



SENVEST

ANNUAL REPORT

2012

CORPORATE PROFILE

SENVEST CAPITAL INC. AND ITS SUBSIDIARIES HAVE BUSINESS ACTIVITIES IN MERCHANT BANKING, ASSET MANAGEMENT, REAL ESTATE AND ELECTRONIC SECURITY.

ANNUAL MEETING

THE ANNUAL MEETING OF SHAREHOLDERS WILL BE HELD AT THE MONT-ROYAL CENTER, 2200 MANSFIELD STREET, MONTREAL, QUEBEC ON JUNE 3, 2013 AT 10:00 A.M.

CONTENTS

- 1. FINANCIAL HIGHLIGHTS
- 2. MANAGEMENT'S DISCUSSION & ANALYSIS
- 10. FINANCIAL DATA
- 40. INVESTOR INFORMATION

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SELECTED FINANCIAL DATA

(In thousands, except per share amounts)

(years ended December 31)

	2012	2011	2010	2009	2008
	\$	\$	\$	\$	\$

SUMMARY OF OPERATIONS

Total revenues (loss)	106,047	(84,712)	156,579	229,539	(48,583)
Net earnings (loss)	81,470	(88,026)	120,046	169,026	(48,461)
Net earnings (loss) per share	25.65	(28.61)	36.81	60.30	(18.49)

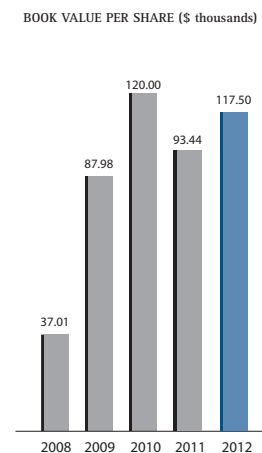
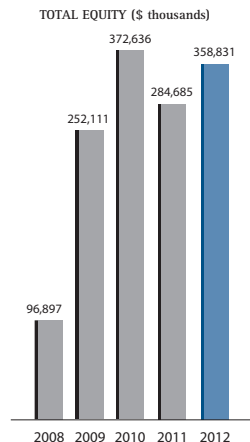
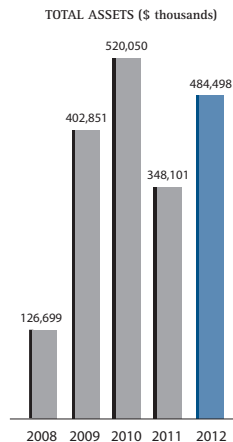
FINANCIAL DATA

Total assets	454,498	348,101	520,050	402,851	126,699
Total equity	358,831	284,685	372,636	252,111	96,897
Dividends per share	-	-	-	-	0.15

COMMON STOCK INFORMATION

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

	2012		2011	
	\$		\$	
FISCAL QUARTER	High	Low	High	Low
First	77.00	72.50	75.00	72.05
Second	83.90	61.00	89.50	78.00
Third	80.00	70.00	89.00	69.50
Fourth	78.00	66.00	78.00	65.00



The numbers for 2008 and 2009 have been calculated and are based on canadian GAAP not IFRS.



Management's Discussion and Analysis

OVERALL PERFORMANCE

Media hysteria over the fiscal cliff reached a fever pitch in December, as US equity markets had a choppy month but finally ended the year on a high note. The S&P 500 had its best last day of the year since 1974 (Bespoke Investment Group), as it became clear that the fiscal cliff was in fact not about to cause financial armageddon. Senvest Capital Inc ("Senvest" or the "Company") also ended the year strongly as many of our contrarian investments began to see a turn in market sentiment over their prospects.

Leading the charge in the fourth quarter was mortgage insurer Radian Group ("RDN"), which gained about 40%, after two critical developments. First, the company announced a debt exchange offer that pushed out the maturity of \$167m of a \$250m bond issue from 2015 to 2017. This de-risking of a potential liquidity issue will provide RDN more time to repair its balance sheet by continuing to write new business and earn their way out of the overhang from their pre-2009 legacy book claims. Second, the company renewed an important agreement with Freddie Mac without any requirement for the down streaming of capital, which many had feared as a potential risk.

Among other contributors to fourth quarter gains, mortgage and life insurer Genworth Financial ("GNW"), which also rose over 40%, announced it hired a new CEO with impressive credentials and experience in both life and health insurance. Lloyd's Bank 13% hybrid bonds gained about 10%; Argentine oil and gas company YPF Sociedad ("YPF"), which has been a major disappointment this past year, increased about 12% on reports of a potential \$37 billion expansion partnership with Chevron; and action sports apparel company QuikSilver ("ZQK") was up 28%.

In last year's December letter we wrote, "2011's disappointments represent 2012's opportunity." And in fact, many of 2011's worst performers were 2012's best performers, with RDN most representative of this point as the stock leapt 160% in the year. RBS Preferred Series T, a core holding that suffered in 2011, was up over 80% in 2012. GNW, also a loser in 2011, was up over 14% in 2012 and shipping fuel supplier Aegean Marine Petroleum Network ("ANW") had a stock price gain of 29% in the year. In addition to the RBS T's, fixed income and yielding securities have been a major component of the portfolio in the last few years, and were a good source of profits in 2012. Lloyd's 13% hybrids, a new position in 2011, gained over one-third last year. Other good contributors in the yield category included commercial mortgage REITs Newcastle Investment ("NCT"), NRF and RAIT Financial ("RAS") common stock and convertible bonds.

Losses in the year were concentrated in two Latin American investments – YPF and mobile phone service provider NII Holdings ("NIHD"), both down in the 60% range. (YPF has been discussed significantly in the second and third quarter 2012 letters). Other holdings that were contributors to losses were Puerto Rico bank Doral Financial ("DRL") and two Israeli companies – aesthetic medical device company Syneron Medical ("ELOS") and VOIP technology company Audiocodes ("AUDC"). We also said in last December's letter, "We manage our investments with a long term perspective and while many core holdings suffered losses last year, these investments are still in the portfolio...we haven't cut and run from these investments which would then require us to reinvent the portfolio with no opportunity to earn back these losses." Just as 2011's losses

represented 2012's opportunities, the same can be said about investments that disappointed last year. Moreover, some of 2011's losers didn't recover meaningfully in 2012, most notably ANW and ZQK. Companies that have been a drag on results (with the exception of NIHD, which we sold down based on a change in the fundamentals) remain in the portfolio and 2013 could be their breakout year.

In January 2013, David Tepper, an investment manager we admire, appeared on Bloomberg TV and his interview resonated with us. Tepper's Appaloosa Fund has a superior long-term track record with volatility, which he was asked about. He pointed out that in the several years in which his fund declined 20%, they were up the following year significantly. This sounded somewhat familiar to our experience, where three significant loss years of 2002, 2008 and 2011 were followed with very profitable 2003, 2009 and 2012 years. Thus is the nature of our contrarian investment philosophy focused on turnarounds, rehabilitation stories, misperceived opportunities and underappreciated growth companies. We don't know the timing of when the turn, rehabilitation or change in market perception and sentiment will occur. Further, these situations rarely progress in a smooth, upward slope – they often have setbacks and stalls along the way. The requisite relatively long-term investment horizon requires patient capital, a rare occurrence in the public markets today. Fortunately Senvest, is able to pursue this strategy, which over time has proven its capital creation objectives.

In his Bloomberg TV interview, David Tepper made the bold statement that (regardless of the difficult political situation) the US is on the "verge of greatness." The positive economic factors such as: the recent housing recovery, cheap and growing supply of domestic energy which will lead to lower fuel imports, and improved US manufacturing competitiveness, seem to support his optimism. (A Barron's cover in January 2013 read: "Made in America – manufacturing is at the beginning of an amazing comeback in the U.S., powered by low-cost natural gas at home and rising wages in Asia.") Central banks in the US, UK, Japan and Europe are running strongly accommodative policies and China growth seems to be re-energized. Couple this background with the underlying fundamental change and improvements we see in our portfolio companies, brings hope that 2013 will result in both better financial results and higher market multiples to drive our investments higher.

RESULTS OF OPERATIONS

Senvest Capital Inc. recorded net earnings of \$81.5 million or \$25.65 per diluted common share for the year ended December 31, 2012. This compares to a net loss of \$88 million or \$28.61 per common share for the 2011 year. Book value per common shares as at December 31, 2012 was to \$117.5 per common share. Almost half of the gain for the year was earned in the fourth quarter. All financial numbers discussed heretofore are based on International Financial Reporting Standards (IFRS) unless specifically identified as being under the "old" Canadian Generally Accepted Accounting Principles (GAAP).

