

# **Senvest Capital Inc.**

Condensed Interim Consolidated Financial Statements  
(Unaudited)

**September 30, 2017**



# SENVEST

**Notice of No Auditor Review of Interim Consolidated Financial Statements**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors PriceWaterHouseCoopers LLP have not reviewed the unaudited interim consolidated financial statements as at and for the period ended September 30, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERALL PERFORMANCE

Equity indices continued to hit all-time highs during the third quarter of 2017. Despite the fact that investors had become unsure about the implementation of pro-growth policies under the new administration in the United States, small cap stocks surged in September as the “Trump-trade” returned following the release of the administration’s tax reform plan. Small-cap stocks generate a larger proportion of their income domestically in comparison to larger capitalization stocks in the S&P 500 index and therefore benefit more from lower corporate tax rates since U.S. tax rates currently exceed offshore tax rates. The U.S. Federal Reserve did not raise short term interest rates in the quarter although it hinted that a year-end raise was still in the cards. More importantly the Fed said it would begin reducing its portfolio of bonds (U.S Treasuries and mortgage backed securities) in September, thereby beginning the unwinding of its crisis-era stimulus measures. This action had been widely telegraphed by Fed officials and broader domestic equity markets seemed to react with relative calm. The Bank of Canada also joined the “tightening” crowd by increasing interest rates twice in the quarter. In Europe, economic growth remained stable but the Euro appreciated versus the U.S dollar on the assumption that the ECB would also commence unwinding measures in 2018.

Some of our largest holdings as at September 30, 2017 were, Paramount Resources (POU), Tower Semiconductors (TSEM), Radware (RDWR), Solar Edge (SEDG) and Axcelis Technologies (ACLS). Of this group, Canadian oil and gas exploration and production company POU, was a significant gainer with its stock price increasing by over 29% in the quarter. As previously discussed POU announced significant corporate developments in the third quarter with the acquisition of some adjacent properties plus the assets of Apache Canada (for \$C460 million). In addition POU announced a merger with publicly traded Trilogy Energy (“TET”) valued at \$C1.1 billion. Both companies share the same CEO, as TET was previously spun out of POU. All of these deals closed in the middle of September. Many market participants seem to believe that POU acquired these adjacent properties at attractive valuations. Therefore we would expect the transactions to be accretive to cash flow per share and should increase the company’s year-end production numbers. These deals solidify POU’s position as a leader in the Montney region of Canada.

Analog semiconductor foundry Tower Semiconductor (“TSEM”) also gained 29% in the quarter. The company announced a partnership with a Chinese company to co-develop a new fab in China. This will likely enable TSEM to address the large and burgeoning Chinese market while simultaneously increasing capacity by about 10%. Importantly, TSEM will grow its capacity with relatively minimal capital expenditure. Given management’s track record of growing capacity in an intelligent, capital efficient manner, this deal does not surprise us. Solar energy equipment supplier Solar Edge (“SEDG”), increased by over 40% in the quarter. The company reported record quarterly results ahead of expectations and raised Q3 guidance higher than consensus. SEDG also unveiled its next generation power optimizer, a larger capacity commercial inverter to address large scale commercial installations, and an innovative product for the electric vehicle charger market.

On the negative side, in what is becoming a repetitive statement, Depomed continued to disappoint. DEPO reported Q2 results that missed expectations and lowered guidance for the year. The market seems to be sharing our fatigue with the stock as it continues to drift downwards. As we have said before we will be patient with new management and assess the position at a later date. TrueCar (“TRUE”), an online marketplace that enables price discovery for car buyers and introductions to car dealers, had a quarterly price decline of 20% after increasing by 28% in the second quarter. The company reported solid Q2 earnings but provided weak Q3 guidance. TRUE generates revenues primarily from new car dealers who pay the company for providing customers who purchase a car from the dealer.

Senvest recorded a net income attributable to the owners of the parent of \$75 million or \$27.10 per basic and diluted common share for the quarter ended September 30, 2017. This compares to net income attributable to owners of the parent of \$109.9 million or \$39.08 per basic and diluted common share for the third quarter in 2016. After prior years where there was significant appreciation in the US dollar versus the Canadian dollar, the current year has seen a reversal of some of that appreciation. For the third quarter the result has been a currency translation loss of about \$35 million. The corresponding loss for the 2017 year to date is about \$65 million. This amount is not reported in the Company’s income statement rather it is reflected in its Comprehensive income.

The Company’s income from equity investments in the third quarter of 2017 was the biggest contributor to the net income recorded but was less than the corresponding amount in 2016. The net gain on equity investments and other holdings (and also equities sold short and derivative liabilities) totalled \$235.4 million in the current quarter versus \$318.6 million in 2016. Due to the depreciation of the US dollar versus other major currencies, our foreign exchange loss for the quarter was approximately \$3.4 million

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

The Senvest Master Fund (Senvest Partners fund) is focused primarily on small and mid-cap companies. The fund recorded a profit of over 10% net of fees for the quarter, and is up more than 20% for the year to date. In April the fund marked its 20 year anniversary. With most of the long portfolio invested in small and mid-cap stocks, the fund outperformed its most relevant benchmark the Russell 2000 for the quarter. The fund also bested the S&P 500 index for the quarter but does not consider this index as a benchmark. The Senvest Israel Partners fund was initiated in 2003 to focus on investing in Israel related companies. This fund recorded a profit of over 5% net of fees for the quarter and is up more than 25% for the year to date. (Monthly results of both funds can be found on the Company’s website.) The two funds had approximately \$1.5 billion of net assets under management at September 30, 2017. Both of these funds are consolidated into the accounts of the Company.

