brokers, redemptions payable, and subscriptions received in advance represent a reasonable approximation of their respective fair value due to their short-term nature.

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

17 Disclosure of the composition of the Company

Principal subsidiaries and structured entities

The consolidated financial statements include the accounts of the Company and all of its subsidiaries and structured entities as at December 31, 2017 and 2016. The principal operating subsidiaries and structured entities and their activities are as follows.

Name	Country of incorporation	% Interest held 2017	% Interest held 2016	Nature of business
Senvest Global (KY) L.P.	Cayman Islands	100	100	Investment company
Senvest Global L.P.	United States	100	100	Investment company
RIMA Senvest Master Fund GP, L.L.C.	United States	-	-	General partner of Senvest Master Fund, L.P.
Senvest Israel Partners GP, L.L.C.	United States	-	-	General partner of Senvest Israel Partners Master Fund L.P.
Argentina Capital Inc.	Canada	100	100	Real estate
Pennsylvania Properties Inc.	United States	100	100	Real estate
Senvest Equities Inc.	Canada	100	100	Investment company
Senvest Fund Management Inc.	United States	100	100	Investment company
Senvest Management L.L.C.	United States	-	-	Investment manager of the Funds
Senvest Master Fund, L.P.	Cayman Islands	45	45	Investment fund
Senvest Israel Partners Master Fund, L.P.	Cayman Islands	53	47	Investment fund
Senvest Cyprus Recovery Investment Fund, L.P.	Cayman Islands	73	59	Investment fund
Punto Box SL	Spain	100	100	Real estate
Bogas Costa Del Sol, SL	Spain	100	10	Real estate
Global Box Arganda, SL	Spain	100	10	Real estate
Global Box Rivas, SL	Spain	100	10	Real estate

The total non-controlling interest for the year is $24,401 (2016 – $18,277), which is mostly attributed to Senvest Management L.L.C. The change in redemption amount of liability for redeemable units for the year is $146,030 (2016 – $133,726), all of which is attributed to the Funds.

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

Set out below is the summarized financial information for each subsidiary that has non-controlling interest that is material to the group. The amounts disclosed are before inter-company eliminations.

Summarized balance sheets	Senvest Management L.L.C.	
	2017 $	2016 $
Assets	113,027	253,064
Liabilities	8,994	157,225
Net assets	104,033	95,839
Accumulated NCI	104,033	95,839

The participation owned by the parent company is reflected as a liability in the subsidiary's financial statements.

Summarized statements of comprehensive income (loss)	2017 $	2016 $
Revenue and net investment gains	37,269	42,044
Expenses	14,866	22,325
Net income	22,403	19,719
Other comprehensive loss	(4,773)	(2,153)
Total comprehensive income	17,630	17,566
Net income allocated to NCI	22,403	19,719

The participation allocated to the parent company is reflected as a part of the statement of income (loss) in the subsidiary's financial statements.

Summarized statements of cash flows	2017 $	2016 $
Cash flow from operating activities	4,609	1,640
Cash flow from financing activities	(2,597)	(1,772)
Net decrease in cash and cash equivalents	2,012	(132)

No guarantees or collateral were provided to the subsidiaries and structured entities except for the guarantee of an operating lease of Senvest Management L.L.C. The amounts in question have been included in the Company's commitments in note 20(a). The Company is not liable for any other contingent liabilities arising in its subsidiaries and structured entities and will not settle any other liabilities on their behalf.

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

18 Acquisition of a subsidiaries

On January 16, 2017, the Company acquired the remaining share capital of Bogas Costa Del Sol SL, Global Box Arganda SL, Global Box Rivas SL and Coldstream SL. Prior to the acquisition on January 16, 2017, the Company owned as an investment in real estate an interest of 10% in each of the entities acquired. These companies are all incorporated in Spain and are engaged in the short-term rental of storage facilities. The purchase price paid for all four entities was a cash consideration of $9,658. There is no contingent consideration. The transaction was accounted for under the purchase method. The net assets of the acquired companies were valued at fair value, and there was no resulting goodwill on the purchase. The related debt against the investment properties as at December 31, 2017 totaled $4,448 and has been included as part of trade and other payables on the consolidated Statement of Financial Position.

Details of the assets and liabilities recognized as a result of the acquisition are as follows:

	Fair value $
Cash and cash equivalents	104
Investment properties	15,482
Other assets	670
Trade and other payables	(502)
Mortgages	(5,018)
Net identifiable assets acquired	10,736
Less: Non-controlling interest	1,078
Net assets acquired	9,658

The acquired businesses contributed revenues of $2,770 and net loss of $330 to the for the period from January 16, 2017 to December 31, 2017.

19 Related party transactions

Key management compensation

Key management includes the Board, the president and chief executive officer, the vice-president, the secretary-treasurer and the CFO. The compensation paid or payable to key management for employee services is as follows:

	2017 $	2016 $
Salaries and other short-term employee benefits	13,121	9,423
Post-employment benefits – Defined contribution	39	39
	13,160	9,462

Management fees

Certain employees and related parties that have invested in the Funds do not pay management fees that are charged to outside investors. The amount invested by these participants in 2017 totals $103,454 (2016 – $73,762).

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

20 Commitments

a) The future minimum rental payments for premises under long-term leases are as follows:

	$
2018	1,182
2019	1,217
2020	1,267
2021	1,088
2022	1,088
Thereafter	2,353

b) As required by certain of the Company's equity investments and other holdings, the Company has capital commitments of $1,589.

c) As required by certain of the Company's real estate investments, the Company has capital commitments of $7,085.

d) As required by certain of the Company's investment properties, the Company has capital commitments of $967.

21 Segmented and geographical information

The Company operates in a single reportable segment, which is the management of its own investments and those of the Funds.

The following tables summarize the Company's revenues by geographical area for the years ended December 31:

2017	United States $	Canada $	Great Britain $	Rest of European Union $	Argentina $	Other $	Total $
Revenue							
Interest income	5,450	485	–	1,037	–	–	6,972
Net dividend income	(6,776)	7,229	181	840	1,133	3,333	5,940
Other income	903	470	–	1,131	–	–	2,504

2016	United States $	Canada $	Great Britain $	Rest of European Union $	Argentina $	Other $	Total $
Revenue							
Interest income	3,266	313	1	(396)	–	1,000	4,184
Net dividend income	7,890	(22)	605	450	104	1,534	10,561
Other income	278	532	–	–	–	–	810

Board of Directors

Victor Mashaal
Chairman of the Board & President
Senvest Capital Inc.

*Ronald G. Assaf
Business Executive

Frank Daniel
Secretary-Treasurer
Senvest Capital Inc.

*David E. Basner
Business Executive

*Jeffrey L. Jonas
Partner, Brown Rudnick L.L.P.

Richard Mashaal
Vice-President
Senvest Capital Inc.

*Member of the Audit Committee

Officers

Victor Mashaal
Chairman of the Board & President

Frank Daniel
Secretary-Treasurer

Richard Mashaal
Vice-President

George Malikotsis C.A., C.P.A.
Vice-President, Finance

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