The Company's income from equity investments that increased in 2012 was the biggest contributor to the net earnings recorded. The net realized and unrealized gain on equity investments totalled \$56.3 million in the current year while the share of



income from associates totalled \$37.8 million. The two combined represent a substantial portion of the profit for the year as well as for the fourth quarter. Although the Company had a profit in 2012 and remains committed to being profitable over the long-term, the volatility and choppiness of the markets will result in wide profit swings from quarter to quarter. The Company will try to navigate this as best as it can.

The main assets included as part of investments in associates are the investments in Senvest Partners and Senvest Israel Partners. Of the \$159.2 million in this asset a total of \$141.6 million is in these two funds. The Company's share of profit from these two funds in the year amounted to a substantial portion of the entire profit of \$37.8 million earned from associates.

Management fees earned for investment advisory services rendered to the two funds for 2012 increased slightly to \$2.7 million from \$2.5 million in the prior year. The Senvest Partners fund is focused primarily on small and mid-cap companies. The fund recorded a gain just under 35% net of fees in 2012 and is up 1190% since inception in 1997. The Senvest Israel Partners fund was initiated in 2003 to focus on investing in Israel related companies. This fund recorded a 2012 profit of just over 9%. (The returns of both funds are based on numbers reported under US GAAP but the underlying accounting principles used by the funds are substantially similar to what would be reported under IFRS). The two funds had a total of approximately \$331 million of net assets under management at December 31, 2012.

IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC 12, Consolidation – Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

The company has completed its analysis of the new guidelines and has concluded that IFRS 10 will have a major impact on the consolidated financial statements. As a result, the company will be considered a principal with respect to Senvest Partners Fund and Senvest Israel Partners Fund, having enough exposure to the returns of both funds to be required to consolidate them. As at January 1, 2013, the underlying assets of each fund will be consolidated, increasing the total assets of the consolidated financial statements by an amount of \$ 274.9 million, with a corresponding increase in liability for redeemable units of subsidiaries. Since the company was accounting for its interest in these funds using the equity method, the net income reported will not be affected. However, the consolidated statements of financial position, income and cash flows will each report the gross transactions of the funds instead of a single line item. Furthermore, management fees earned by the company from the funds will be eliminated upon consolidation.

The Company owns a 48.9% interest in Cross Point Realty Trust, a US real estate income trust (commonly referred to as a REIT). 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. Although some REITs are publicly traded, the

one invested in by the company is a non-publicly traded REIT. The main asset of the REIT is a 64.57% interest in a joint venture that holds a commercial office property. (The company in effect has a 31.6% economic interest in the underlying property). This REIT investment is an investment in an entity in which the Company has significant influence and is accounted for using the equity method. The carrying value of this investment was \$11.3 million as at December 31, 2012 unchanged from the prior year.

The Company has a portfolio of real estate investments, investing as a minority partner in selected properties. Real estate investments totalled \$33.2 million as at December 31, 2012. Of this amount \$15.3 million represents investments in different US REITs. These REITs are not publicly traded and 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 its holders. The remaining \$17.9 million 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 made an investment in 2010 in a private placement offering by Talmer Bank (a private US bank) to raise funds to acquire assets of financial institutions through the Federal Deposit Insurance Corporation (FDIC). In 2012 the Company made an additional investment of \$8.3 million. There is no established market for this investment. The value of this item as at December 31 2012 was \$21.7 million. Talmer Bank has indicated it may file to go public in 2013.

From time to time the Company enters into derivative financial instruments consisting primarily of options and warrants to purchase or sell equities and equity indices. All contracts are denominated in US dollars. There is deemed to be no credit risk for the options because they are traded on exchanges. The warrant contracts are not exchange traded and allow the company to purchase underlying equities at a fixed price. The maximum exposure to credit risk associated with these warrants is their recorded amount.

Employee benefit expenses were \$12.6 million for the year ending December 31, 2012 compared to \$2.5 million for 2011. The main difference from the prior year is bonus accruals for 2012 versus the loss year of 2011. The Company records certain option related compensation directly on its financial statements as an expense and a corresponding liability. The change in the market price of Senvest shares in 2012 and the exercise of options resulted in a stock option expense that is included as part of employee benefits. This amount will fluctuate each period according to the change in the price of the Company's shares. The Company has not issued any new stock options since 2005.

The Company consolidates the entity that serves as the investment manager of Senvest Partners and Senvest Israel Partners. The portion of the expected residual returns of the entity that does not belong to the Company is reflected as Non-controlling interest on the balance sheet. This interest is owned by an executive of the Company and totalled \$27.4 million as at December 31, 2012 from \$21.3 million as at December 31, 2011.



Management's Discussion and Analysis

FINANCIAL POSITION, LIQUIDITY, AND CAPITAL RESOURCES

At the end of December 31, 2012, Senvest had total consolidated assets of \$454.5 million versus \$348.1 million at the end of 2011. The main reason for this change is the increase in equity and other holdings (primarily due to gains in the portfolio). Equity and other holdings increased to \$254.1 million from \$180.6 million last December. The Company's liabilities have correspondingly increased to \$95.7 million versus \$63.4 million at the end of 2011 primarily because of the increases in due to brokers (by over \$16 million), accounts payable and equities sold short.

An amount of \$166.9 million of equity holdings were purchased in 2012 versus an amount of \$148.5 million sold. The short portfolio increased from \$12.3 million at the end of 2011 to \$24.2 million as at December 31 2012. An amount of \$230.3 million of shorts were added while \$216.3 million were bought back. Trading activity, while less than the prior year, was still significant. Due to the choppiness of the markets the Company expects this trend to continue. Cash and cash equivalents decreased slightly to \$602 thousand.

Risks

The Company is exposed to various financial risks arising from its financial investments. These include market risks relating to equity prices, interest rates and currency risk and liquidity risk. Additional information on these risks is included in note 3 of the December 31 2012 consolidated financial statements.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is composed of interest rate risk, currency risk and equity price risk.

Interest rate risk

Interest rate risk refers to the risk that interest expense on floating rate debt will vary as a result of changes in underlying interest rates. The Company's entire debt is all based on floating rates. The Company has no fixed rate debt as this type of debt is usually used to lock in long-term liabilities. The Company does not have a long-term stream of cash flow 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 debt. If the interest rates do spike up, then the Company could enter into interest rate swaps or more probably just reduce its debt level. The Company has public equity holdings of approximately \$218 million as at December 31, 2012. At any time it can liquidate enough securities to reduce its floating rate debt to zero.

Currency risks

Currency risk refers to the risk that values of 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 following are the main financial assets and financial liabilities that have items denominated in currencies other than the US dollar: cash and cash equivalents, due from/to brokers, bank advances, equity and other holdings, real estate investments, other assets and accounts payable.

Equity price risk

Equity price risk refers to the risk that the fair value of equity investments and equities sold short will vary as a result of changes in the market prices of the holdings. The vast majority of the equity investments and all of the equities sold short are based on quoted market prices as of the balance sheet date. Market prices are subject to fluctuation and represent the unrealized gain or loss on the balance sheet date. This unrealized amount may not be the amount that is ultimately realized. Changes in the market price of quoted securities may be related to a change in the financial outlook of the investee entities or due to the market in general.

Equities 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. As a result this creates the risk that the Company's ultimate obligation to satisfy the delivery requirements may exceed the amount of the proceeds initially received or the liability recorded in the financial statements (which is based on the year end closing ask price).

The Company's equity investments have a downside risk limited to their recorded value while the risk of the equities sold short 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. The Company closely monitors both its equity investments and its equities sold short. The analysis below assumes that equity investments with quoted values and equities sold short would increase or decrease at the same rate. As the two portfolios are not hedged together, a change in market prices could affect each differently.

The impact of a 30% change in the market prices of the Company's equity holdings with quoted value and equities sold short as at December 31, 2012 would be as follows (in thousands):

	Fair value	Estimated fair value 30% price increase	Estimated fair value 30% price decrease
Equity holdings-listed securities	185,946	241,729	130,162
Equities sold short	(24,238)	(31,509)	(16,967)
Before-tax impact on net earnings		48,512	(48,512)

Liquidity risk

Liquidity risk is the risk the company will encounter in meeting its financial obligations. The company's largest

assets are equity and other holdings. Most of this asset is made up of equities in public holdings which can be liquidated in a relatively short period of time.