The Company has a portfolio of real estate investments which totalled \$56.5 million as at September 30, 2017. One part of this amount represents investments in different US REITs. These REITs are not publicly traded and there is no established market for them. The most likely scenario for a disposal of these holdings is an eventual sale of the underlying real estate properties of the REITs and the distribution to its holders. Also there are minority interests in private entities whose main assets are real estate properties. As described above for the REITs, the most likely scenario for a disposal of these holdings is an eventual sale of the underlying real estate properties.

Real estate investments also include investment properties in land and buildings used to earn rental income. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition investment properties will be remeasured at fair value, using the fair value model. The fair value is based on external valuations from third party valuers. Gains or losses arising from changes in fair value of investment properties will be included in the Company's net profit or loss. The Company acquired a majority of these properties pursuant to a business combination. The Company (the acquirer) purchased 100% of the voting and equity interests of Bogas costa del sol SL, Globalbox arganda SL, Globalbox rivás SL and Coldstream SL (the acquirees) on January 16, 2017. The payment was cash consideration of approximately \$9.8m. The transaction was accounted for under the purchase method. The net assets of the acquired companies were valued at fair value and there was no resulting goodwill on the purchase. There was no contingent consideration nor any non-controlling interests that arose due to the transaction. The related debt against these investment properties as at September 30, 2017 totaled approximately \$5m and has been included as part of other liabilities.

The Company consolidates the Senvest Management LLC entity that serves as the investment manager of Senvest Partners and Senvest Israel Partners as well as the general partners of the funds. The portion of the expected residual returns of structured entities that do not belong to the Company is reflected as a non-controlling interest on the statement of financial position. This non-controlling interest is owned by an executive of the Company and totaled \$118.9 million as at September 30, 2017 from \$98.1 million as at December 31, 2016.

At the end of September 30, 2017, Senvest had total consolidated assets of \$3,103.9 million versus \$2,563.2 million at the end of 2016. The main reason for this was the change in equity investments and other holdings. Equity investments and other holdings increased to \$2,601.4 million from \$2,289.3 million last December. The Company purchased \$1,131.7 million of investment holdings in the period and sold \$1,141.6 million of such holdings. The Company's liabilities increased to \$2,043.3 million versus \$1,620.7 million at the end of 2016. A contributor to this increase was the larger liability for redeemable units. One reason for the increase in this account was the appreciation of the interests of the non-Senvest investors in the funds. In addition the equities sold short and derivative liabilities also increased from the end of the year. The proceeds of equities sold short were \$2,036.1 million and the amount of shorts covered was \$1,717.3 million in the period. Both these figures were more than the corresponding amounts for the prior year. The net selling resulted in an increase in our short position. So far the 2017 year has been less volatile than 2016.

#### Functional currency

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

#### Presentation currency

The Company has adopted the Canadian dollar as its presentation currency, which in the opinion of management is the most appropriate presentation currency. Historically, the Company's consolidated financial statements have been presented in Canadian dollars, and since the company's shares are listed on a Canadian stock exchange, management believes it would better serve the use of shareholders to

continue issuing consolidated financial statements in Canadian dollars. The US dollar consolidated financial statements are translated into the presentation currency as follows: assets and liabilities – at the closing rate at the date of the consolidated statement of financial position; and income and expenses – at the average rate for the period. All resulting changes are recognized in other comprehensive income (loss) as currency translation differences. Equity items are translated using the historical rate.

## Risks

### Financial risk factors

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

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

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

### Market risk

#### Fair value and cash flow interest rate risks

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

The majority of the Company's debt is based on floating rates which expose the Company to cash flow interest rate risk. The Company does not have a long-term stream of cash flows that it can match against this type of fixed debt, so it prefers to use short-term floating rate debt. The Company does not mitigate its exposure to interest rate fluctuation on floating rate debt. If interest rates spike, then the Company could enter into interest rate swaps or more probably just reduce its debt level. As at September 30, 2017, the Company had listed sufficient equity securities that it can sell to reduce its floating rate debt to zero.

### Currency risks

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

## Equity price risk

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

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. In addition the Company has entered into derivative financial instruments which have a notional value greater than their fair value which is recorded in the financial statements. This creates a risk that the Company could settle these instruments at a value greater or less than the amount that they have been recorded in the financial statements.

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

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

	Fair value	Estimated fair value 30% price increase	Estimated fair value 30% price decrease
Equity investments and other holdings			
Listed equity securities and derivatives	2,470,703	3,211,914	1,729,492
Equities sold short and derivative liabilities	(1,009,233)	(1,312,003)	(706,463)
Pre-tax impact on net earnings		438,441	(438,441)

## Liquidity risk

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

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

#### Credit risk

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

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

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

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

#### Capital risk management

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

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Total net debt	\$1,614.4	\$1,402.1
Total equity	\$ 1,060.5	\$942.6
Debt to Capital ratio	1.52	1.49

The Company's goal is to maintain a net debt to Capital ratio below 2.0 in order to limit the amount of risk. The Company defines its net debt to equal its total liabilities less its cash and cash equivalents and its due from brokers. The Company believes that limiting its net debt to Capital ratio in this manner is the best way to control risk. The Company's net debt to capital ratio increased to 1.52 at the end of September 2017 from 1.49 at the end of 2016.

## Investment Risk

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

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

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

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

The Company tries to manage the above risks by monitoring its leverage, actively following its investee companies and trying to react to market conditions. At the same time the Company expects its portfolio to exhibit a higher degree of volatility than portfolios that invest in larger more stable companies and that invest within more defined limits. As at September 30 2017 over 90% of the Company's portfolio was invested in Level 1 securities. The Company monitors its Level 1 securities as percentage of its total investments however it does not have a fixed number that this percentage cannot fall below.