The following table summarizes the current financial obligations of the Company (in thousands) :

	Less than 1 year	Total
Bank Advances	138	138
Due to Brokers	51,609	51,609
Equities sold Short and derivative liabilities	24,238	24,238
Accounts payable and accrued liabilities	7,295	7,295
Total	83,280	83,280

Due to the Company's large holding of liquid assets, it believes that it has sufficient resources to meet its obligations.

Credit risk

Credit risk refers to the risk that counterparty will fail to fulfill its obligations under a contract and will cause the company to suffer a loss. The majority of the holdings represent residual interests so they carry no credit risk.

From time to time the Company enters into derivative financial instruments consisting primarily of options and warrants to purchase or sell equities and equity indices. These

derivative instruments were marked to market. There is deemed to be no credit risk for the options and the futures because they are traded on exchanges. The warrant contracts are not exchange traded and allow the Company to purchase underlying equities at a fixed price. The maximum exposure to credit risk associated with these warrants is their recorded amount.

The following table shows the maximum credit risk exposure for the Company (in thousands):

	2012 \$
Debt securities held for trading	32,534
Loans to employees	1,118
Management fee receivable	951
Due from brokers	1,914
Cash and cash equivalents	602
Total	37,119

Capital risk management

The Company's objective when managing its capital is to maintain a solid capital structure appropriate for the nature of the Company's 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 issuer bids or can adjust the amount of dividends paid. The Company monitors capital on the basis of its debt to capital ratio. Its debt to capital ratio was as follows (in millions):

	December 31, 2012	December 31, 2011
Total liabilities	\$95.7	\$63.4
Total equity	\$358.8	\$284.7
Debt to Capital ratio	0.27	0.22

The Company's goal is to maintain a debt to Capital ratio below 1:1. In order to limit the amount of risk. The Company believes that limiting its debt to Capital ratio in this manner is the best way to control risk. The Company's debt to capital

ratio increased to 0.27 from 0.22 at the end of 2011. The Company does not have any restricted covenants or capital requirements.



Management's Discussion and Analysis

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 and judgments applied by management that most significantly affect the company's financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value 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. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those who sourced them. All models are certified before they are used and they are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

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

Other payables

Other payables are comprised mostly of accruals made by the company at period-end. In order to determine the amount of accruals, the company needs to make estimates and judgments on the timing and measurement of the payments due at period-end, based on its knowledge of business activities. The main component of accruals is related to the bonus plans offered to the company's key management and officers. Officers' annual bonuses are calculated based on a predefined formula and are approved by the Board of Directors prior to completion of the financial statements. Key management bonuses are discretionary and are approved by the President prior to completion of the financial statements. Other accruals include audit, share registration, legal and other fees. When there is little, if any, uncertainty relating to the amounts and timing of cash outflows, the company includes the amount in Trade and other payables. If a liability is determined to have an uncertain amount or timing of cash outflows, it would be classified as a provision on the consolidated statement of financial position.

Income taxes

The 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 (loss)	Net earnings (loss)	Earnings (loss) per share
2012-4	44,814	36,837	12.10
2012-3	22,749	12,474	3.83
2012-2	(40,361)	(38,239)	(12.62)
2012-1	78,845	70,398	22.34
2011-4	37,385	40,139	13.41
2011-3	(112,010)	(107,705)	(34.92)
2011-2	(25,003)	(29,790)	(9.70)
2011-1	14,916	9,330	2.60

CONTRACTUAL OBLIGATIONS

(In thousands)

	Less than 1 year	1-3 years	4-5 years	Total
Due to Brokers	51,609	-	-	51,609
Operating leases	482	791	-	1,273
Investment commitments	2,066	-	-	2,066
Total	54,157	791	-	54,948

SELECTED ANNUAL INFORMATION

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

	2012	2011	2010
Total revenue (loss)	106,047	(84,712)	156,579
Net earnings (loss)	81,470	(88,026)	120,046
Net earnings (loss) per share	25.65	(28.61)	36.81
Total assets	454,498	348,101	520,050

The Company maintains an account with Barclays Capital in the U.S. who functions as the Company's main prime broker. The Company has assets with the prime broker pledged as collateral for leverage. Although the prime broker is a very large financial institution 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. A significant majority of the Company's assets are in custody with a single prime broker, such losses could be significant.

On June 23, 2012 Senvest commenced a new normal course issuer bid to purchase a maximum of 130,000 of its own common shares before June 22, 2013. The number of common shares outstanding as at December 31, 2012 and as at March 15, 2013 was 2,820,424. The number of stock options outstanding totalled 98,000 as at December 31 2012 and as at March 15, 2013. There were no new stock options granted in 2012 and none have been granted since 2005.

Related party transactions

The Company provides investment advisory services to and earns management fees from the two funds that it manages, Senvest Partners and Senvest Israel Partners. These two funds were established by the Company and the Company is also an investor. The Company earned \$2.7 million in management fees from the funds in the year and \$951 were receivable as at year end. The Company's investment in Senvest Partners as at December 31, 2012 is \$119.5 million and the investment in Senvest Israel Partners as at the same date is \$22.1 million. These investments are accounted for using equity method.

The Company has made non-interest bearing loans to employees and senior executives amounting to \$1.12 million. These loans have a face value of \$1.37 million and have been discounted by \$252 thousand. The discount rate used is the rate on the Company's line of credit. Shares of the Company have been provided as collateral and the company has full recourse against the borrowers with respect to these loans.

The Company consolidates an entity that serves as the investment manager of Senvest Partners and Senvest Israel Partners. The portion of the expected residual returns that does not belong to the Company is reflected as Non-controlling interest on the balance sheet. This interest is owned by an executive of the Company and totalled \$27.4 million as at December 31 2012 and \$21.3 million as at December 31, 2011.

Significant Equity Investments

The following is a summary of financial information from certain significant investees. All numbers are in millions.

Senvest Partners

Senvest Partners is a fund that is focused primarily on small and mid-cap companies. This fund was established by the Company in 1997. The company owned approximately 42% of this entity as at December 31, 2012.

	2012	2011
Assets	\$359.3	\$254.7
Liabilities	76.2	45.6
Equity	283.1	209.1
Net earnings (loss)	76.0	(101.4)



Management's Discussion and Analysis

Senvest Israel Partners

Senvest Israel Partners is a fund that is focused on investing in Israel related companies. This fund was established by the Company in 2003. The company owned approximately 45% of this entity as at December 31, 2012

	2012	2011
Assets	\$57.2	\$52.2
Liabilities	8.6	7.8
Equity	48.6	44.4
Net earnings (loss)	4.8	(3.4)

Cross Point Realty Trust

Crosspoint Realty Trust is a REIT entity that owns an interest in a joint venture that operates a real estate property in the Boston Massachusetts area. The company owned approximately 48.9% of this entity as at December 31, 2012

	2012	2011
Assets	\$23.2	\$23.2
Liabilities	0.1	0.1
Equity	23.1	23.1
Net earnings	0.5	3.4

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in the consolidated financial statements for December 31 2011 and December 31 2012.

INTERNAL CONTROLS

The Company's President and Chief Executive Officer and its Vice-President and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures. After evaluating the effectiveness of the Company's disclosure controls and procedures as at

December 31, 2012 they have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the company and its subsidiaries would have been known to them.

Internal control over financial reporting (ICFR) is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with Generally Accepted Accounting Principles in its financial statements. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have supervised the evaluation of the design and effectiveness of the Company's internal controls over financial reporting as of December 31 2012 and believe the design and effectiveness to be adequate to provide such reasonable assurance using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. There have been no changes in the Company's ICFR during the year ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the effectiveness of the ICFR.

Victor Mashaal
Chairman of the Board and President

March 28, 2013

(Management Discussion and Analysis ("MD&A") provides a review of Senvest Capital Inc.'s operations, performance and financial condition for the year ended December 31, 2012, and should be read in conjunction with the 2012 annual report. Readers are also requested to read the Annual Information Form as well as 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.)

Independent Auditor's Report

To the Shareholders of Senvest Capital Inc.

We have audited the accompanying consolidated financial statements of Senvest Capital Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of income (loss), comprehensive income (loss), 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. as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP¹

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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.

Montreal, Quebec
March 28, 2013

Management's Report

The financial statements for the fiscal year ended December 31, 2012, 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 accounting principles generally accepted in Canada 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 above.