#### Critical accounting estimates and judgments

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

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

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

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

#### Fair value estimates of financial instruments

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

### Financial instruments in Level 1

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

### Financial instruments in Level 2

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

The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each year-end date. Valuation techniques used for non-standardized financial instruments such as options and other over-the-counter derivatives include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses, option pricing models and other valuation techniques commonly used by market participants, making maximum use of market inputs and relying as little as possible on entity-specific inputs. The financial assets classified as Level 2 were less than 4% of the total financial assets.

### Financial instruments in Level 3

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

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

As at September 30 2017, Level 3 instruments are in various entities and industries. The real estate investments are made up of investments in private real estate companies, in real estate income trusts and in investment properties. For the main Level 3 instruments, the Company relied on appraisals carried out by independent third party valuers or on recent transactions. There was no established market for any of these investments, so the most likely scenario is a disposal of the underlying assets. For the investments in real estate income trusts, the company relied mainly on audited financial statements, valuing the assets at fair value. The most likely scenario is an eventual sale of the underlying properties and their subsequent distribution to the holders.

#### Liability for redeemable units

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

#### Income taxes

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 and investment gains (losses)	Net income (loss)- owners of the parent	Earnings (loss) per share
2017-3	236,284	74,964	27.10
2017-2	121,348	42,669	15.40
2017-1	129,106	47,843	17.24
2016-4	64,623	26,923	9.67
2016-3	328,896	109,942	39.08
2016-2	73,023	14,748	5.22
2016-1	(130,714)	(54,830)	(19.47)
2015-4	16,102	5,470	1.99

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

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

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

On August 24, 2017 Senvest commenced a new normal course issuer bid to purchase a maximum of 82,000 of its own common shares until August 13, 2018. There were 6,100 shares repurchased so far under the new bid and 18,800 purchased year to date. The number of common shares outstanding as at September 30, 2017 was 2,759,024 and as at November 1, 2017 was 2,756,724. There were no stock options outstanding as at September 30 2017 and none have been issued since 2005.

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

## Impact of Certain Income Tax Rules and Upcoming IFRS

There were important tax changes to parts of Canada's foreign affiliate regime effective January 1, 2015. These changes have an effect on the mechanism by which certain foreign income of the Company is taxed in Canada. They will negatively impact the Company's income tax expense and income tax liability, as well as the Company's cash flow, for current and future taxation years.

IFRS 15, Revenue from Contracts with Customers, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. As the Company has a small amount of Revenue IFRS 15 is expected to have a low impact on accounting policies and procedures and the internal control environment.

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at FVTPL, fair value through OCI or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets not as at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities, permits hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks and requires additional disclosures. The new standard is based on the concept that financial assets should be classified and measured at FVTPL, a principle the Company has been following in the preparation of its financial statements for a number of years. Therefore IFRS 9 is expected to have a low impact on accounting policies and procedures and the internal control environment.

IFRS 16, Leases, was published in January 2016 by the IASB. This standard will replace the current guidance IAS 17 and require lessees to recognize an asset and a lease liability reflecting a "right-of-use asset" and future lease payments, respectively, for virtually all lease contracts. The standard applies to annual periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15, Revenue from Contracts with Customers, is adopted. The Company is assessing the impact of IFRS 16 on its consolidated financial statements but it is expected to have a low impact on accounting policies and procedures and the internal control environment.

## Related party transactions

The Company consolidates the Senvest Management LLC entity that serves as the investment manager of Senvest Partners and Senvest Israel Partners as well as the general partners of the funds. The portion of the expected residual returns of structured entities that do not belong to the Company is reflected as a non-controlling interest on the statement of financial position. This non-controlling interest is owned by an executive of the Company and totalled \$118.9 million as at September 30, 2017 from \$98.1 million as at December 31, 2016.

## Significant Equity Investments

For information on a summary of financial information from certain significant investees please refer to the 2016 annual report. The accounts of Senvest Partners, Senvest Israel Partners and Senvest Cyprus Recovery Investment Fund are consolidated with the Company's accounts.

## **FORWARD LOOKING STATEMENTS**

This MD&A contains "forward looking statements" which reflect the current expectations of management regarding our future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "may", "would", "could", "will", "anticipate", "believe", "plan", "expect", "intend", "estimate", "aim", "endeavour", "likely", "think" and similar expressions have been used to identify these forward looking statements. These statements reflect our current beliefs with respect to future events and are based on information currently available to us. Forward looking statements involve significant known and unknown risks, uncertainties and assumptions. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward looking statements including, without limitation, those Risk Factors listed in the Company's annual information form. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward looking statements contained in this MD&A. These forward looking statements are made as of November 10, 2017 and will not be updated or revised except as required by applicable securities law.

## **OTHER FINANCIAL INFORMATION**

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

## **INTERNAL CONTROLS**

There have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

*(Signed)*

Victor Mashaal  
**Chairman of the Board and President**

---

November 10, 2017

*(Management Discussion and Analysis ("MD&A") provides a review of Senvest Capital Inc.'s operations, performance and financial condition for the period ended September 30, 2017, and should be read in conjunction with the 2016 annual filings. Readers are also requested to visit the SEDAR website at [www.sedar.com](http://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.)*

**Senvest Capital Inc.**  
Interim Consolidated Statements of Financial Position  
(Unaudited)

(in thousands of Canadian dollars)

	Note	As at September 30, 2017 \$	As at December 31, 2016 \$
<b>Assets</b>			
Cash and cash equivalents		43,777	26,978
Restricted short-term investments		460	459
Due from brokers		385,156	191,602
Equity investments and other holdings	5	2,601,401	2,289,288
Investments in associates		12,533	12,461
Real estate investments	6	56,492	37,812
Other assets		4,058	4,617
<b>Total assets</b>		<b>3,103,877</b>	<b>2,563,217</b>
<b>Liabilities</b>			
Bank advances		–	509
Trade and other payables		39,874	20,055
Due to brokers		15,112	56,754
Equities sold short and derivative liabilities	5	1,031,031	727,644
Redemptions payable		–	2,299
Subscriptions received in advance		–	3,315
Income taxes payable		10,526	1,253
Deferred income tax liabilities		57,207	47,599
Other liabilities		5,106	–
Liability for redeemable units		884,483	761,227
<b>Total liabilities</b>		<b>2,043,339</b>	<b>1,620,655</b>
<b>Equity</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital		22,906	23,057
Accumulated other comprehensive income		116,043	180,596
Retained earnings		802,727	640,816
<b>Total equity attributable to owners of the parent</b>		<b>941,676</b>	<b>844,469</b>
<b>Non-controlling interests</b>		<b>118,862</b>	<b>98,093</b>
<b>Total equity</b>		<b>1,060,538</b>	<b>942,562</b>
<b>Total liabilities and equity</b>		<b>3,103,877</b>	<b>2,563,217</b>

The notes on pages 1 to 23 are an integral part of these condensed interim consolidated financial statements.

**Approved by the Board of Directors**

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# Senvest Capital Inc.

## Interim Consolidated Statements of Income

(Unaudited) For the three and nine months ended September 30, 2017 and 2016

(in thousands of Canadian dollars, except per share data)

	2017 \$	2016 \$	2017 \$	2016 \$
<b>Revenue</b>				
Interest income	1,096	995	3,319	2,477
Net dividend income	355	4,909	3,240	8,138
Other income	2,076	627	4,255	1,161
	<u>3,527</u>	<u>6,531</u>	<u>10,814</u>	<u>11,776</u>
<b>Investment gains (losses)</b>				
Net change in fair value of equity investments and other holdings	235,376	318,605	487,546	258,704
Net change in fair value of real estate investments	235	2,055	3,986	3,743
Share of Income of associates	558	739	1,667	925
Foreign exchange gain (loss)	(3,412)	966	(17,098)	(3,943)
	<u>232,757</u>	<u>322,365</u>	<u>476,101</u>	<u>259,429</u>
<b>Total revenue and investment gains</b>	<u>236,284</u>	<u>328,896</u>	<u>486,915</u>	<u>271,205</u>
<b>Operating costs and other expenses</b>				
Employee benefit expense	27,040	3,936	40,602	8,608
Interest expense	10,732	3,688	28,435	13,886
Transaction costs	2,874	1,562	8,659	5,912
Other operating expenses	3,712	2,255	11,149	6,400
	<u>44,358</u>	<u>11,441</u>	<u>88,845</u>	<u>34,806</u>
<b>Change in redemption amount of redeemable units</b>	<u>89,820</u>	<u>157,301</u>	<u>167,571</u>	<u>128,524</u>
<b>Income before income tax</b>	<u>102,106</u>	<u>160,154</u>	<u>230,499</u>	<u>107,875</u>
Income tax expense	<u>15,766</u>	<u>28,579</u>	<u>33,417</u>	<u>18,038</u>
<b>Net income for the period</b>	<u>86,340</u>	<u>131,575</u>	<u>197,082</u>	<u>89,837</u>
<b>Net income attributable to:</b>				
Owners of the parent	74,964	109,942	165,476	69,860
Non-controlling interests	11,376	21,633	31,606	19,977
<b>Earnings per share</b>				
Basic and Diluted	27.10	39.08	59.74	24.85

The notes on pages 1 to 23 are an integral part of these condensed interim consolidated financial statements.

# Senvest Capital Inc.

## Interim Consolidated Statements of Comprehensive Income

(Unaudited) For the three and nine months ended September 30, 2017 and 2016

---

(in thousands of Canadian dollars)

	2017 \$	2016 \$	2017 \$	2016 \$
<b>Net income for the period</b>	86,340	131,575	197,082	89,837
<b>Other comprehensive income (loss)</b>				
Currency translation differences	(39,715)	10,182	(72,776)	(45,754)
<b>Comprehensive income for the period</b>	<u>46,625</u>	<u>141,757</u>	<u>124,306</u>	<u>44,083</u>
<b>Comprehensive income attributable to:</b>				
Owners of the parent	39,701	119,181	100,923	28,443
Non-controlling interests	6,924	22,576	23,373	15,640

The notes on pages 1 to 23 are an integral part of these condensed interim consolidated financial statements.