Victor Mashaal

Victor Mashaal
Chairman of Board and President
Senvest Capital Inc.
March 28, 2013



Consolidated Statements of Financial Position

AS AT DECEMBER 31, 2012 AND 2011

(IN THOUSANDS OF CANADIAN DOLLARS)

	Note	2012 \$	2011 \$
Assets			
Cash and cash equivalents	6	602	1,219
Due from brokers		1,914	1,766
Management fees receivable	7	951	541
Equity investments and other holdings	8	254,101	180,579
Investments in associates	10	159,157	124,206
Real estate investments	9	33,183	28,316
Income taxes receivable		366	1,269
Deferred income tax assets	12(b)	480	7,027
Other assets	11	3,744	3,178
Total assets		454,498	348,101
Liabilities			
Bank advances	13	138	427
Trade and other payables		7,295	910
Due to brokers	13	51,609	35,589
Equities sold short and derivative liabilities	8	24,238	12,332
Liabilities under cash-settled share-based payments	15	5,035	5,290
Deferred income tax liabilities	12(b)	7,352	8,868
Total liabilities		95,667	63,416
Equity			
Equity attributable to owners of the parent			
Share capital	14	12,983	12,840
Accumulated other comprehensive loss		(17,770)	(11,715)
Retained earnings		336,203	262,239
Total equity attributable to owners of the parent		331,416	263,364
Non-controlling interests		27,415	21,321
Total equity		358,831	284,685
Total liabilities and equity		454,498	348,101

Approved by the Board of Directors

Victor Mashaal, Director

Frank Daniel, Director

The notes on pages 15 to 39 are an integral part of these consolidated financial statements.

Consolidated Statements of Income (Loss)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE DATA)

	Note	2012 \$	2011 \$
Revenue			
Management fees		2,735	2,498
Interest income		2,635	950
Net dividend income		2,855	3,297
Other income		432	686
		8,657	7,431
Investment gains (losses)			
Net realized gain on equity investments and other holdings		24,435	31,182
Change in unrealized gain (loss) on equity investments and other holdings		31,883	(85,426)
Net realized gain on real estate investments		814	379
Change in unrealized gain on real estate investments		2,056	1,173
Share of profit (loss) of associates		37,819	(41,657)
Net realized gain on other financial instruments		824	1,076
Foreign exchange gain (loss)		(441)	1,130
		97,390	(92,143)
		106,047	(84,712)
Operating costs and other expenses			
Employee benefit expense		12,576	2,454
Interest expense		609	884
Transaction costs		1,442	2,256
Other operating expenses		3,790	3,447
		18,417	9,041
Income (loss) before income taxes		87,630	(93,753)
Income tax expense (recovery)	12(a)	6,160	(5,727)
Net income (loss) for the year		81,470	(88,026)
Net income (loss) attributable to:			
Owners of the parent		73,964	(80,682)
Non-controlling interests		7,506	(7,344)
Earnings (loss) per share			
Basic	16(a)	26.24	(28.61)
Diluted	16(b)	25.65	(28.61)

The notes on pages 15 to 39 are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(IN THOUSANDS OF CANADIAN DOLLARS)

	2012 \$	2011 \$
Net income (loss) for the year	81,470	(88,026)
Other comprehensive income (loss)		
Currency translation differences	(6,573)	5,881
Comprehensive income (loss) for the year	74,897	(82,145)
Comprehensive income (loss) attributable to:		
Owners of the parent	67,909	(75,118)
Non-controlling interests	6,988	(7,027)

The notes on pages 15 to 39 are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(IN THOUSANDS OF CANADIAN DOLLARS)

	Note	Attributable to owners of the parent					Non-controlling interests	Total equity
		Share capital	Accumulated other comprehensive loss	Retained earnings	Total			
		\$	\$	\$	\$	\$	\$	\$
Balance – January 1, 2011		12,792	(17,279)	343,412	338,925	33,711		372,636
Net loss for the year		-	-	(80,682)	(80,682)	(7,344)		(88,026)
Other comprehensive income	2	-	5,564	-	5,564	317		5,881
Comprehensive income (loss) for the year		-	5,564	(80,682)	(75,118)	(7,027)		(82,145)
Repurchase of common shares	14	(30)	-	(491)	(521)	-		(521)
Exercise of options	15	78	-	-	78	-		78
Distributions to non-controlling interests		-	-	-	-	(5,363)		(5,363)
Balance – December 31, 2011		12,840	(11,715)	262,239	263,364	21,321		284,685
Net income for the year		-	-	73,964	73,964	7,506		81,470
Other comprehensive loss	2	-	(6,055)	-	(6,055)	(518)		(6,573)
Comprehensive income (loss) for the year		-	(6,055)	73,964	67,909	6,988		74,897
Exercise of options	15	143	-	-	143	-		143
Distributions to non-controlling interests		-	-	-	-	(894)		(894)
Balance – December 31, 2012		12,983	(17,770)	336,203	331,416	27,415		358,831

The notes on pages 15 to 39 are an integral part of these consolidated financial statements.



Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(IN THOUSANDS OF CANADIAN DOLLARS)

	Note	2012	2011
		\$	\$
CASH FLOWS PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net income (loss) for the year		81,470	(88,026)
Adjustments for non-cash items	17(a)	(92,627)	88,621
Purchase of equity investments and other holdings at fair value through profit or loss		(166,872)	(278,081)
Purchase of equities sold short and derivative liabilities		(216,316)	(212,974)
Proceeds on sale of equity investments and other holdings at fair value through profit or loss		148,456	353,885
Proceeds from equities sold short and derivative liabilities		230,375	198,313
Dividends and distributions received from real estate investments		2,322	929
Repurchase of stock options		(254)	(2,029)
Changes in working capital items	17(b)	6,064	(6,118)
Net cash provided by (used in) operating activities		(7,382)	54,520
INVESTING ACTIVITIES			
Purchase of real estate investments		(4,958)	(6,882)
Purchase of equity investments and other holdings designated as fair value through profit or loss		(10,851)	(3,474)
Proceeds on sale of equity investments and other holdings designated as fair value through profit or loss		6,784	2,319
Net cash used in investing activities		(9,025)	(8,037)
FINANCING ACTIVITIES			
Distributions paid to non-controlling interests		(894)	(5,363)
Decrease in bank advances		(281)	(3,297)
Increase (decrease) in due to brokers		16,869	(36,596)
Proceeds on issuance of shares		143	78
Repurchase of common shares		-	(521)
Net cash provided by (used in) financing activities		15,837	(45,699)
Increase (decrease) in cash and cash equivalents during the year		(570)	784
Effect of changes in foreign exchange rates on cash and cash equivalents		(47)	9
Cash and cash equivalents – Beginning of year		1,219	426
Cash and cash equivalents – End of year		602	1,219
Amounts of cash flows classified in operating activities:			
Cash paid for interest		616	904
Cash paid for dividends on equities sold short		403	282
Cash received on interest		1,907	831
Cash received on dividends		3,394	3,592
Cash paid for income taxes		210	2,772

The notes on pages 15 to 39 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”.

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 as set out in Part I of the Canadian Institute of Chartered Accountants Handbook.

The Board of Directors approved these consolidated financial statements for issue on March 28, 2013.

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 4.

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 and liabilities under cash-settled share-based payments which have been measured at fair value.

Consolidation

The financial statements of the company consolidate the accounts of the company, its subsidiaries and a special purpose entity (“SPE”). All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries

Subsidiaries are those entities which the company controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls another entity. SPEs are consolidated where the substance of the relationship is that the SPE is controlled by the company. Subsidiaries and SPEs are fully consolidated from the date on which control is obtained by the company and are deconsolidated from the date that control ceases.

All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Accounting policies of subsidiaries and the SPE have been changed where necessary to ensure consistency with the policies adopted by the company.

Non-controlling interests

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

Investments in associates

Associates are entities over which the company has significant influence but not control. The financial results of the company’s investments in its associates are included in the company’s results 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 (loss). 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.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the company.

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



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

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 (loss). 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.

The company has investments in associates which hold investment properties. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the consolidated statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the statement of income of the associate in the year in which they arise.

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. Generally, 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 operation's functional currency are recognized in the consolidated statement of income (loss).

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

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 of the period (as this is considered a reasonable approximation of actual rates). All resulting changes are recognized in other comprehensive income (loss) as currency translation differences.

When an entity disposes of its entire 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 income (loss) related to the foreign operation are recognized in net income (loss). 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 income (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 income (loss) as currency translation differences. The 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, 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.



(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

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 (loss). 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 equities sold short and derivative liabilities if in a liability position.

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

Financial assets 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 (loss).

Subsequent to initial recognition, all financial assets 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 (loss) in change in unrealized gain (loss) on equity investments and other

holdings or change in unrealized gain (loss) on 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 (loss) as net dividend income when the company's right to receive payments is established. Interest on debt securities at fair value through profit or loss is recognized in the consolidated statement of income (loss) in interest income based on the effective interest rate. Dividend expense on equities sold short is included in net dividend income.

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, due from brokers, management fees receivable and loans to employees.

Recognition, derecognition and measurement

Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to 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.



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

c) Financial liabilities at amortized cost

Classification

Financial liabilities at amortized cost comprise bank advances, trade and other payables and due to brokers.

Recognition, derecognition and measurement

Trade and other payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Bank advances and due to brokers are recognized initially at fair value, net of any transaction costs incurred, 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 margins respectively.

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of income (loss) 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 are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is 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 on a time-proportionate basis 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.



(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

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 (loss).

Share-based payments

The company grants stock options to certain employees. Stock options vest on the grant date and expire after ten years. The fair value of each award is measured at the date of grant using the Black-Scholes option pricing model. The stock option plan allows the employees the choice whether to settle in cash or equity instruments. The liability incurred is measured at fair value, and the company recognizes immediately the compensation expense and a liability payable for the option. The fair value of the liability is remeasured at each reporting date and at the settlement date.

Any changes in fair value are recognized in profit or loss for the period. If the entity pays in cash on settlement rather than issuing equity instruments, that payment will be applied to settle the liability in full.

Share capital

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

Dividend distribution

Dividends on common shares are recognized in the company's consolidated financial statements in the period in which the dividends are approved by the company's Board of Directors.

Earnings per share

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

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for 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 from exercise of options are regarded as having been used to repurchase common shares at the average market price during the period.

Accounting standards and amendments issued but not yet applied

The company presents the developments that are relevant to its activities and transactions. Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. Unless otherwise noted, the company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

- a) IFRS 9, *Financial Instruments*, was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models for debt instruments in IAS 39, *Financial Instruments: Recognition and Measurement*, with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010, and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income.

This standard is effective for annual periods beginning on or after January 1, 2015.

- b) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC 12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

The company has completed its analysis of the new guidelines and has concluded that IFRS 10 will have a major impact on the consolidated financial statements. As a result, the company will be considered a principal with respect to Senvest Partners Fund and Senvest Israel Partners Fund, having enough exposure to the returns of both funds to be required to consolidate them. As at January 1, 2013, the underlying assets of each fund will be consolidated, increasing the total assets of the consolidated financial statements by an amount of



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

\$274,863, with a corresponding increase in liability for redeemable units of subsidiaries. Since the company was accounting for its interest in these funds using the equity method, the net income reported will not be affected. However, the consolidated statements of financial position, income and cash flows will each report the gross transactions of the funds instead of a single line item. Furthermore, management fees earned by the company from the funds will be eliminated upon consolidation.

c) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities.

d) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRSs. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

The company has assessed that the new standard will not impact significantly the fair value measurement of its financial instruments.

e) There have been amendments to existing standards, in particular IAS 28, *Investments in Associates and Joint Ventures*. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRSs 10 to 12.

f) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.

3 Financial 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 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.

The management of these risks is carried out by management under policies approved by the Board of Directors.

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 company's entire debt is based on floating rates which expose the company to cash flow interest rate risk. The company has no fixed rate debt as this type of debt is usually used to lock in long-term liabilities. 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 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, 2012, the company has public equity holdings of \$218 million (2011 – \$157 million). It can liquidate these securities to reduce its floating rate debt. As at December 31, 2012, a 1% increase or decrease in interest rates, with all other variables remaining constant, would impact interest expense by approximately \$517 over the next 12 months (2011 – \$360).

Notes to Consolidated Financial Statements

December 31, 2012 and 2011



(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

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

	2012	2011
Cash and cash equivalents	Between nil and 1.25%	Between nil and 1.75%
Bank advances	Prime rate plus 0.25%	Prime rate plus 0.25%
Debt securities	Between 6% and 13%	Between 5.32% and 13.00%
Loans to employees	Non-interest bearing	Non-interest bearing
Trade and other payables	Non-interest bearing	Non-interest bearing
Due to brokers	0.4% to 5.11%	0.63% to 1.13%

The company also holds debt securities held for trading of \$32,534 (2011 – \$23,783). Debt securities are usually very sensitive to interest rate changes. Theoretically, when interest rates rise, this has an effect of causing the value of debt securities to decline. The opposite generally happens when interest rates fall and 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, or 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 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:

	2012 \$	2011 \$
An increase of 100 basis points in the yield to maturity	(2,584)	(1,549)
A decrease of 100 basis points in the yield to maturity	2,938	1,774

Currency risk

Currency risk is the risk that values 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 are the main monetary financial assets and financial liabilities whose fair value is predominantly determined in currencies other than the US dollar.

	2012 \$	2011 \$
Cash and cash equivalents	141	2
Due from brokers	893	588
Equity investments and other holdings	1,155	4,134
Real estate investments	1,825	903
Other assets	1,938	1,213
Bank advances	(138)	(427)
Trade and other payables	(6,930)	(383)
Due to brokers	(11,533)	(31,873)
Net exposure	(12,649)	(25,843)

As at December 31, 2012, the effect of a 10% change in the US/Canadian dollar exchange rate would affect pre-tax income by approximately \$344 (2011 – \$330).

As at December 31, 2012, the effect of a 10% change in the US/GBP exchange rate would affect pre-tax income by approximately \$959 (2011 – \$545).



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(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 equities sold short will vary as a result of changes in the market prices of the holdings. The vast majority of the equity investments and all of the equities 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 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.

Equities 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 (which is based on the year-end closing ask price).

The company's equity investments have a downside risk limited to their recorded value, while the risk of equities sold short 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. The company closely monitors both its equity investments and its equities sold short.

The impact of a 30% change in the market prices of the company's equity investments with quoted value and equities sold short would be as follows:

2012			
	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	185,946	241,729	130,162
Equity securities sold short	(24,238)	(31,509)	(16,967)
Before-tax impact on net income		48,512	(48,512)
2011			
	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	133,198	173,157	93,239
Equity securities sold short	(12,332)	(16,032)	(8,632)
Before-tax impact on net income		36,259	(36,259)

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

Notes to Consolidated Financial Statements

December 31, 2012 and 2011



(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/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is made 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 cash and cash equivalents, amounts due from brokers and management fees.

The company manages counterparty credit risk by dealing only with parties approved by the Board of Directors.

From time to time, the company enters into derivative financial instruments consisting primarily of options and warrants to purchase or sell equities, futures to purchase precious metals, and equity indices and futures to sell currencies. These derivative instruments are marked to market. There is deemed to be no credit risk for the options and futures because they are traded on exchanges. The warrant contracts are not traded on an exchange and allow the company to purchase underlying equities at a fixed price.

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 ratings agencies) or to historical information about counterparty default rates:

	2012 \$	2011 \$
Cash and cash equivalents		
A	602	1,219
Due from brokers		
A	1,914	1,766
Total	2,516	2,985
	2012 \$	2011 \$
Debt securities		
BBB	18,973	-
BB	2,738	-
CCC and below	10,823	23,783
Total	32,534	23,783
Counterparties without external credit rating		
	2012 \$	2011 \$
Loans to employees*	1,118	1,088
Management fees receivable*	951	541
Total	2,069	1,629

* Existing brokers/related parties with which the company has not experienced defaults in the past.



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

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 at the consolidated statement of financial position date mature within one year, and the liquidity risk related to those 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 issuer bids or adjusts the amount of dividends paid. The company monitors capital on the basis of its debt-to-capital ratio, which is as follows:

	2012	2011
Total liabilities	\$95,667	\$63,416
Total equity	\$358,831	\$284,685
Debt-to-capital ratio	0.27	0.22

The company's goal is to maintain a debt-to-capital ratio below 1:1 in order to limit the amount of risk. The company believes that limiting its debt-to-capital ratio in this manner is the best way to control risk. The company does not have any restrictive covenants or capital requirements.

The company is not subject to any externally imposed capital requirements.

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.

Fair value estimate

IFRS 7, Financial Instrument: Disclosures, requires the company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the company has the ability to assess at the measurement date;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3 – Inputs that are not based on observable market data.

The carrying values of cash and cash equivalents, due from and to brokers, bank advances, and trade and other payables approximate their fair values due to the short-term nature of these instruments.