# Senvest Capital Inc.

## Interim Consolidated Statements of Changes in Equity

(Unaudited) For the nine months ended September 30, 2017 and 2016

(in thousands of Canadian dollars)

	Attributable to owners of the parent					Total equity \$
	Share capital \$	Accumulated other comprehensive income \$	Retained earnings \$	Total \$	Non-controlling interests \$	
<b>Balance – December 31, 2015</b>	23,376	203,142	549,774	776,292	79,998	856,290
Net income for the period	-	-	69,860	69,860	19,977	89,837
Other comprehensive loss	-	(41,417)	-	(41,417)	(4,337)	(45,754)
<b>Comprehensive income (loss) for the period</b>	-	(41,417)	69,860	28,443	15,640	44,083
Repurchase of common shares	(186)	-	(3,194)	(3,380)	-	(3,380)
Distribution to non-controlling interest	-	-	-	-	(181)	(181)
	(186)	-	(3,194)	(3,380)	(181)	(3,561)
<b>Balance – September 30, 2016</b>	23,190	161,725	616,440	801,355	95,457	896,812
<b>Balance – December 31, 2016</b>	23,057	180,596	640,816	844,469	98,093	942,562
Net income for the period	-	-	165,476	165,476	31,606	197,082
Other comprehensive loss	-	(64,553)	-	(64,553)	(8,223)	(72,776)
<b>Comprehensive income (loss) for the period</b>	-	(64,553)	165,476	100,923	23,383	124,306
Repurchase of common shares	(151)	-	(3,565)	(3,716)	-	(3,716)
Distribution to non-controlling interest	-	-	-	-	(2,614)	(2,614)
	(151)	-	(3,565)	(3,716)	(2,614)	(6,330)
<b>Balance – September 30, 2017</b>	22,906	116,043	802,727	941,676	118,862	1,060,538

The notes on pages 1 to 23 are an integral part of these condensed interim consolidated financial statements.

# Senvest Capital Inc.

## Interim Consolidated Statements of Cash Flows

(Unaudited) For the nine months ended September 30, 2017 and 2016

(in thousands of Canadian dollars)

	Note	2017 \$	2016 \$
<b>Cash flows provided by (used in)</b>			
<b>Operating activities</b>			
Net income for the period		197,082	89,837
Adjustments for non-cash items	8a	(311,383)	(126,148)
Purchase of equity investments and other holdings held for trading		(1,131,740)	(815,826)
Purchase of equities sold short and derivative liabilities		(1,717,345)	(849,097)
Proceeds on sale of equity investments and other holdings held for trading		1,141,615	758,757
Proceeds from equities sold short and derivative liabilities		2,036,137	911,941
Dividends and distributions from real estate investments		6,295	6,489
Changes in working capital items	8b	(220,430)	13,497
<b>Net cash provided (used) in operating activities</b>		<u>231</u>	<u>(10,550)</u>
<b>Investing activities</b>			
Transfers to restricted short-term investment		(35)	(25)
Purchase of real estate investments		(6,900)	(518)
Purchase of equity investments and other holdings designated as fair value through profit or loss		(5,541)	(6,766)
Proceeds on sale of equity investments and other holdings designated as fair value through profit or loss		24,717	5,153
Proceeds from investments in associates		671	-
Purchase of subsidiary, net of cash acquired		(9,648)	-
<b>Net cash provided (used) in investing activities</b>		<u>3,264</u>	<u>(2,156)</u>
<b>Financing activities</b>			
Distributions paid to non-controlling interests		(2,614)	(181)
Decrease in bank advances		(496)	(207)
Repurchase of common shares		(3,716)	(3,380)
Proceeds from issuance of redeemable units		93,903	31,722
Amounts paid on redemption of redeemable units		(71,109)	(19,119)
<b>Net cash provided by financing activities</b>		<u>15,968</u>	<u>8,835</u>
<b>Increase (decrease) in cash and cash equivalents</b>		<u>19,463</u>	<u>(3,871)</u>
Effect of changes in foreign exchange rates on cash and cash equivalents		(2,664)	(1,111)
<b>Cash and cash equivalents – Beginning of period</b>		<u>26,978</u>	<u>29,926</u>
<b>Cash and cash equivalents – End of period</b>		<u>43,777</u>	<u>24,944</u>
<b>Amounts of cash flows classified within operating activities:</b>			
Cash paid for interest		26,543	14,590
Cash paid for dividends on equities sold short		7,579	3,758
Cash received on interest		1,559	2,680
Cash received on dividends		14,056	11,372
Cash paid for income taxes		8,785	12,020

The notes on pages 1 to 23 are an integral part of these condensed interim consolidated financial statements.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### 1 General information

Senvest Capital Inc. (the “Company”) was incorporated under Part I of the Canada Corporations Act on November 20, 1968 under the name Sensormatic Electronics Canada Limited, and was continued under the Canada Business Corporations Act under the same name effective July 23, 1979. On April 21, 1991, the Company changed its name to Senvest Capital Inc. The Company and its subsidiaries hold investments in equity and real estate holdings that are located predominantly in the United States. The Company’s head office and principal place of business is located at 1000 Sherbrooke Street West, Suite 2400, Montréal, Quebec H3A 3G4. The Company’s shares are traded on the Toronto Stock Exchange under the symbol “SEC”. Refer to note 9 for the composition of the Company.

### 2 Summary of significant accounting policies

#### Basis of preparation

These interim financial statements for the nine months ended September 30, 2017 have been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRSs.

The Board of Directors (Board) approved these consolidated financial statements for issue on November 10, 2017.

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

#### Basis of measurement

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### Subsidiaries

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

### Investments in associates

Associates are entities over which the company has significant influence but not control, generally accompanying a holding of between 20% to 50% of the voting rights. The financial results of the company's investments in its associates are included in the company's 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. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

### Liability for redeemable units

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

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

### Non-controlling interests

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

### Foreign currency translation

#### Functional currency

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

#### Transactions and balances

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

All foreign exchange gains and losses are presented in the consolidated statement of income (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 for 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. 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.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### 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. Equity items are translated using the historical rate.

### Cash and cash equivalents

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

### Financial instruments

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

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

#### *Classification*

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

- i) Financial assets and financial liabilities held for trading

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

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

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

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 in net change in fair value of equity investments and other holdings or net change in fair value of real estate investments in the period in which they arise.