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

Notes to Consolidated Financial Statements

December 31, 2012 and 2011



(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, 2012 and 2011:

	2012			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Financial assets held for trading				
Equity securities	174,408	10,383	-	184,791
Debt securities	-	32,534	-	32,534
Financial assets designated as at fair value through profit or loss				
Equity securities	1,056	6,461	29,259	36,776
Real estate investments	-	-	33,183	33,183
	175,464	49,378	62,442	287,284
Liabilities				
Financial liabilities held for trading				
Equity holdings sold short	24,124	-	-	24,124
Derivatives	-	114	-	114
	24,124	114	-	24,238
	2011			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Financial assets held for trading				
Equity securities	125,204	3,860	-	129,064
Debt securities	-	23,783	-	23,783
Financial assets designated as at fair value through profit or loss				
Equity securities	4,049	5,589	18,094	27,732
Real estate investments	-	-	28,316	28,316
	129,253	33,232	46,410	208,895
Liabilities				
Financial liabilities held for trading				
Equity holdings sold short	12,307	-	-	12,307
Derivatives	-	25	-	25
	12,307	25	-	12,332

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 held by the company is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. Investments classified in Level 1 include active listed equities and derivatives traded on an exchange. The company does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified in Level 2. These include investment-grade corporate bonds, listed equities, over-the-counter derivatives and private equities for which the fair value is derived from the underlying assets having a fair value calculation based on observable inputs.

Investments classified in Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include 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 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.



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

Valuation models are used primarily to value unlisted equity, debt securities and other debt instruments for which markets were or have been inactive during the financial year. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

As at December 31, 2012, Level 3 instruments are in different entities and in different industries. The largest asset, which made up over half of the components of unlisted equity securities, is the investment in Talmer Bancorp, Inc. (also discussed in note 8). Real estate investments are disclosed in more detail in note 9, comprising investments in 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 valuers. 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.

During the years ended December 31, 2012 and 2011, there were no transfers between the levels.

The following table presents the changes in Level 3 instruments:

	Real estate investments \$	Unlisted equity securities \$	Total \$
As at January 1, 2011	20,146	15,505	35,651
Purchases	6,882	396	7,278
Sales proceeds	-	(2,320)	(2,320)
Distributions	(929)	-	(929)
Gains recognized in net income (loss)			
on financial instruments held at end of year	1,552	2,971	4,523
on financial instruments disposed of during the year	-	1,132	1,132
Currency translation adjustments	665	410	1,075
As at December 31, 2011	28,316	18,094	46,410
Purchases	4,958	8,278	13,236
Distributions	(1,508)	-	(1,508)
Gains recognized in net income (loss)			
on financial instruments held at end of year	2,056	3,333	5,389
Currency translation adjustments	(639)	(446)	(1,085)
As at December 31, 2012	33,183	29,259	62,442

Of the real estate investments, Landmark S.A. accounts for \$12,844 (2011 – \$14,034) of the total disclosed in the table above. The sole underlying real estate property of Landmark S.A. is a mixed-use building partially under construction located in Puerto Madero, Argentina.

For this underlying real estate property, the valuation was determined principally by using discounted cash flow projections based on estimates of future cash flows supported by the terms of any existing lease or other contracts, by using external evidence such as current market rents for similar properties in the same location and condition and by using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The future rental rates were estimated depending on the actual location, type and quality of the property, and taking into account market data and projections at the valuation date. Were the market rentals assumed in the discounted cash flow analysis to increase or decrease by 10% from management's estimates, the carrying amount of this underlying real estate property would be an estimated \$597 higher or lower, respectively (2011 – \$580).

Of the main unlisted equity securities, Talmer Bancorp, Inc. accounts for \$21,712 (2011 – \$13,099) of the total disclosed in the table above. Talmer Bancorp, Inc. is a US registered bank holding company located in Detroit, Michigan, that provides financial services and has branches in the states of Michigan and Ohio.



For this unlisted equity instrument, the valuation was determined by taking into account a combination of valuation techniques and variables as follows:

- Potential future dividend streams for the bank: prepared using estimated future after-tax cash flows obtained from internal projections.
- Historical trading activity of its stock: all trades of Talmer Bancorp, Inc. stock that took place over the previous 12 months were analyzed.
- Analysis of comparable public companies: operating results were compared to a group consisting of banks and thrifts operating in the US Midwest.
- Analysis of comparable acquisition transactions: bank acquisition transactions announced and/or completed in the last 12 months were analyzed.
- Net book value: this is important to ensure an adequate base for the continuance of operations.

If the future earnings or multiples assumed in the valuation were to increase or decrease by 10% from the estimates made, the valuation amount of this asset would vary by an estimated \$2,237 higher or lower, respectively. In 2011, this asset was valued based on recent transactions around year-end.

4 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 material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value 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.

See note 3 for sensitivity information for financial instruments.

Other payables

Other payables mostly comprise accruals made by the company at period-end. In order to determine the amount of accruals, the company makes estimates and judgments on the timing and measurement of the payments due at period-end based on its knowledge of business activities. The main component of accruals is related to the bonus plans offered to the company's key management and officers. Officers' annual bonuses are calculated based on a predefined formula and are approved by the Board of Directors prior to completion of the consolidated financial statements. Key management bonuses are discretionary and are approved by the President prior to completion of the consolidated financial statements. Other accruals include audit, share registration, legal and other fees. When there is little, if any, uncertainty relating to the amounts and timing of cash outflows, the company includes the amount in Trade and other payables. If a liability is determined to have an uncertain amount or timing of cash outflows, it is classified as a provision on the consolidated statement of financial position.

Income taxes

The 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.

Critical accounting judgments

Investment in Senvest Partners Fund and Senvest Israel Partners Fund

Taking into account the management agreements, the rights of unitholders and the company's level of ownership, the company has assessed the level of influence over both funds and has concluded that it has significant influence. Consequently, the investment in both funds has been classified as an associate.



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

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

2012

	Assets (liabilities) at fair value through profit or loss			Financial liabilities at amortized cost	Total
	Held for trading \$	Designated \$	Loans and receivables \$	\$	\$
Assets (liabilities) as per consolidated statement of financial position					
Cash and cash equivalents	-	-	602	-	602
Due from brokers	-	-	1,914	-	1,914
Management fees receivable	-	-	951	-	951
Equity investments and other holdings	217,325	36,776	-	-	254,101
Real estate investments	-	33,183	-	-	33,183
Other assets*	-	-	1,118	-	1,118
Bank advances	-	-	-	(138)	(138)
Trade and other payables	-	-	-	(7,295)	(7,295)
Due to brokers	-	-	-	(51,609)	(51,609)
Equities sold short and derivative liabilities	(24,238)	-	-	-	(24,238)
	193,087	69,959	4,585	(59,042)	208,589
Amounts recognized in consolidated statement of income (loss)					
Net realized gain	20,880	5,193	-	-	26,073
Change in unrealized gain	30,638	3,301	-	-	33,939
Net gains	51,518	8,494	-	-	60,012
Interest income (expense)	2,578	-	57	(609)	2,026
Dividend income (expense)	2,733	525	-	(403)	2,855
Management fees	-	-	2,735	-	2,735
	56,829	9,019	2,792	(1,012)	67,628

* Excludes capital assets and other non-financial assets as per note 11.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011



(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

2011

	Assets (liabilities) at fair value through profit or loss			Financial liabilities at amortized cost	Total
	Held for trading \$	Designated \$	Loans and receivables \$	\$	\$
Assets (liabilities) as per consolidated statement of financial position					
Cash and cash equivalents	-	-	1,219	-	1,219
Due from brokers	-	-	1,766	-	1,766
Management fees receivable	-	-	541	-	541
Equity investments and other holdings	152,847	27,732	-	-	180,579
Real estate investments	-	28,316	-	-	28,316
Other assets*	-	-	2,442	-	2,442
Bank advances	-	-	-	(427)	(427)
Trade and other payables	-	-	-	(910)	(910)
Due to brokers	-	-	-	(35,589)	(35,589)
Equities sold short and derivative liabilities	(12,332)	-	-	-	(12,332)
	140,515	56,048	5,968	(36,926)	165,605

Amounts recognized in the consolidated statement of income (loss)

Net realized gain	31,132	1,505	-	-	32,637
Change in unrealized gain (loss)	(86,388)	2,135	-	-	(84,253)
Net gains (losses)	(55,256)	3,640	-	-	(51,616)
Interest income (expense)	925	-	19	(771)	173
Dividend income	3,165	132	-	-	3,297
Management fees	-	-	2,498	-	2,498
	(51,166)	3,772	2,517	(771)	(45,648)

* Excludes capital assets and other non-financial assets as per note 11.

The total interest income recorded on impaired financial assets was nil in 2012 (2011 – nil).