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### (b) Loans and receivables

#### *Classification*

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

#### *Recognition, derecognition and measurement*

Loans and receivables are initially recognized at 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.

### (c) Financial liabilities at amortized cost

#### *Classification*

Financial liabilities at amortized cost comprise bank advances, trade and other payables, due to brokers, redemptions payable and liability for redeemable units.

*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, due to brokers, redemptions payable and subscriptions received in advance are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### **Due from and to brokers**

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

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

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

### **Provision**

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

### **Income tax**

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

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

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

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

### **Interest income and dividend income**

#### Interest income

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

#### Dividend income

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

### **Transaction costs**

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

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

### **Employee benefits**

#### Post-employment benefit obligations

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### Share-based payments

The company grants stock options to certain employees, directors and senior executives. 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, directors and senior executives 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 as share-based compensation expense for the year. If the entity pays in cash on settlement rather than by 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 recorded in equity as a deduction, net of tax, from the proceeds.

### Dividend distribution

Dividends on the company's common shares are recognized in the company's consolidated financial statements in the year in which the dividends are declared and approved by the company's Board.

### Earnings per share

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

Diluted earnings per share 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 on exercise of options are regarded as having been used to repurchase common shares at the average market price during the year.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### **New and amended Accounting standards adopted in 2017**

No new standards have been adopted for the first time in these interim financial statements.

### **Accounting standards and amendments issued but not yet applied**

The Company presents the developments that are relevant to its activities and transactions. The following revised standard and amendments are effective for annual periods beginning on or after January 1, 2017 and have not been applied in preparing these consolidated financial statements. The Company has not early adopted this standard and amendments.

- IFRS 15, Revenue from Contracts with Customers, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company is assessing the impact of IFRS 15 on its consolidated financial statements but it is expected to have a low impact on accounting policies and procedures and the internal control environment.
- In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009 which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at FVTPL, fair value through OCI or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets not as at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities, permits hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks and requires additional disclosures. The Company is currently assessing the impact of this standard on its consolidated financial statements. It is expected that this standard will have more of an impact on financial statement disclosure rather than classification and measurement.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

- IFRS 16, Leases, was published in January 2016 by the IASB. This standard will replace the current guidance IAS 17 and require lessees to recognize an asset and a lease liability reflecting a “right-of-use asset” and future lease payments, respectively, for virtually all lease contracts. The standard applies to annual periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15, Revenue from Contracts with Customers, is adopted. The Company is assessing the impact of IFRS 16 on its consolidated financial statements but it is expected to have a low impact on accounting policies and procedures and the internal control environment.
- IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures, were amended in September 2014 to address an inconsistency between those standards when accounting for the sale or a contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, whereas a partial gain is recognized when the transaction involves assets that do not constitute a business. The mandatory effective date of this amendment will be determined by the IASB at a future date. Voluntary application is permitted.

### 3 Critical accounting estimates and judgments

#### Critical accounting estimates

The company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates applied by management that most significantly affect the company’s consolidated financial statements. These estimates have a significant risk of causing a 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 listed prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or by using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. To the extent practical, models use only observable data; however, areas such as credit risk (both the Company’s own credit risk and counterparty credit risk), volatilities and correlations require management to make estimates.

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

Refer to note 4 for risk sensitivity information for financial instruments.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### **Income taxes**

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

### **Critical accounting judgments**

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

Management considers that the Company has de facto control of Senvest Management L.L.C. (RIMA), RIMA Senvest Master Fund LP, L.L.C., and Senvest Israel Partners GP L.L.C., legal entities wholly owned by an executive of the company, because of the Company's board representation and the contractual terms of the investment advisory agreement. RIMA is the investment adviser to the Funds, whereas RIMA Senvest Master Fund GP, L.L.C. and Senvest Israel Partners GP L.L.C. are General Partners. As compensation for its investment sub-advisory services, the Company is entitled to receive the largest allocation of the management and incentive fees earned by RIMA each fiscal year.

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

## **4 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 equity price risk), credit risk and liquidity risk.

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

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### Market risk

Fair value and cash flow interest rate risks

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

The majority of the company's debt is based on floating rates which expose the company to cash flow interest rate risk. The company does not have a long-term stream of cash flows that it can match against this type of fixed debt, so it prefers to use short-term floating rate debt. The company does not mitigate its exposure to interest rate fluctuation on floating rate debt. If interest rates spike, then the company could enter into interest rate swaps or more probably just reduce its debt level. As at September 30, 2017, the company has listed equity securities of \$2,432 million (2016 – \$2,062 million). It can sell these securities to reduce its floating rate debt. As at September 30, 2017, a 1% increase or decrease in interest rates, with all other variables remaining constant, would impact interest expense by approximately \$151 thousand over the next 12 months (2016 – \$2.9 million).

### Currency risk

Currency risk is the risk that the value of monetary financial assets and financial liabilities denominated in foreign currencies will vary as a result of changes in underlying foreign exchange rates. The Company's functional currency is the US dollar. The company is exposed to currency risk due to potential variations in currencies other than the US dollar. The Company has foreign currency exposure to the Canadian dollar, the British pound sterling, the Euro, the Norwegian krone, the Japanese yen, and the Israeli shekel.

### Price risk

Price risk is the risk that the fair value of equity investments and other holdings and equities sold short and derivative liabilities will vary as a result of changes in the market prices of the holdings. The majority of the company's equity investments and other holdings and all of the equities sold short 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.