6 Cash and cash equivalents

	2012 \$	2011 \$
Cash on hand and on deposit	428	1,184
Short-term investments	174	35
	602	1,219



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

7 Management fees receivable

The company's SPE provides investment advisory services to Senvest Partners Fund and Senvest Israel Partners Fund (the "Funds") (refer to note 10). As compensation for its investment advisory services, the company is entitled to receive management and incentive fees. Management fees are calculated monthly as 1.5% of the net asset value of the Funds, and the incentive fee allocation is equal to 20% of the profits for the year (including net unrealized gains), if any, attributable to limited partners. If the Funds have a net loss in any fiscal year, no incentive fees are payable until the cumulative amount of the loss has been recouped. Management and incentive fees were negotiated at arm's length. The company's share of these fees is included in the consolidated statement of income (loss) as Management fees. As at December 31, 2012, the amount receivable for fees earned during the year is \$951 (2011 – \$541). This amount is expected to be collectible in the second quarter of 2013.

8 Equity investments and other holdings, equities sold short and derivative liabilities

Equity investments and other holdings

	2012 \$	2011 \$
Assets		
Financial assets held for trading		
Listed equity securities	184,791	129,064
Debt securities	32,534	23,783
	217,325	152,847
Financial assets designated as fair value through profit or loss		
Listed equity securities	1,155	4,134
Unlisted equity securities	4,684	4,440
Structured bond fund units (ii)	2,739	2,527
Talmer Bancorp, Inc. (iii)	21,712	13,099
Other (iv)	6,486	3,532
	254,101	180,579
Current portion	217,325	152,847
Non-current portion	36,776	27,732

Equities sold short and derivative liabilities

	2012 \$	2011 \$
Liabilities		
Financial liabilities held for trading		
Equities sold short		
Listed equity securities (proceeds \$22,465; 2011 – \$13,773)	24,124	12,307
Derivatives (i)	114	25
	24,238	12,332

Notes to Consolidated Financial Statements

December 31, 2012 and 2011



(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

- i) From time to time, the company enters into derivative financial instruments consisting primarily of options and warrants to purchase or sell equities.
- ii) This holding is an investment in shares of a private entity that invests in US residential mortgage-backed securities ("RMBS") – structured bonds that represent claims on the cash flows from pools of residential mortgage loans. There is no established market for this investment.
- iii) This equity holding is an investment in a private placement offering by Talmer Bancorp, Inc. to raise funds to acquire assets of financial institutions through the Federal Deposit Insurance Corporation. There is no established market for this investment.
- iv) These holdings are in private entities whose securities 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.

9 Real estate investments

Real estate investments comprise the following:	2012	2011
	\$	\$
Financial assets designated as fair value through profit or loss		
Investments in private entities (i)	17,894	19,831
Investments in real estate income trusts (ii)	15,289	8,485
	33,183	28,316
Current portion	-	-
Non-current portion	33,183	28,316

- i) 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.

In 2012 and 2011, distributions received represented a return of capital and were deducted from the cost of the investments.

- ii) These real estate investments are US real estate income trusts (commonly referred to as "REIT"s). 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 its holders.

In 2012 and 2011, distributions received are included in net realized gain on real estate investments.



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

10 Investments in associates

Investments in associates comprise the following:

	2012 \$	2011 \$
Equity holdings		
Senvest Partners Fund (i)	119,534	89,805
Senvest Israel Partners Fund (i)	22,087	20,290
Roadpost	-	59
	141,621	110,154
Real estate holdings		
Cross Point Realty Trust (ii)	11,266	11,253
Grant & Geary Partners LP (iii)	6,270	2,799
	159,157	124,206

- i) Senvest Partners Fund and Senvest Israel Partners Fund are funds established by the company in which it is also an investor. The company provides investment advisory services to the Funds (note 7). The carrying value of these investments is equal to the company's pro rata share of the fair market value of the underlying Funds' net assets.
- ii) Cross Point Realty Trust is a non-publicly traded US REIT. The main asset of the REIT is a 64.57% interest in a joint venture that holds a commercial office property. The company in effect has a 31.60% economic interest in the underlying property.
- iii) Grant & Geary Partners LP is a limited partnership in which the company has an approximate 28.5% economic interest in the underlying property, which is a commercial real estate property in the United States.

The company's share of the results of its associates and their aggregated assets and liabilities are as follows:

Associates	Interest held %	Assets \$	Liabilities \$	Revenue \$	Investment gains (losses) \$	Profit (loss) \$
As at and for the year ended December 31, 2012						
Senvest Partners Fund	42	359,296	76,156	7,198	70,790	75,980
Senvest Israel Partners Fund	45	57,188	8,561	103	5,150	4,788
Roadpost	22	2,889	3,498	12,587	-	(299)
Cross Point Realty Trust	49	23,230	98	1,759	(1,080)	548
Grant & Geary Partners LP	28	6,452	18,693	3,882	-	(465)
As at and for the year ended December 31, 2011						
Senvest Partners Fund	43	254,674	45,594	8,346	(107,148)	(101,384)
Senvest Israel Partners Fund	46	52,187	7,799	252	(3,370)	(3,437)
Roadpost	22	3,594	3,591	11,499	-	(284)
Cross Point Realty Trust	49	23,159	54	4,120	(665)	3,360
Grant & Geary Partners LP	28	7,102	19,141	3,769	-	(390)

Notes to Consolidated Financial Statements

December 31, 2012 and 2011



(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

11 Other assets

	2012	2011
	\$	\$
Loans to key management*	1,118	1,088
Capital assets	556	557
Other	2,070	1,533
	3,744	3,178

*These are non-interest-bearing loans to key management. The loans have a face value of \$1,370 (2011 – \$1,381) and have been discounted by \$252 (2011 – \$293). The discount rate used is the rate on the company's operating line of credit. The amount of the discount has been charged to employee compensation included in Employee benefit expense. These loans have been included in other assets at their discounted value. The loans are repayable in ten years from the date of issuance. Shares of the company have been provided as collateral by certain employees in the amount of \$17,005 based on the quoted value as at December 31, 2012 (2011 – \$16,765). The company has full recourse against the borrowers with respect to these loans.

12 Income taxes

a) Income tax expense (recovery)	2012	2011
	\$	\$
Current tax		
Current tax on income for the year	894	1,303
Adjustments in respect of prior years	164	(828)
	1,058	475
Deferred tax		
Origination and reversal of temporary differences	5,102	(6,202)
	6,160	(5,727)

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 as follows:

	2012	2011
	\$	\$
Income (loss) before income tax	87,630	(93,753)
Income tax expense (recovery) based on statutory rate of 26.9% (2011 – 28.4%)	23,572	(26,626)
Prior year adjustments	164	(828)
Foreign rate differences	(17,700)	21,891
Non-deductible expenses (income)	124	(164)
Income tax expense (recovery)	6,160	(5,727)

The applicable statutory tax rate is 26.9% in 2012 (2011 – 28.4%). The company's applicable tax statutory rate is the Canadian federal and provincial combined rate applicable in the jurisdictions in which the company operates. The decrease is due mainly to the reduction of the federal income tax rate in 2012 from 16.5% to 15%.



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

b) Deferred income tax

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

	2012 \$	2011 \$
Deferred income tax assets		
Deferred tax assets to be settled		
After more than 12 months	480	7,027
Within 12 months	-	-
Deferred tax assets – net	480	7,027
Deferred income tax liabilities		
Deferred tax liabilities to be settled		
After more than 12 months	7,352	8,868
Within 12 months	-	-
Deferred tax liabilities – net	7,352	8,868

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:

Deferred income tax assets	Equity Investments and other holdings \$	Deferred performance compensation \$	Investments in associates \$	Real estate investments \$	Tax loss carry- forward \$	Other \$	Total \$
As at January 1, 2011	338	2,039	-	537	388	20	3,322
Credited (charged) to consolidated statement of loss	-	(2,032)	4,401	2	1,197	(20)	3,548
Exchange differences	(2)	(7)	124	-	42	-	157
As at December 31, 2011	336	-	4,525	539	1,627	-	7,027
Credited (charged) to consolidated statement of income	3	1,775	(3,345)	(174)	89	27	(1,625)
Exchange differences	(8)	-	(83)	(11)	(36)	-	(138)
As at December 31, 2012	331	1,775	1,097	354	1,680	27	5,264

Deferred income tax liabilities	Equity Investments and other holdings \$	Investments in associates \$	Real estate investments \$	Total \$
As at January 1, 2011	640	10,460	248	11,348
Charged (credited) to consolidated statement of loss	11	(2,910)	245	(2,654)
Exchange differences	17	150	7	174
As at December 31, 2011	668	7,700	500	8,868
Charged (credited) to consolidated statement of income	(456)	3,631	303	3,478
Exchange differences	(11)	(182)	(17)	(210)
As at December 31, 2012	201	11,149	786	12,136

Notes to Consolidated Financial Statements

December 31, 2012 and 2011



(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

Deferred income tax liabilities of \$2,859 (2011 – \$2,601) have not been recognized for the withholding and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled \$29,314 as at December 31, 2012 (2011 – \$29,903).

13 Bank advances and due to brokers

In 2012, the company renegotiated its credit facility with a bank and has a demand revolving loan ("credit facility") available. The company also has margin facilities with brokers.

The company has available a \$3,000 credit facility (2011 – \$8,000) payable on demand. As at December 31, 2012, an amount of \$138 (2011 – \$427) was outstanding. Under this 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 bankers' acceptances plus a stamping fee of 1.75% per annum, or by US dollar advances. As at December 31, 2012 and 2011, no bankers' acceptances were outstanding.

The company had pledged certain equity holdings having a fair market value of \$2,890 in 2011. No such collateral was required upon renegotiation of the credit facility in 2012. In addition, a first ranking movable hypothec in the amount of \$10,000 on all of its assets has been granted as collateral for the credit facility.

According to the terms of the credit facility, the company is required to comply with certain financial covenants. During the year, the company met the requirements of all the covenants.

As at December 31, 2012, due to brokers bears interest at variable rates ranging from 0.4% to 5.11% (2011 – from 0.63% to 1.13%) with no specific repayment terms. Equity holdings and due from brokers have been pledged as collateral.

14 Share capital

Authorized

Unlimited number of common shares, without par value

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

	2012		2011	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – Beginning of year	2,818,424	12,840	2,824,224	12,792
Shares repurchased	-	-	(6,800)	(30)
Issued for exercise of options	2,000	143	1,000	78
Balance – End of year	2,820,424	12,983	2,818,424	12,840

In 2012, the company began a new normal course issuer bid to purchase a maximum of 130,000 of its own common shares before June 24, 2013. In 2012, the company purchased no common shares (2011 – 6,800) for a total cash consideration of nil (2011 – \$521). The excess of the consideration paid over the stated capital for these shares was charged to retained earnings and is presented as a premium on repurchase of common shares in the consolidated statement of changes in equity.

No dividends were declared in 2012 and 2011.



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

15 Share-based payments

The company has two fixed share option plans which were established for employees, directors and senior executives. Under the first plan, the company may grant options for up to 335,500 common shares, all of which have been fully granted to date. Under the second plan, the company may grant options for up to 520,000 common shares, of which 441,000 options for common shares have been granted to date (2011 – 441,000), leaving a balance of 79,000 shares available to be issued under the plan (2011 – 79,000). Under both plans, options vest immediately. The plans permit employees to require that the company settle the intrinsic fair value of the option for cash. The exercise price of each option may not be lower than the market price of the company's shares on the day preceding the date of grant. An option's maximum term is ten years.

a) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2012		2011	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance – Beginning of year	104,000	20.08	134,000	19.25
Exercised for shares	(2,000)	18.93	(1,000)	21.50
Redeemed and cancelled for cash	(4,000)	17.00	(29,000)	16.22
Balance – End of year	98,000	20.23	104,000	20.08
Options exercisable – End of year	98,000	20.23	104,000	20.08

For the year ended December 31, 2012, the weighted average share price at the time of exercise was \$77.45 (2011 – \$85.91).

Under both plans, a liability for each option is calculated based on the fair value of the options at the consolidated statement of financial position date. As a result, the related share compensation expense for the year was \$215 (2011 – \$90). The total value of the liability for vested benefits is \$5,035 (2011 – \$5,290).

b) Outstanding options, all of which are exercisable, are as follows:

2012				2011			
Options outstanding				Options outstanding			
Range of exercise price \$	Number of options	Weighted average remaining contractual life (in years)	Weighted average exercise price \$	Range of exercise price \$	Number of options	Weighted average remaining contractual life (in years)	Weighted average exercise price \$
16.15	4,000	1.0	16.15	16.15–16.35	5,000	1.5	16.19
17.00	23,000	2.0	17.00	17.00	27,000	3.0	17.00
21.50	71,000	3.0	21.50	21.50	72,000	4.0	21.50
	<u>98,000</u>		<u>20.23</u>		<u>104,000</u>		<u>20.08</u>

Notes to Consolidated Financial Statements

December 31, 2012 and 2011



(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

16 Earnings (loss) per share

a) Basic

Basic earnings (loss) per common share is calculated by dividing the net income (loss) attributable to the owners of the company by the weighted average number of outstanding common shares issued during the year.

	2012	2011
Net income (loss) attributable to owners of the parent	\$73,964	\$(80,682)
Weighted average number of outstanding common shares	2,818,591	2,820,152
Basic earnings (loss) per share	\$26.24	\$(28.61)

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. As the potential dilutive securities issued relating to share options for 2012 were anti-dilutive, the diluted earnings (loss) per share is identical to the basic amount in 2011.

	2012	2011
Net income (loss) attributable to owners of the parent	\$73,964	\$(80,682)
Removal of share-based payments (recovery) due to assumption that all options were exercised, net of tax recovery	216	(90)
Net income (loss) used to determine diluted earnings per share	\$74,180	\$(80,772)
Weighted average number of outstanding common shares issued	2,818,591	2,820,152
Weighted average number of common shares issued on assumed exercise of share options in excess of common shares assumed repurchased	101,205	120,074
Common shares repurchased and cancelled under assumption of normal course issuer bid	(27,938)	(30,274)
Weighted average number of outstanding common shares for diluted earnings per share	2,891,858	2,909,952
	\$25.65	\$(27.76)
Diluted earnings (loss) per share	\$25.65	\$(28.61)



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

17 Supplementary information to consolidated statements of cash flows

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

	Note	2012 \$	2011 \$
Net realized gain on equity investments and other holdings		(24,435)	(31,182)
Change in unrealized loss (gain) on equity investments and other holdings		(31,883)	85,426
Net realized gain on real estate investments		(814)	(379)
Change in unrealized gain on real estate investments		(2,056)	(1,173)
Other net gain on financial instruments		(824)	(1,076)
Share of profit (loss) of associates, adjusted for distributions received		(37,819)	43,447
Share-based compensation expense, adjusted for settlements paid		110	(249)
Deferred income tax	12(b)	5,094	(6,193)
		(92,627)	88,621

b) Changes in working capital items are as follows:

	2012 \$	2011 \$
Decrease (increase) in		
Due from brokers	(187)	4,546
Management fees receivable	(424)	10,627
Income taxes receivable	879	(2,306)
Other assets	(638)	2,696
Increase (decrease) in		
Trade and other payables	6,434	(21,681)
	6,064	(6,118)

18 Related party transactions

Key management compensation

Key management includes the Board of Directors, the President and CEO, the Vice-President, the Secretary Treasurer and the Chief Financial Officer. The compensation paid or payable to key management for employee services is as follows:

	2012 \$	2011 \$
Salaries and other short-term employee benefits	7,780	1,442
Post-employment benefits (defined contribution)	48	46
Share-based payments	360	1,684
	8,188	3,172

Notes to Consolidated Financial Statements

December 31, 2012 and 2011



(IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

19 Commitments

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

	\$
2013	482
2014	488
2015	303

b) As required by certain of the company's equity investments, the company is committed to additional contributions of \$72.

c) As required by certain of the company's real estate investments, the company is committed to additional contributions of \$1,994.

20 Segmented and geographical information

The company operates in a single reportable segment which is the management of its own investments and those of two associated funds.

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

						2012
	United States	Canada	European Union	Great Britain	Argentina	Total
	\$	\$	\$	\$	\$	\$
Revenues						
Management fees	2,735	-	-	-	-	2,735
Dividend income	2,055	38	60	516	186	2,855
Interest income	1,100	53	-	1,482	-	2,635
Other income	25	407	-	-	-	432
						2011
			United States	Canada	European Union	Total
			\$	\$	\$	\$
Revenues						
Management fees			2,498	-	-	2,498
Dividend income			3,172	125	-	3,297
Interest income			621	11	318	950
Other income			29	657	-	686



Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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.

*Donald E. Dunn
Business Executive

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

Richard Mashaal
Vice-President, Senvest Capital Inc.
President, Senvest International L.L.P.

*Membre du comité de vérification

OFFICERS

Victor Mhaal
Chairman of the Board & President

Frank Daniel
Secretary-Treasurer

Richard Mashaal
Vice-President, Senvest Capital Inc.
President, Senvest International L.L.P.

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

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