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

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

	<b>As at September 30, 2017</b>		
	<b>Fair value</b>	<b>Estimated fair value with a 30% price increase</b>	<b>Estimated fair value with a 30% price decrease</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Equity investments and other holdings			
Listed equity securities and derivatives	2,470,703	3,211,914	1,729,492
Equities sold short and derivative liabilities	(1,009,233)	(1,312,003)	(706,463)
Pre-tax impact on net income		438,441	(438,441)

  

	<b>As at December 31, 2016</b>		
	<b>Fair value</b>	<b>Estimated fair value with a 30% price increase</b>	<b>Estimated fair value with a 30% price decrease</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Equity investments and other holdings			
Listed equity securities and derivatives	2,194,242	2,852,515	1,535,969
Equities sold short and derivative liabilities	(727,598)	(945,877)	(509,319)
Pre-tax impact on net income		439,993	(439,993)

The above analysis assumes that 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.

### **Credit risk**

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

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

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

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

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

### Liquidity risk

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

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

### Capital risk management

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

	<b>As at September 30, 2017</b>	<b>As at December 31, 2016</b>
Total liabilities	\$ 1,614,406	\$ 1,402,075
Total equity	\$ 1,060,538	\$ 942,562
Debt-to-capital ratio	1.52	1.49

The company's objective is to maintain a debt-to-capital ratio below 2.0. The company believes that limiting its debt-to-capital ratio in this manner is the best way to monitor risk. The company does not have any externally imposed restrictive covenants or capital requirements other than those included in its credit facilities (note 5 of the December 31, 2016 audited financial statements).

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### **Fair value estimation**

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

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

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

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

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

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

The following tables analyze within the fair value hierarchy the company's financial assets and financial liabilities measured at fair value as at September 30, 2017 and December 31, 2016.

	<b>As at September 30, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Assets</b>				
Financial assets held for trading				
Equity securities	2,420,554	9,517	-	2,430,071
Debt securities	-	41,144	12,480	53,624
Derivative financial assets	4,641	39,248	-	43,889
Financial assets designated as fair value through profit or loss				
Equity securities	2,159	8,999	62,659	73,817
Real estate investments	-	-	56,492	56,492
	<b>2,427,354</b>	<b>98,908</b>	<b>131,631</b>	<b>2,657,893</b>
<b>Liabilities</b>				
Financial liabilities held for trading				
Equity holdings sold short	1,003,934	-	-	1,003,934
Debt securities	-	21,798	-	21,798
Derivative liabilities	-	5,299	-	5,299
	<b>1,003,934</b>	<b>27,097</b>	<b>-</b>	<b>1,031,031</b>
<b>As at December 31, 2016</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Assets</b>				
Financial assets held for trading				
Equity securities	2,150,822	601	-	2,151,423
Debt securities	-	23,490	-	23,490
Derivative financial assets	6,571	53,657	-	60,228
Financial assets designated as fair value through profit or loss				
Equity securities	1,984	9,055	43,108	54,147
Real estate investments	-	-	37,812	37,812
	<b>2,159,377</b>	<b>86,803</b>	<b>80,920</b>	<b>2,327,100</b>
<b>Liabilities</b>				
Financial liabilities held for trading				
Equity holdings sold short	725,798	-	-	725,798
Derivative liabilities	-	1,846	-	1,846
	<b>725,798</b>	<b>1,846</b>	<b>-</b>	<b>727,644</b>

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### Financial instruments in Level 1

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

### Financial instruments in Level 2

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

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

### Description

### Valuation technique

Equity securities	Quoted market prices or broker quotes for similar instruments
Private equities	Net asset value based on observable inputs
Debt securities	Quoted market prices or broker quotes for similar instruments
Derivatives	Quoted market prices or broker quotes for similar instruments

### Financial instruments in Level 3

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

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

As at September 30, 2017 and December 31, 2016, Level 3 instruments are in various entities and industries.

Real estate investments comprising investments in private real estate companies and in real estate income trusts. The real estate companies are involved with various types of buildings in different geographical locations. For the main Level 3 instruments, the Company relied on appraisals carried out by independent third party 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.

The following table presents the changes in Level 3 instruments:

	<b>Real estate investments \$</b>	<b>Unlisted equity securities \$</b>	<b>Total \$</b>
<b>As at December 31, 2015</b>	49,362	42,102	91,464
Purchases	520	3,956	4,476
Sales proceeds	(15,662)	-	(15,662)
Distributions			
Gains (losses) recognized in net income	5,258	2,257	7,515
On financial instruments held at end of year	-	(4,009)	(4,009)
On financial instruments disposed of during the year	(1,666)	(1,198)	(2,864)
Currency translation adjustments	49,362	42,102	91,464
<b>As at December 31, 2016</b>	<b>37,812</b>	<b>43,108</b>	<b>80,920</b>
Purchases	24,662	17,092	41,754
Sales proceeds	-	(11)	(11)
Distributions	(6,295)	(120)	(6,415)
Gains recognized in net income (loss)			
on financial instruments held at end of year	3,986	19,751	23,737
on financial instruments disposed of during the year	-	11	11
Currency translation adjustments	(3,673)	(4,692)	(8,365)
<b>As at September 30, 2017</b>	<b>56,492</b>	<b>75,139</b>	<b>131,631</b>

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### 5 Equity investments and other holdings, equities sold short and derivative liabilities

#### Equity investments and other holdings

	As at September 30, 2017 \$	As at December 31, 2016 \$
<b>Assets</b>		
Financial assets held for trading		
Equity securities	2,430,072	2,151,422
Debt securities	53,624	23,491
Derivative financial assets (i)	43,889	60,228
	<u>2,527,585</u>	<u>2,235,141</u>
Financial assets designated as fair value through profit or loss		
Equity securities	2,172	2,004
Unlisted equity securities	8,716	8,745
Structured fixed income fund units	270	290
Private investments (ii)	62,658	43,108
	<u>2,601,401</u>	<u>2,289,288</u>
Current portion	<u>2,527,585</u>	<u>2,235,141</u>
Non-current portion	<u>73,816</u>	<u>54,147</u>

#### Equities sold short and derivative liabilities

	As at September 30, 2017 \$	As at December 31, 2016 \$
<b>Liabilities</b>		
Financial liabilities held for trading		
Equities sold short		
Listed equity securities	1,003,934	725,798
Debt securities	21,798	-
Derivatives (i)	5,299	1,846
	<u>1,031,031</u>	<u>727,644</u>

- i) From time to time, the company enters into derivative financial instruments consisting primarily of options and warrants to purchase or sell equities, equity indices, currencies, equity swaps, foreign currency forward contracts, and foreign currency futures contracts.
- ii) 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.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### 6 Real estate investments

Real estate investments comprise the following:

	Note	As at September 30, 2017 \$	As at December 31, 2016 \$
Financial assets designated as fair value through profit or loss			
Investments in private entities	6(a)	16,309	20,518
Investments in real estate income trusts	6(b)	15,801	17,294
Investments in investment properties	6(c)	<u>24,382</u>	<u>-</u>
Non-current portion		<u>56,492</u>	<u>37,812</u>

- (a) These investments are minority interests in private entities whose main assets are real estate properties. There is no established market for these investments. The most likely scenario for a disposal of these investments is an eventual sale of the underlying real estate properties.
- (b) These real estate investments are US real estate income trusts (commonly referred to as REITs). A REIT is an entity that owns and operates income-producing real estate and annually distributes to its holders at least 90% of its taxable income. The Company's investments are non-publicly-traded REITs. There is no established market for these REITs. The most likely scenario for a disposal of these holdings is an eventual sale of the underlying real estate properties of the REITs and the distribution to their holders.
- (c) These investment properties are in land and buildings used to earn rental income. The company acquired a majority of these properties pursuant to a business combination. The company (the acquirer) purchased 100% of the voting and equity interests of Bogas costa del sol SL, Globalbox arganda SL, Globalbox rivás SL and Coldstream SL (the acquirees) on January 16, 2017. The payment was cash consideration of approximately \$9.8m. The transaction was accounted for under the purchase method. The net assets of the acquired companies were valued at fair value and there was no resulting goodwill on the purchase. There was no contingent consideration nor any non-controlling interests that arose due to the transaction. The related debt against these investment properties as at September 30, 2017 totaled approximately \$5m and has been included as part of other liabilities.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

---

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### 7 Income taxes

There were important tax changes to parts of Canada's foreign affiliate regime effective January 1, 2015. These changes have an effect on the mechanism by which certain foreign income of the Company is taxed in Canada. They will negatively impact the Company's income tax expense and income tax liability, as well as the Company's cash flow, for current and future taxation years.

### 8 Supplementary information to consolidated statements of cash flows

(a) Adjustments of items not affecting cash and cash equivalents are as follows:

	2017	2016
	\$	\$
Net change in fair value of equity investments and other holdings	(487,546)	(258,704)
Net change in fair value of real estate investments	(3,986)	(3,743)
Share of loss of associates, adjusted for distributions received	(995)	(548)
Change in redemption amount of redeemable units	167,568	128,524
Deferred income tax	13,576	8,323
	<u>(311,383)</u>	<u>(126,148)</u>

(b) Changes in working capital items are as follows:

	2017	2016
	\$	\$
Decrease (increase) in		
Due from brokers	(216,824)	(47,038)
Income taxes receivable	-	(4,218)
Other assets	244	(1,234)
Increase (decrease) in		
Trade and other payables	25,759	(3,223)
Due to Brokers	(39,412)	70,348
Income taxes payable	9,803	(1,138)
	<u>(220,430)</u>	<u>13,497</u>

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) September 30, 2017

(tabular figures are expressed in thousands of Canadian dollars, except per share data)

### 9 Disclosure of the composition of the company

#### Principal subsidiaries and structured entities

The consolidated financial statements include the accounts of the Company and all of its subsidiaries and structured entities as at September 30, 2017. The principal operating subsidiaries and structured entities and their activities are as follows.

Name	Country of incorporation	<u>% Interest held</u>	Nature of business
Senvest Global (KY) L.P.	Cayman Islands	100	Investment company
Senvest Global L.P.	United States	100	Investment company
RIMA Senvest Master Fund GP L.L.C.	United States	-	General partner of Senvest Master Fund, L.P.
Senvest Israel Partners GP L.L.C.	United States	-	General partner of Senvest Israel Master Fund L.P.
Argentina Capital Inc.	Canada	100	Real estate
Pennsylvania Properties Inc.	United States	100	Real estate
Senvest Equities Inc.	Canada	100	Investment company
Senvest Fund Management Inc.	United States	100	Investment adviser
Senvest Management L.L.C.	United States	-	Investment manager of the Funds
Senvest Master Fund, L.P.	Cayman Islands	46	Investment fund
Senvest Israel Partners Master Fund, L.P.	Cayman Islands	54	Investment fund
Senvest Cyprus Recovery Investment Partners, L.P. Fund	Cayman Islands	73	Investment fund
Punto Box SL	Spain	100	Real estate
Globalbox Arganda SL	Spain	100	Real estate
Globalbox Rivas SL	Spain	100	Real estate
Bogas Costa Del Sol SL	Spain	100	Real estate
Coldstream SL	Spain	100	Real estate